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FORM 10-K

READING INTERNATIONAL INC - RDI

Filed: April 15, 1996 (period: December 31, 1995)

Annual report with a comprehensive overview of the company

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 1995

OR

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

For the transition period from _____ to _____

Commission File No. 1-8625

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)

550 SOUTH HOPE STREET, SUITE 1825
LOS ANGELES, CA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICERS)

90071
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (213) 239-0540

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

Title of each class	Names of exchanges on which each class registered
----- Common Stock, \$0.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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The aggregate market value of voting stock held by non-affiliates of the Registrant was \$10,266,000 as of April 11, 1996.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of April 11, 1996, there were 6,003,924 shares of Common Stock, par value \$.01 per share, and 1,329,114 shares of Serial Preferred Stock, par value \$.01 per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
NONE.

CITADEL HOLDING CORPORATION

ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 1995

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PART I

ITEM 1: BUSINESS

GENERAL

Citadel Holding Corporation, a Delaware corporation ("Citadel" and collectively with its wholly owned subsidiaries, the "Company"), has been engaged primarily in the ownership and management of commercial and residential property since August 1994. At December 31, 1995, Citadel's balance sheet assets amounted to approximately \$39.8 million and consisted primarily of two office buildings, two apartment buildings and \$16 million in cash. Management is currently evaluating the assets and opportunities available to the Company with a view to possibly acquiring or developing a new line of business. While no assurance can be given, such line of business may include the participation with the Company's affiliates in land based entertainment businesses such as motion picture exhibition.

In 1983, Citadel was organized to serve as the holding company for Fidelity Federal Bank, a Federal Savings Bank, "Fidelity"). On August 4, 1994, Citadel and Fidelity completed a recapitalization and restructuring transaction (the "Restructuring"), which resulted in the reduction of Citadel's interest in Fidelity from 100% to approximately 16%, the acquisition by the Company, at bulk sale prices from Fidelity, of four Real Estate Owned properties (the "REO Assets"), the sale by Citadel to Fidelity of its Gateway Investments ("Gateway") subsidiary for approximately \$1 million, the transfer to Citadel of Fidelity's interest in certain outstanding litigation (the "D&O Litigation"), and the receipt by way of dividend from Fidelity of options to acquire at book value two office buildings used by Fidelity in its operations.

In connection with the Restructuring, Citadel agreed to indemnify Fidelity with respect to certain losses that might be incurred by Fidelity in the event of breach by Fidelity of certain representations made by Fidelity to purchasers in the bulk sale portion of the Restructuring (the "Bulk Sale Indemnity"). Citadel's liability under this indemnity was 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 remaining claims are subject to a cure threshold which would reduce the maximum claim to \$2.8 million. Furthermore, Fidelity has informed the purchaser that, based upon its review to date, it believes the remaining claims to be without merit. Citadel is advised that the purchaser disputes Fidelity's position. As there continues to be a significant number of material issues to be resolved, included on the Company's balance sheet at December 31, 1995 and 1994 is \$4 million recorded as "Deferred proceeds from bulk sales agreements."

Also in connection with the Restructuring, Citadel and Fidelity entered into a tax disaffiliation agreement (the "Tax Disaffiliation Agreement"). In general, under the Tax Disaffiliation Agreement, Fidelity is responsible for (1) all adjustments to the tax liability of Fidelity and its subsidiaries for period before the Closing 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 in respect to that part of the taxable year through the end of 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 is measured by Citadel's actual liability for taxes for such period, after applying tax benefits otherwise available to Citadel attributable to such period. 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 liabilities.

During fiscal 1995, substantially all of the Company's remaining interest in Fidelity was sold. In January 1996, The company received notice from the Office of Thrift supervision that it had been deregistered as a savings and loan holding company.

MANAGEMENT

Steve Wesson is the President and Chief Executive Officer of the Company. 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 the Company's assets in the U.S.

S. Craig Tompkins became the Secretary/Treasurer of Citadel in September, 1994. Mr. Tompkins is also the President and a director of Craig Corporation ("Craig") and its 49.3% affiliate, Reading Company. Prior to joining Craig and Reading in March, 1993, Mr. Tompkins was a partner in the law firm of Gibson, Dunn & Crutcher.

The Company has two additional employees, and shares space and has contracted for certain administrative services with Craig.

ITEM 2: PROPERTIES

REAL ESTATE INTERESTS

The table below provides an overview of the Citadel Purchase Assets owned by the Company at December 31, 1995.

ADDRESS	TYPE	UNITS/SQUARE FEET	% LEASED AT 12/31/95	MAJOR TENANTS *	REMAINING LEASE TERMS
ARBOLEDA 1661 Camelback Rd. Phoenix, Arizona	Office/ Restaurant	178,000	99	American Express (58%) Others	February 1999 1-5 Yrs.
BRAND BUILDING 600 No. Brand Blvd. Glendale, CA	Office	89,000	100	Fidelity (65%) Public Storage (35%)	May 2005 April 96
VESELICH 3939 Veselich Ave. Los Angeles, Calif.	Apartment	216 176,000	93	None	6-12 months
PARTHENIA 21028 Parthenia Canoga Park, Calif.	Apartment	27 26,000	89	None	6-12 months
CLAREMONT	Land	26 Acres	--	--	--

*% of rentable space leased

ARBOLEDA, PHOENIX

This property is substantially leased at December 31, 1995, to American Express Company, which occupies 58% (100,098 sq. ft.) of the property. In March 1996, American Express entered into a two-year renewal of its lease to February 1999.

VESELICH, LOS ANGELES

While the occupancy rate of this property in the last twelve months has ranged from 90% to 95%, the property has historically experienced considerable turnover of tenants. This has resulted in high overhead and reduced cash flows. Management has addressed this issue by carrying out deferred maintenance, increasing marketing expenditures and improving diligence on prospective

tenants. During the fourth quarter of 1995, the Company decided to seek offers for the sale of the property and on March 26, 1996 entered into a Purchase and Sale Agreement to sell the property for approximately \$9.3 million. Pursuant to the terms of the Agreement, the closing date, subject to certain conditions precedent is scheduled to occur on or before May 29, 1996. However, the Company can make no assurance that the sale will be closed.

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BRAND, GLENDALE

As part of the Restructuring, Citadel acquired, by way of dividend, the Building Options, which were subsequently assigned to Citadel Realty, Inc., its wholly owned subsidiary. The office buildings subject to the Building Options included the Glendale Building which is used by Fidelity in its operations.

With regard to the purchase of the Glendale Building, Fidelity extended a five year loan, amortizing over twenty years, at an adjustable rate of interest tied to the 30-day LIBOR rate plus 4.5% per annum, adjustable monthly. The Company paid Fidelity points of 1% plus normal closing costs. The loan is subject to prepayment penalties in year one of 4%, decreasing 1% in each subsequent year. The interest rate on this loan is currently 9.843%.

The purchase of the Glendale Building closed on May 18, 1995. The Company funded the \$7.12 million exercise price to purchase the Glendale Building through a borrowing from Fidelity of \$5.34 million with the balance of the funds coming from internal sources.

The Glendale Building was until recently the headquarters building of Fidelity. Effective at the closing, Citadel and Fidelity entered 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 is \$26,000 per month (including parking) for the ground floor and approximately \$75,000 per month (including parking) for the fourth, fifth and sixth floors. The lease provides for annual rental increases at a rate equal to the lower of the increase in the Consumer Price Index 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 \$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 has 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 the market value at the expiration of the lease term, provided that the Company then owns the building. Fidelity finalized the move of its headquarters in March 1996, and is currently attempting to sublease all or a portion of their leased premises except the ground floor which serves as Fidelity's principal branch.

Public Storage occupies 31,946 square feet (two floors) on a lease that expires in April 1996 with a total rental of \$53,900 per month (\$1.75/sq. ft.). The Company is actively marketing this space and has had discussions with other potential tenants for these premises. No definitive agreements have been reached at this time and the Company can make no assurance that attractive terms will be reached with an alternative tenant.

WESTERN, HARBOR CITY

On January 6, 1995, the Company sold the Western property for a net price of \$5.9 million and a gain of approximately \$981,000. In addition, a mortgage note payable of \$3.7 million was assumed and subsequently paid in full by the purchaser. During the last several months prior to its sale, this property has consistently operated at 99% occupancy with low tenant turnover.

CLAREMONT

The Company foreclosed on a loan previously made by Fidelity and received in the Restructuring on August 14, 1995. The property is currently carried on the books at \$400,000. The Company is currently marketing this property for sale but, due to certain conditions attached to the entitlements which require action of the adjacent owners, the Company can make no assurance that the property can be sold in the near term.

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 (the "Craig Line of Credit").

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 mortgage on the Western Avenue Property was assigned to the Buyer at the time of its sale in January 1995. The rate on the Veselich Property loan is currently 8.75%. The loan secured by the Arboleda Property (an office building) is guaranteed by Citadel, 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. The interest rate on this loan is currently 9.937%. 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 the Craig Line of Credit. At the time of the Restructuring, Craig held approximately 9% of the outstanding stock of Citadel. James J. Cotter is Chairman of each of Citadel and Craig. S. Craig Tompkins is 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. On November 10, 1994, the Company retired \$5.25 million of the Craig Line of Credit by issuance to Craig of 1,329,114 shares of 3% Cumulative Voting Convertible Preferred Stock (the "Preferred Stock"). The rights, privileges and preferences of the Preferred Stock are described below under Item 5, under the caption - "Dividends on 3% Voting Cumulative Convertible Preferred Stock." In May of 1995, the remaining balance of \$950,000 on the Craig line of credit was paid in full and the line of credit was canceled.

In May, 1995, Citadel obtained a loan of \$765,000 from American Savings on the Parthenia property. The loan provides for a term of 30 years, amortizing over 30 years, at a fixed rate of interest of 2.950 over the 11th District Cost of Funds. The rate on this loan is currently 7.983%.

ITEM 3: LEGAL PROCEEDINGS

ROVEN LITIGATION

Citadel, 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 alleged fraud by Citadel in a proxy solicitation relating to Citadel's 1987 Annual Meeting of Stockholders and breach of fiduciary duty. The complaint also sought compensatory and punitive damages in an amount alleged to exceed \$40 million. The complaint grew out of and was originally asserted as a counter claim in an action brought by Citadel against Roven to recover alleged short swing profits. In October 1995, Citadel, Hecco Ventures I and James J. Cotter were granted summary judgment on all causes of action asserted in the 1990 complaint in federal court. Roven has appealed that judgment.

In 1995, Roven filed a complaint in the California Superior Court against Citadel, Hecco Ventures I and James J. Cotter and, in addition, S. Craig Tompkins and certain other persons, including Citadel's outside

counsel and certain former directors of Citadel (which directors are currently directors of Craig and Reading), alleging malicious prosecution in connection with the short swing profits litigation. Citadel believes that it has meritorious defenses to these claims, and has not reserved any amounts with respect thereto. Defense of the action has been accepted by Citadel's insurers. However, no assurance can be given that additional costs of defense will not be material to Citadel's future operating results considering Citadel's limited

revenue and operating profits.

FIDELITY EMPLOYEE CLAIMS

Citadel is advised that, following the Restructuring of Fidelity, Fidelity significantly reduced staffing as part of its efforts to reduce costs. Certain terminated employees have threatened, and in one case, as detailed below, filed claims asserting that Citadel is in some manner liable for what is asserted to be wrongful termination of these individuals by Fidelity. In light of the fact that, among other things, these employees were never employees of Citadel and were terminated only after Citadel's interest in Fidelity had been reduced to a 16%, in essentially, non-voting interest in Fidelity. Citadel believes that it has no liability to these individuals. Defense of this action has been accepted by Citadel's insurer's, although Citadel expects to incur some additional costs of defense.

RESTRUCTURING LITIGATION

In July 1995, Citadel was named as a defendant in a lawsuit alleging violations of federal securities laws in connection with the offering of common stock of Citadel's then wholly owned subsidiary, Fidelity, as part of the Restructuring (the "Harbor Finance Litigation"). The suit was filed by Harbor Finance Partners in an alleged class action complaint in the United States District Court - Central District of California, and named as defendants Citadel, Fidelity, Richard M. Greenwood (Fidelity's chief executive officer and Citadel's former chief executive officer), J.P. Morgan Securities, Inc. and Deloitte & Touche LLP. That suit alleged false and misleading information was provided by the defendants in connection with Fidelity's stock offering in the Restructuring and the defendants knew and failed to disclose negative information concerning Fidelity. Fidelity and Citadel filed a Motion to Dismiss, which was granted with leave to amend on January 25, 1996. Plaintiff has now retained new counsel and filed a new complaint alleging essentially the same claims, but adding state securities law causes of action, and not naming J.P. Morgan Securities or Deloitte & Touche. On March 15, 1996, Fidelity and Citadel filed a Motion to Dismiss the new complaint. Defense of the action has been accepted by Fidelity under the terms of the Stockholders Agreement entered into between Citadel and Fidelity as part of the Restructuring, and Citadel, to date, has not retained separate counsel with respect to this litigation and is not incurring outside costs of defense. Since the filing of the initial complaint in the Harbor Finance Litigation, Fidelity has completed a second recapitalization transaction, in which it raised gross proceeds of approximately \$146 million, through the sale of common and preferred stock. Citadel has been named in only two of the four alleged claims for relief and only in its capacity as an alleged controlling entity of Fidelity.

Both the initial complaint and the new complaint filed by Harbor Finance Partners make certain assertions previously made in a wrongful termination and defamation action brought by William Strocchio against Fidelity and Citadel, which was filed in Los Angeles County Superior Court on March 9, 1995. The plaintiff in that case is the former manager of Fidelity's REO Department who alleges that his employment was terminated in violation of public policy and was a result of breaches of his implied employment contract and the implied covenant of good faith and fair dealing. The plaintiff alleges his termination was related to the fact that he objected to various aspects of the Restructuring, including the selling of REO properties in bulk sales, as not in the interests of Fidelity, and he asserts that the same was not fully disclosed to potential investors and the Office of Thrift Supervision. Strocchio also seeks damages for defamation and interference with contractual relationship. Citadel has been named in only one of the five causes of action brought by Strocchio, and is made a party defendant only on the basis that Citadel allegedly conspired with and induced Fidelity to breach its employment agreement with Strocchio.

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Both the Harbor Finance and Strocchio complaints seek damages in an unspecified amount. Citadel believes these claims against it are without merit and is vigorously contesting them.

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, 1995.

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PART II

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

MARKET INFORMATION

The Company'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 the Company as reported by AMEX for each of the following quarters:

	HIGH	LOW
	(IN DOLLARS)	
1995:		
Fourth Quarter	2 1/2	2
Third Quarter	2 3/8	2
Second Quarter	2 7/16	2
First Quarter	3 1/8	2 1/16
1994:		
Fourth Quarter	4 3/16	2 1/16
Third Quarter	6 3/8	3 1/2
Second Quarter	8	3 7/8
First Quarter	12 1/4	4 1/4

HOLDERS OF RECORD

The number of holders of record of the Company's common stock at April 10, 1996 was 250.

DIVIDENDS ON COMMON STOCK

While Citadel has never declared a dividend on its Common Stock and has no current plan to declare a dividend, it is Citadel's policy to review this matter on an ongoing basis.

DIVIDENDS ON 3% VOTING CUMULATIVE 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, or \$5,250,000, to Craig. The Preferred Stock carries a liquidation preference equal to its stated value and bears a cumulative (noncompounded) annual dividend equal to 3% of the stated value. Each share of the 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.

Set forth below is a description of certain terms of the issuance of the Preferred Shares. Such description is summary in nature and is qualified in its entirety by reference to the Certificate of Designation and the related stock purchase agreement with Craig, which was filed as an exhibit to the Company's Report on 8-K filed on November 14, 1994.

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Holders of the Preferred Shares have the right to convert such shares into Common Stock at any time at a conversion ratio based upon the market price of Common Stock, subject to certain limitations. In addition, the Preferred Shares are subject to automatic conversion into Common Stock under certain circumstances if Citadel undertakes a rights offering of Common Stock to its stockholders. Citadel has the option to redeem the Preferred Shares at any time after November 10, 1997 at a premium. Holders of Preferred Shares have the right to require Citadel to purchase their shares at a premium under certain circumstances, including a "Change in Control." A Change in Control is defined as the occurrence of either of the following events: (i) any person, entity or "group" (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules thereunder) other than Craig, and its successors and affiliates, acquires beneficial ownership of over 35% of the

outstanding voting securities of Citadel; or (ii) the directors of Citadel as of October 10, 1994 (the "Current Directors"), and any future directors ("Continuing Directors") of Citadel who have been elected or nominated by a majority of the Current Directors or the Continuing Directors, cease to constitute a majority of the Board of Directors. The Preferred Shares vote jointly (not as a separate class) with the Common Stock on most matters, including the election of directors.

During 1995, the Board of Directors declared and paid dividends to Craig for the period from the date of the Preferred Stock issuance in November 1994 through June 30, 1995. As of December 31, 1995, undeclared cumulative dividends amounted to \$78,750. Such amounts were declared and paid during March 1996.

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ITEM 6. SELECTED FINANCIAL DATA

The table below sets 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.

	1995	At or for the Year Ended December 31,			
	-----	1994	1993	1992	1991
		(In thousands, except per share data)			
Income from real estate operations	\$ 6,112	\$ 2,115			
Gain on property sales	1,541				
Net interest income after provision for estimated loan losses			\$ 36,101	\$ 79,601	\$ 92,264
Gains (losses) on sale of loans, net			194	1,117	2,118
Gains (losses) on sale of mortgage-back securities			1,342		8,993
Gains (losses) on sales of investment securities			(54)		1
Other income (expense)			(35,870)	(6,602)	(5,616)
Administrative charge from Fidelity		916			
Loss of Fidelity	41	171,964			
Operating expense	6,214	4,060	105,341	77,911	79,446
Earnings (loss) before income taxes	1,398	(174,825)	(103,628)	(3,795)	18,314
Income tax expense (benefit)			(36,467)	(5,841)	15,651
Net earnings (loss)	\$ 1,398	\$ (174,825)	\$ (67,161)	\$ 2,046	\$ 2,663
Earnings (loss) per common and common equivalent share	\$0.16	\$(26.45)	\$(11.56)	\$0.62	\$0.81
Average common and common equivalent shares (1) (2) (3)	8,616,613	6,610,280	5,809,570	3,297,812	3,297,812
Balance sheet Data:					
Total assets	\$ 39,815	\$ 39,912	\$4,389,519	\$4,698,326	\$5,126,525
Cash and investments	16,291	4,805	238,220	177,599	289,150
Total loans, net			3,713,383	3,991,781	4,550,848
Deposits			3,368,643	3,457,918	3,884,707
Borrowings	16,186	14,846	734,230	908,400	871,150
Subordinated notes			60,000	60,000	60,000
Stockholders' equity	17,720	17,838	187,403	223,186	221,140
Cash dividends declared on Preferred Stock	101	--	--	--	--

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ITEM 6. SELECTED FINANCIAL DATA (CONT'D)

	1995	At or for the Year Ended December 31,			
	-----	1994	1993	1992	1991

Other Data:					
Real estate loans funded			\$422,355	\$435,690	\$509,625
Average interest rate on new loans			6.75%	7.77%	9.07%
Loans sold			\$137,870	\$204,435	\$282,728
Nonperforming assets to					

total assets	5.37%	4.99%	2.43%
Number of deposit accounts	241,093	233,037	238,187
Interest rate margin at end of period (3)	2.19%	2.68%	3.20%
Interest rate margin for the period (3)	2.28%	2.67%	2.54%
Retail branch offices (4)	42	43	43

- (1) Net of treasury shares, where applicable.
- (2) 1993 data includes 3,297,812 shares issued in March 1993 in connection with a stocks right 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 2.32% and 2.39%.
- (4) All retail branches were located in Southern California.
- (5) 1995 data includes the effect of shares assumed to be issued on the conversion of the outstanding 3% Cumulative Voting Convertible Preferred Stock amounting to 2,430,223.

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ITEM 7. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Prior to the Restructuring in August 1994, Citadel was a financial services holding company engaged in the savings bank business through its previously wholly owned subsidiary, Fidelity Federal Bank ("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 on a consolidated basis in its 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, no meaningful comparisons can be made between Citadel's results of operations for the years ended December 31, 1995 (twelve months of real estate operations), December 31, 1994 (5 months of real estate operations) and December 31, 1993 (12 months as a financial services holding company).

In addition to the reduction of Citadel's interest in Fidelity, several other significant events occurred in the Restructuring, including (1) the acquisition by the Company from Fidelity of four real properties for a purchase price of approximately \$19.8 million (Fidelity's book value) of which \$13.9 million was financed by Fidelity on a secured basis and the balance was financed by Craig Corporation ("Craig"), a significant stockholder of the Company, under a short-term line of credit; (2) the receipt by way of dividend from Fidelity of options to acquire at book value (\$9.3 million) two office buildings used by Fidelity in its operations (the "Building Options"); (3) the transfer to the Company of Citadel's interest in certain outstanding litigation, and (4) Citadel's agreement to indemnify Fidelity, up to a limit of \$4 million, 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 part of the Restructuring ("Bulk Sale Indemnity").

The Company reported net income for the year ended December 31, 1995 of \$1,398,000 or \$0.16 per share, including a gain of approximately \$1,541,000 from the sale of the Sherman Oaks Building and a residential property in Harbor City, California. The Company reported a net loss of \$174.8 million or \$26.45 per share in Fiscal 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 its ongoing operations.

During the first quarter of Fiscal 1995, the Company exercised its option to purchase the Building Options and on March 23, 1995 purchased and immediately sold the Sherman Oaks Building for a gain of approximately \$560,000. On May 18,

1995, the Company purchased the Glendale Building for an exercise price of approximately \$7.12 million. Concurrent, with the purchase, the Company entered into a ten year, full service gross lease with Fidelity for four of the six floors of the Glendale Building providing for a base rent, subject to annual escalations, of approximately \$1,220,000 annually. At December 31, 1995 rental properties consisted of one apartment building and two commercial buildings as compared to three apartment buildings and one commercial building at December 31, 1994. Properties held for sale at December 31, 1995 was comprised of one apartment building with a book value of \$7,542,000 and an undeveloped parcel of land with a book value of \$400,000.

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During the second quarter of fiscal 1995, the Company sold substantially all of its investment in Fidelity, which resulted in the Company receiving net cash proceeds of approximately \$11,938,000 and the return of 666,000 shares of the Company's common stock. The Fiscal 1995 net earnings includes a loss of approximately \$41,000 from the sale of such Fidelity shares calculated by comparing the net cash proceeds combined with the amount ascribed to the common stock received (\$2.125 per share), to the carrying value of such Fidelity stock included in the balance sheet as Investment in Fidelity held for sale at December 31, 1994. The Company has reflected the return of the Company's common stock as treasury stock in the amount of \$1,415,000.

The sale of the real properties and the sale of the Fidelity stock contributed to the significant increase in cash and cash equivalents during December 31, 1995. The increase in cash and cash equivalents was offset, in part, by the purchase of the Glendale Building for approximately \$7.12 million which was funded with \$1.78 million of cash and a mortgage of approximately \$5.34 million. Cash and cash equivalents amounted to \$4,805,000 at December 31, 1994 as compared to \$16,291,000 at December 31, 1995. Accordingly, interest income increased significantly during the third and fourth quarter of Fiscal 1995. The Company's net operating results for Fiscal 1995 include interest income amounting to \$710,000 as compared to \$45,000 in Fiscal 1994.

Rental income amounted to \$5,402,000 in fiscal 1995 as compared to \$2,070,000 for fiscal 1994. Rental income may vary significantly depending upon the properties owned by the Company during the periods being reported. As described above, the Company did not engage in the ownership and management of commercial and residential properties until the Restructuring in August 1994. Accordingly, Fiscal 1994 reflects rental income for only five months as compared to twelve months in Fiscal 1995. In addition, Fiscal 1995 includes rental income from the Company's May acquisition of the Glendale Building, somewhat offset, by a reduction in rental income resulting from the sale of the Harbor City residential property in the first quarter of 1995.

During Fiscal 1995, the Company made a decision to sell the Veselich residential property and, accordingly, has included this property with a carrying value of \$7,542,000 at December 31, 1995 in Properties held for sale. On March 26, 1996, the Company entered into a Purchase and Sale Agreement to sell the Veselich property, whereby the Buyer agreed to purchase said property for approximately \$9.3 million. The Company received a \$0.5 million deposit which is refundable only under certain conditions. Pursuant to the terms of the Purchase and Sale Agreement, the closing date, subject to certain conditions precedent, is scheduled to occur on or before May 29, 1996. As of December 31, 1995, this property was encumbered by a mortgage in the amount of approximately \$5,731,000.

Interest expense amounted to \$1,327,000 in Fiscal 1995 and \$649,000 in Fiscal 1994. As described above, at the date of the Restructuring, the Company purchased the properties from Fidelity with an acquisition price of \$19.8 million with mortgage financing from Fidelity and a short-term line of credit amounting to \$6.2 million from Craig. Fiscal 1994 interest expense reflects interest for the five month period on the indebtedness incurred at the Restructuring and includes \$266,000 paid to Craig under the terms of the Craig line of credit.

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 the conversion of a portion of the \$6.2 million indebtedness to Craig, resulting in a reduction in interest

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costs. Upon the sale of the Fidelity shares in April 1995, the Company paid in full the remaining \$950,000 loan from Craig. Included in interest expense for Fiscal 1995 is approximately \$59,000 related to the loan from Craig. The reduction in interest costs associated with the pay-off and conversion of the Craig loan to Preferred shares and the assignment of the mortgage indebtedness as part of the sale of the Harbor City property was offset, in part, by \$5.34 million of mortgage financing obtained to purchase the Glendale Building in Fiscal 1995.

General and administrative expenses from real estate operations amounted to \$1,807,000 in Fiscal 1995 as compared to \$1,785,000 in Fiscal 1994.

Fiscal 1994 general and administrative expenses represented only five months of operations and included approximately \$1.1 million related to a contested proxy, solicitation, litigation defense and settlement costs. Such legal costs included the costs of defending a lawsuit filed in the Court of Chancery of the State of Delaware by a stockholder, Dillon Investors L.P., in November 1994, naming as defendants the Company, its directors and Craig. On April 13, 1995, the Company, Craig and Dillon Investors and its affiliates (the "Dillon Parties") entered into settlement agreements to resolve this litigation. Under the settlement agreements, the Dillon Parties purchased from Citadel 1,295,000 shares of Class B common stock of Fidelity owned by the Company in exchange for which the Company received from Dillon Parties \$2.22 million and 666,000 shares of the Company's common stock, and all existing litigation among the Company, Craig and the Dillon Parties was terminated, with mutual releases executed and delivered. The Dillon Parties also agreed for a period of one year following the closing, not to purchase or acquire any other beneficial interests in any of the Company's securities, and not to engage in any solicitations of consents or proxies.

The settlement terms also included an agreement by Craig with the Dillon Parties not to exercise, prior to February 4, 1996, its right to tender any shares of the Preferred Stock for conversion into the Company's common stock without the prior written consent of the holders of a majority of the outstanding shares of the Company's common stock. In exchange for such concession from Craig, the Company agreed to grant Craig a two year warrant to acquire the 666,000 shares of the Company's common stock acquired from the Dillon Parties at a price of \$3.00 per share, and agreed to reimburse Craig for certain legal costs associated with the litigation amounting to approximately \$62,000.

Fiscal 1995 general and administrative expenses amounted to \$384,000 for the three months ended December 31, 1995 as compared to \$659,000, \$339,000, and \$425,000 for the third, second and first quarter ended September 30, June 30, and March 31, 1995. During Fiscal 1995, the Company incurred additional legal fees pertaining to outstanding litigation (see Part II, Item 1-Legal Proceedings) and paid bonuses and directors fees for past services aggregating approximately \$302,500, which were authorized by the Board to the Chairman, Vice-Chairman and President. Such employee related costs were offset by a payment of approximately \$120,000 by affiliates of Craig to the Company for real estate consulting services provided by employees to such affiliates.

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BUSINESS PLAN, CAPITAL RESOURCES AND LIQUIDITY OF THE COMPANY

Cash and cash equivalents increased by approximately \$11,486,000 from \$4,805,000 at December 31, 1994 to \$16,291,000 at December 31, 1995. Net cash provided by investing activities for the year ended December 31, 1995 amounted to \$11,165,000 including cash proceeds from the sale of its Fidelity stock and proceeds from the sale of properties amounting to \$11,938,000 and \$8,837,000, respectively. Fiscal 1995 proceeds from long-term mortgage financings amounted to approximately \$6,104,000. During Fiscal 1995, \$9,610,000 of such proceeds were used purchase and improve real properties and repay long-term and short-term principal borrowings of \$4,764,000.

The Company expects that its sources of funds in the near term will include cash on hand (\$16,291,000 at December 31, 1995), cash flow from the operations of its real estate properties and proceeds from the sale of its properties.

In the short-term, uses of funds are expected to include (i) funding of the repair of the earthquake damage to the parking structure of the Glendale

Building, (ii) operating expenses, (iii) any amounts that may become due under the \$4 million Bulk Sale Indemnity, (iv) debt service pursuant to the property mortgages and (v) dividends declared, if any under the Preferred Stock. Annual cumulative dividends accrue at \$157,500 per year. The Company has declared and paid dividends amounting to \$101,500 on the Preferred Stock for the period from its issuance in November 1994 through June 30, 1995. At December 31, 1995, cumulative dividends not declared or paid amounted to \$78,750. Such dividends were declared and paid in March 1996.

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 of business, and the merger or sale of the entire Company. Such alternatives may include the participation with the Company's major beneficial shareholder, Craig and/or its affiliates in land based entertainment businesses such as motion picture exhibition.

On March 29, 1996, the Company was notified by its major shareholder, Craig that it had sold its common stock interest in the Company, representing approximately 26% of the outstanding shares of the Company, to its 49.3% owned affiliate, Reading Company ("Reading"). In addition, Craig sold to Reading an option to purchase its 1,329,114 shares of Preferred Stock and its warrant to purchase 666,000 shares of the Company's common stock. Such Preferred Stock combined with the Common Stock currently held by Reading represent approximately 40% of the outstanding voting equity securities of the Company.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Citadel Holding Corporation

We have audited the consolidated balance sheets of Citadel Holding Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the

financial statements schedule listed in the Index at Item 8. These financial statements and the financial statement schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and the 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Citadel Holding Corporation and subsidiaries as of December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Los Angeles, California
March 27, 1996

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(NOTE 1)

December 31,
1995 1994
----- -----
(In thousands of dollars)

ASSETS

- - - - -

Cash and cash equivalents	\$ 16,291	\$ 4,805
Investment in Fidelity Federal Bank-held for sale	11	13,405
Properties held for sale	7,942	--
Rental properties, less accumulated depreciation	14,251	19,858
Other receivables	437	1,219
Other assets	883	625
	-----	-----
Total assets	\$ 39,815	\$ 39,912
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

- - - - -

LIABILITIES

Security deposits payable	\$ 253	\$ 227
Accrued legal fees	313	1,239
Accounts payable and accrued liabilities	1,343	1,762
Deferred proceeds from bulk sales agreement	4,000	4,000
Short-term line of credit with affiliate	--	950
Mortgage notes payable	16,186	13,896
	-----	-----
Total liabilities	22,095	22,074
	-----	-----

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Serial preferred stock, par value \$.01, 5,000,000 shares authorized, 3% Cumulative Voting Convertible, (\$3.95 per share or \$5,250,000 stated value) 1,329,114 shares issued and outstanding	13	13
Common stock, par value \$.01, 20,000,000 shares authorized, 6,669,924 shares issued and outstanding at December 31, 1995 and 1994	67	67
Additional paid-in capital	65,197	65,298
Retained (deficit)	(46,142)	(47,540)
Cost of treasury shares, 666,000 shares	(1,415)	--
	-----	-----
Total stockholders' equity	17,720	17,838
	-----	-----
Total liabilities and stockholders' equity	\$ 39,815	\$ 39,912
	=====	=====

See accompanying notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(NOTE 1)

	Year Ended December 31,		
	1995	1994	1993
	-----	-----	-----
	(In thousands of dollars, except per share amounts)		
Real Estate Operations:			
Rental income	\$5,402	\$ 2,070	\$ --
Interest income	710	45	--
	-----	-----	-----
	6,112	2,115	--
Real estate operating expenses	2,660	1,350	--
Depreciation and amortization	420	276	--
Interest expense	1,327	649	--
General and administrative expenses	1,807	1,785	--
	-----	-----	-----
Total expenses	6,214	4,060	--
Gain on sale of properties	1,541	--	--
	-----	-----	-----
Earnings (loss) from Real Estate Operations	1,439	(1,945)	--
	-----	-----	-----
Loss From Financial Services Operations (Note 13)	--	--	(103,628)
Administrative Charge from Fidelity Federal Bank	--	(916)	--
Loss of and Write-down of Investment in Fidelity Federal Bank	(41)	(171,964)	--
	-----	-----	-----
Earnings (loss) before taxes	1,398	(174,825)	(103,628)
Income tax expense (benefit)	--	--	(36,467)
	-----	-----	-----
Net earnings (loss)	\$1,398	\$ (174,825)	\$ (67,161)

	=====	=====	=====
Net earnings (loss) per common and common equivalent share	\$ 0.16	\$ (26.45)	\$ (11.56)
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE YEARS ENDED DECEMBER 31, 1995
(IN THOUSANDS OF DOLLARS) (NOTE 1)

	Preferred Stock		Common Stock			Retained Earnings	Treasury Stock, At Cost	Stock- holders' Equity
	Shares	Par Value	Shares	Par Value	Paid-In Capital			
Balances at January 1, 1993			3,298	\$ 33	\$28,707	\$ 194,446		\$ 223,186
Net (loss)						(67,161)		(67,161)
Proceeds of rights offering			3,298	33	31,345			31,378
Balances at Dec. 31, 1993			6,596	66	60,052	127,285		187,403
Issuance of common stock			74	1	285			286
Issuance of preferred stock, net of issuance costs of \$275	1,329	\$ 13			4,961			4,974
Net (loss)						(174,825)		(174,825)
Balances at Dec. 31, 1994	1,329	13	6,670	67	65,298	(47,540)	--	17,838
Asset exchange for 666,000 shares of common stock							\$ (1,415)	(1,415)
Net earnings						1,398		1,398
Preferred stock dividends					(101)			(101)
Balances at Dec. 31, 1995	1,329	\$ 13	6,670	\$ 67	\$65,197	\$ (46,142)	\$ (1,415)	\$ 17,720

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	1995	1994	1993
OPERATING ACTIVITIES			
Net earnings (loss)	\$ 1,398	\$ (174,825)	\$ (67,161)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Deconsolidation of Fidelity	--	111,988	--
Writedown of investment in Fidelity	41	59,892	--
Deferred proceeds from Bulk Sales Agreement	--	4,000	--
Depreciation and amortization	420	276	23,092
Gain on sale of rental property	(1,541)	--	--
Amortization of deferred loan costs	58	--	(1,163)
Provision for estimated losses	--	--	95,300

Gains on sales of loans and securities	--	--	(1,482)
Capitalized loan origination costs	--	--	(2,187)
Purchases of investment securities	--	--	(669,228)
Proceeds/maturities of investment securities	--	--	585,773
Purchases of mortgage-backed securities	--	--	(446,809)
Proceeds from sales of mortgage-backed securities	--	--	514,981
Principal repayments of mortgage-backed securities	--	--	58,865
Writedown of investment securities	--	--	2,074
Originations of loans held for sale	--	--	(162,868)
Proceeds from sale of loans held for sale	--	--	138,399
FHLB stock dividend	--	--	(1,640)
Deferred income tax expense	--	--	14,491
Decrease (increase) in other receivables	382	(1,219)	4,080
Decrease (increase) in other assets	(216)	(625)	(49,414)
Increase in security deposits payable	26	227	--
Increase (decrease) in accrued liabilities	(1,345)	3,001	(21,381)
	-----	-----	-----
Net cash provided by (used in) operating activities	(777)	2,715	13,722
INVESTING ACTIVITIES			
Proceeds from sale of Fidelity stock	11,938	--	--
Proceeds from sale of properties	8,837	--	--
Purchase of and additions to real estate	(9,610)	(20,055)	--
Purchase of investment securities	--	--	(200,055)
Maturities of investment securities	--	--	226,617
Proceeds from sale of investment securities	--	--	26,908
Principal repayments of mortgage-backed securities held for investment	--	--	9,565
Proceeds from sale of mortgage backed securities held for investment	--	--	7,114
Purchase of loans	--	--	(3,951)
Loans receivable, net decrease	--	--	149,909
Proceeds from sale of real estate	--	--	41,608
Premises and equipment (additions), net	--	--	(6,946)
Other, net	--	--	3,275
	-----	-----	-----
Net cash provided by (used in) investing activities	11,165	(20,055)	254,044

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

	Year Ended December 31,		
	1995	1994	1993
	-----	-----	-----
FINANCING ACTIVITIES			
Proceeds from long-term mortgage borrowings	6,104	13,930	--
Repayments of long-term borrowings	(3,814)	(34)	(162,000)
Short-term borrowings from affiliates	--	6,200	--
Repayment of borrowings from affiliates	(950)	-	--
Dividends paid	(101)	--	--
Short-term borrowings increase	--	--	242,830
Capitalized financing costs	(141)	(246)	--
Costs of preferred stock issuance	--	(275)	--
Proceeds from issuance of common stock	--	286	--
Proceeds from stock rights offering, net	--	--	31,378
Demand deposits and passbook savings decrease, net	--	--	(111,601)
Certificate accounts, net increase	--	--	22,326
Proceeds from FHLB advances	--	--	250,000
Repayment of FHLB advances	--	--	(505,000)
	-----	-----	-----
Net cash provided by (used in) financing activities	1,098	19,861	(232,067)
Less cash and cash equivalents of Fidelity at beginning of period	--	(143,677)	--
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	11,486	(141,156)	35,699
Cash and cash equivalents at beginning of year	4,805	145,961	110,262
	-----	-----	-----
Cash and cash equivalents at end of year	\$16,291	\$ 4,805	\$ 145,961
	=====	=====	=====

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:			
Interest on mortgages and line of credit	1,292	548	--
Interest on deposits, advances and other borrowings	--	--	180,861
Income taxes	--	--	(679)
Noncash transactions:			
Conversion of line of credit to preferred stock, net of loan costs	--	4,974	--
Common stock received in exchange for Fidelity stock	1,415	--	--
Additions to real estate owned (other assets) through foreclosure	400	--	193,461
Loans originated to finance sale of real estate acquired through foreclosure	--	--	51,607
Transfers from investment portfolio to held for sale portfolio:			
Loans receivable	--	--	325,222
Investment securities	--	--	14,264
Mortgage-backed securities	--	--	214,310

See notes to accompanying consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLE OF CONSOLIDATION

The consolidated financial statements include the accounts of Citadel Holding Corporation ("Citadel") and its wholly owned subsidiaries (collectively the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

On August 4, 1994 (the "Closing"), Citadel completed a restructuring (together with other transactions below, the "Restructuring") in which, among other things, Citadel's ownership interest in its previously wholly owned subsidiary, Fidelity Federal Bank ("Fidelity"), was reduced 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. As of August 4, 1994, Citadel's shares of Fidelity were reclassified into 4,202,243 shares of Class B common stock of Fidelity. During April 1995, Citadel sold substantially all of the Class B common stock of Fidelity received in the Restructuring.

As a result of the Restructuring, effective January 1, 1994, Citadel no longer consolidates Fidelity in its financial statements; rather it accounts for its investment in Fidelity on the cost basis. Accordingly, 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 Fidelity, which have been included in the statement of operations as "Loss of and writedown of investment in Fidelity" (see note 4). For the period prior to the closing of the Restructuring, administrative expenses have been recorded consistent with the previous allocations made to Citadel by Fidelity. Note 13 relates to the Company as the holding company of Fidelity prior to the Restructuring.

In addition to the reduction of Citadel's interest in Fidelity, 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.

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 was financed by Craig Corporation ("Craig"), a significant stockholder of Citadel, under a short-term line of credit.

c. Citadel received from Fidelity by way of a dividend (i) a one-year transferable option (subsequently contributed to CRI) to acquire two office building in Sherman Oaks and Glendale, California (the "Office Buildings") used in the operations of Fidelity for an aggregate exercise price of \$9.3 million,

portions of which buildings to be leased back to Fidelity upon purchase by the

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLE OF CONSOLIDATION, (CONT'D)

Company (Note 3), 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 (the "D & O Litigation"), which resulted in Citadel collecting approximately \$2.5 million.

d. Citadel and Fidelity entered into a Stockholders' Agreement, under which Citadel is obligated to 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 certain 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Included in cash and cash equivalents at December 31, 1995 is approximately \$15,780,000 which is being held in institutional money market mutual funds.

Depreciation and Amortization

Depreciation and amortization is generally provided using 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 respected leases or the useful lives of the improvements, whichever is shorter.

Deferred Financing Costs

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

Investments 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

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

("SFAS") No. 115 and is reported at fair value. Under SFAS No. 115, fluctuations in fair value are included in a separate component of stockholders' equity. If there is decline in fair value judged to be other than temporary, the amount of writedown is included in net income (loss).

Earnings (Loss) per Share Data

Earnings per share is based on 8,616,613, 6,610,280, and 5,809,570, the weighted average number of shares of common stock and common stock equivalents outstanding during the years ended December 31, 1995, 1994 and 1993, respectively. The 3% Cumulative Voting Convertible Preferred Stock and the outstanding Warrants and stock options are common stock equivalents. For 1995, the calculation of the weighted average shares of common stock outstanding included the effect of shares assumed to be issued on conversion of the outstanding 3% Cumulative Voting Convertible Preferred Stock and the outstanding Warrants and stock options. The number of Shares assumed converted as of the beginning of the period being reported amounted to 2,430,223 and was calculated in accordance with the terms described in Note 9 as of December 31, 1995. The Preferred Stock is not included in the 1994 calculation as its effect was anti-dilutive.

NOTE 3 - RENTAL PROPERTIES AND PROPERTIES HELD FOR SALE

The Company's rental properties at December 31, 1995 and 1994 consist of the following:

	1995	1994
	-----	-----
	(in thousands)	
Land	\$ 4,699	\$ 5,538
Building and improvements	9,855	14,517
	-----	-----
Total	14,554	20,055
Less accumulated depreciation	(303)	(197)
	-----	-----
Rental properties, net	\$14,251	\$19,858
	=====	=====

At December 31, 1995 rental properties consisted of one apartment building and two commercial buildings as compared to three apartment buildings and one commercial building at December 31, 1994. Properties held for sale at December 31, 1995 was comprised of one apartment building and an undeveloped parcel of land amounting to \$7,542,000 and \$400,000, respectively.

During 1995, the Company sold an apartment building for approximately \$5.9 million, net of expenses. The sale resulted in a gain of approximately \$981,000. As a result of the sale, approximately \$3,693,000 of a mortgage note payable was assumed and subsequently paid off by the purchaser.

On February 2, 1995, the Company exercised the Building Options described in Note 1 to purchase the two office buildings from Fidelity. On March 23, 1995, the Company purchased and immediately sold the Sherman Oaks Building for a gain of approximately \$560,000. On May 18, 1995, the Company purchased the Glendale Building at an exercise price of \$7.12 million. In connection with the Glendale

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 3 - RENTAL PROPERTIES AND PROPERTIES HELD FOR SALE, (CONT'D)

obtained a \$5.34 million five year mortgage from Fidelity, which amortizes on a twenty year basis with interest payable monthly at the 30 day LIBOR rate plus 4.5%. The Company paid Fidelity 1% of the loan amount plus normal closing costs; such loan is subject to prepayment penalties in year one of 4%, decreasing 1% each subsequent year.

The Company and Fidelity have entered into a ten 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 is \$26,000 per month (including parking) for

the ground floor and approximately \$75,000 per month (including parking), for the fourth through sixth floors. The lease provides for annual rental increases at a rate equal to the lower of the increase in the Consumer Price Index or 3%. After five years, the lease provides that the rental rate for the ground floor 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 has the option to extend the lease of the ground floor for two consecutive five year terms at a market rental rate and has the option to purchase the Glendale Building, if still owned by the Company, at a market value at the expiration of the lease. During February 1996, Fidelity discontinued use of floors four through six and has notified the Company that it is attempting to sublease such space. In addition, during April 1996, the lease related to the two remaining floors in the Glendale Building expires. The Company is actively seeking a new lessee.

On March 26, 1996, the Company entered into a Purchase and Sale Agreement to sell an apartment rental property, whereby the Buyer agreed to purchase said property for approximately \$9.3 million, of which \$0.5 million has been deposited in escrow. As of December 31, 1995, this property was encumbered by a mortgage in the amount of approximately \$5,731,000. Pursuant to the term of the Purchase and Sale Agreement, the closing date, subject to certain conditions precedent, is scheduled to occur on or before May 29, 1996. Such property, with a carrying value of approximately \$7,542,000, has been included in the balance sheet as "Property held for sale" at December 31, 1995.

NOTE 4 - INVESTMENT IN FIDELITY

At December 31, 1994, the Company's investment in Fidelity consisted of 4,202,243 shares of Class B Common Stock the fair value which was estimated by management to be \$3.19 per share, or a total carrying value of approximately \$13,405,000. During fiscal 1995 the Company's investment in Fidelity was reduced by (1) the sale of 1,295,000 shares of Class B Common Stock of Fidelity in consideration for a cash

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 4 - INVESTMENT IN FIDELITY (CONT'D)

payment of \$2,220,000 and the return of 666,000 shares of the Company's common stock as part of the settlement of litigation with Dillon Investors (Note 11), and 2) the sale of 2,900,000 shares for approximately \$9,718,000, net of commissions. At December 31, 1995 the Company holds for sale 1,810 shares of Fidelity stock, which shares reflect a one for four reverse stock split completed by Fidelity on February 14, 1996.

The loss of and writedown 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
Writedown of investment in Fidelity as of the date of the Restructuring	52,811
Writedown representing other than temporary decline in value from August 5, 1994 to December 31, 1994	7,081

	\$171,964
	=====

Included in the writedown of investment in Fidelity as of the date of Restructuring is the effect of the proceeds received from the D&O

Litigation, the writedown of uncollectible loans, and the deferral of the \$4 million of proceeds received from the Bulk Sale Asset Agreement relating to a sale of Fidelity loans (see Note 1). The loss from operations of Fidelity through August 4, 1994 was partially offset by an income tax benefit of \$16,524,000.

NOTE 5 - OTHER ASSETS

Other assets are summarized as follows:

	December 31,	
	1995	1994
	-----	-----
	(in thousands)	
Deferred financing costs	\$ 271	\$ 256
Accumulated amortization	(43)	(79)
	-----	-----
Deferred financing costs, net	228	177
Impounds	291	--
Deposits	99	87
Prepaid expenses	195	329
Other	70	32
	-----	-----
	\$ 883	\$ 625
	=====	=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 6 - DEFERRED PROCEEDS FROM BULK SALES AGREEMENT

Under the Stockholders' Agreement (see Note 1), Citadel agreed 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 and has asserted that these claims are, in any event, subject to a cure threshold which reduces the maximum claim to \$2.8 million. A significant number of material issues remain unresolved with regards to the Company's ultimate exposure with respect to the indemnity clause negotiated with Fidelity. Accordingly, included on the balance sheet at December 31, 1995 and 1994 is \$4 million recorded as "Deferred proceeds from bulk sales agreement".

NOTE 7 - MORTGAGE NOTES PAYABLE

Mortgage notes payable at December 31, 1995 and 1994 is as follows:

	December 31,	
	1995	1994
	-----	-----
	(in thousands)	
Notes payable to Fidelity - principal and interest paid monthly at rates equal to LIBOR plus 4.5% and 1-year Treasury rate plus 3.7%, maturing through 2004	\$15,424	\$13,896
Note payable to American Savings Bank -		

principal and interest paid monthly at a rate equal to the 11th District cost of funds plus 2.95%, maturing June 1, 2025

	762	--
	-----	-----
	\$16,186	\$13,896
	=====	=====

As of December 31, 1995, the LIBOR interest rate was 5.843%, the 1-year Treasury rate was 5.5% and the 11th District Cost of Funds was 5.116%.

Aggregate future principal payments as of December 31, 1995 are as follows:

Year Ending December 31, -----	(in thousands) -----
1996	\$ 118
1997	167
1998	205
1999	227
2000	5,004
Thereafter	10,465

	\$16,186
	=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 8 - SHORT-TERM LINE OF CREDIT

In connection with the Restructuring the Company borrowed \$6,200,000 under a Line of Credit from its shareholder affiliate, Craig Corporation. In November 1994, the amount was reduced to \$950,000 through the issuance of 1,329,114 shares of 3% Cumulative Voting Convertible Preferred Stock with a stated value of \$5,250,000, and in May 1995 such \$950,000 was repaid and the line of credit agreement canceled. Included in interest expense for the years ended December 31, 1995 and 1994 is approximately \$59,000 and \$266,000 representing interest and amortization of loan fees paid pursuant to the terms of the line of credit agreement.

NOTE 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 the conversion of existing indebtedness to Craig (Note 8). The Preferred Stock carries a liquidation preference equal to its stated value and bears a cumulative (noncompounded) annual dividend equal to 3% of the stated value. Each share of the Preferred Stock shall entitle 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 which is \$3.95 per share plus any unpaid dividends, and the denominator 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 and if the Market Price is below \$3.00, the Company can redeem the Preferred Stock tendered for conversion based upon the following redemption provisions. The Company does not have the right to call for the redemption of the 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 from the period November 1998 to November 2006 at the rate of 1% per year. If the redemption date is after November 2006 there is no premium. Assuming a Market Price of \$2.25, the closing price of the Company's common stock on March 28, 1995, the Preferred Stock would convert into 2,333,333 shares of the Company's common stock.

Included as a reduction of paid in capital for the year ended December 31, 1995 is \$101,500, representing dividends declared and paid to Craig for the period from the date of the Preferred Stock issuance in November 1995 through June 30, 1995. As of December 31, 1995, undeclared cumulative dividends amounted to \$78,750. Such amounts were declared and paid during March 1996.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 10 - FUTURE MINIMUM RENT

The Company has operating leases with tenants at its commercial properties that expire at various dates through 2005 and are 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) -----
1996	\$ 3,549
1997	3,507
1998	3,526
1999	1,768
2000	1,322
Thereafter	5,347

	\$19,019

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.

Commencing in August 1995, the Company began renting corporate office space from its stockholder affiliate, Craig, on a month to month basis. In addition, the Company engaged Craig to provide certain administrative services. Included in general and administrative expenses is \$45,000 paid to Craig for such rent and services. In addition, the Company provided real estate consulting services to affiliates of Craig during the year ended December 31, 1995 for which the Company was paid approximately \$120,000. Such amounts are included in the statement of operations as a reduction of general and administrative expenses.

NOTE 11 - 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 effect the financial position or results of operations of the Company.

In November 1994, a stockholder, Dillon Investors L.P. filed a lawsuit in the Court of Chancery of the State of Delaware naming as defendants the Company, its directors and Craig. On April 13, 1995, the Company, Craig

and Dillon Investors and its affiliates (the "Dillon Parties") entered into settlement agreements to resolve this litigation. Under the settlement agreements, the Dillon Parties purchased from Citadel 1,295,000 shares of Class B common stock of

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 11 - COMMITMENTS AND CONTINGENCIES, (CONT'D)

Fidelity owned by the Company in exchange for which the Company received from the Dillon Parties \$2.22 million and 666,000 shares of the Company's common stock and all existing litigation among the Company, Craig and the Dillon Parties was terminated, with mutual releases executed and delivered. For financial statement purposes the Company reflected the return of the Company's common stock as treasury stock in the amount of \$1,415,000, or \$2.125 per share. The Dillon Parties also agreed for a period of one year following the closing, not to purchase or acquire any other beneficial interests in any of the Company's securities, and not to engage in any solicitations of consents or proxies.

The settlement terms also included an agreement by Craig with the Dillon Parties not to exercise, prior to February 4, 1996, its right to tender any shares of the Preferred Stock for conversion into the Company's common stock without the prior consent of the holders of a majority of the outstanding shares of the Company's common stock. In exchange for such concession from Craig Corporation, the Company agreed to grant Craig Corporation a two year warrant to acquire the 666,000 shares of the Company's common stock acquired from the Dillon Parties at a price of \$3.00 per share, and the Company agreed to reimburse Craig Corporation for certain expenses associated with the litigation which amounted to \$62,000.

NOTE 12 - STOCK OPTIONS

Pursuant to an employment agreement, the Company granted to the President, Mr. Wesson, stock options to purchase 33,000 shares of common stock at a price of \$2.69 per share. As of December 31, 1995, 22,000 shares were exercisable. The remaining 11,000 shares vest on August 4, 1996.

NOTE 13 - ACCOUNTING POLICIES AND FOOTNOTE DISCLOSURES PRIOR TO THE

RESTRUCTURING

The consolidated financial statements include the accounts of Citadel Holding Corporation ("Citadel") and subsidiaries, which prior to August 4, 1994 included Fidelity Federal Bank and Gateway Investment Services Inc. ("Gateway"). As a result of the Restructuring described in Note 1, effective January 1, 1994, Citadel no longer consolidates its previously wholly-owned subsidiaries, Fidelity and Gateway in its financial statements. Accordingly, only the financial statement information for the year ended December 31, 1993 includes the operating results and cash flows of Fidelity and Gateway on a consolidated basis.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 13 - ACCOUNTING POLICIES AND FOOTNOTE DISCLOSURES PRIOR TO THE

RESTRUCTURING (CONT'D)

The following details the components of the Loss from Financial Services

Operations included in the Statement of Operations for the year ended December 31, 1993:

Loss from Financial Services Operations:

	(in thousands)

Interest income	\$289,592
Interest expense	188,391

Net interest income	101,201
Provision for estimated loan losses	65,100

Net interest income after provision for estimated loan losses	36,101
Noninterest income (expense):	
Loan and other fees	5,389
Gain (loss) on sale of loans, net	194
Fee income from investment products	4,313
Fee income on deposits and other income	3,271
Provision for estimated real estate losses	(30,200)
Real estate operations on specific properties	(18,643)
Gains on sales of mortgage-backed securities and investment securities, net	1,288
Operating expenses	(105,341)

Total noninterest expense	(139,729)

Loss from financial services operations	\$ (103,628)
	=====

The following summarizes the significant accounting policies and footnote disclosures with respect to the year ended December 31, 1993.

Principles of Consolidation - The consolidated financial statements include the accounts of Citadel Holding Corporation and subsidiaries. Citadel is the holding company of Fidelity Federal Bank, a Federal Savings Bank and Gateway Investment Services, Inc. Unless otherwise indicated, references in this footnote to the "Company" include Citadel, Fidelity, Gateway, and all subsidiaries of Fidelity and Citadel. All significant inter-company 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.

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

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 13 - ACCOUNTING POLICIES AND FOOTNOTE DISCLOSURES PRIOR TO THE

RESTRUCTURING (CONT'D)

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 to maturity, and are carried on an amortised 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 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.

Proceeds from sales of securities held for investment during 1993 were \$26.9 million, with a resulting gain of \$1,946,000. Proceeds from sales of mortgage-backed securities held for trading during 1993 totaled \$51.3 million and the gross gains of \$54,000 realized from those sales are reported in the statement of operations as a component of gains/losses on sales of mortgage-backed securities, net. During the year ended December 31, 1993, the Company had gross gains of \$1.5 million and gross losses of \$1,000 on the sale of mortgage-backed securities held for investment.

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.

Loans held for sale by Fidelity are carried at the lower of cost or market. 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

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 13 - ACCOUNTING POLICIES AND FOOTNOTE DISCLOSURES PRIOR TO THE

RESTRUCTURING (CONT'D)

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 were from the held for sale portfolio.

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.

The results of real estate operations for the year ended December 31, 1993 amounted to a loss of approximately \$48,843,000 including income from real estate acquired for investment or development amounting to \$110,000, loss from real estate acquired through foreclosure amounting to \$18,753,000 and a provision for estimated losses of \$30,200,000.

Loans meeting certain criteria are accounted for as "in-substance foreclosures". These substantially foreclosed assets are recorded at the lower of the loans 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" 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. Fidelity

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 13 - ACCOUNTING POLICIES AND FOOTNOTE DISCLOSURES PRIOR TO THE

RESTRUCTURING (CONT'D)

utilizes the delinquency migration and 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 upon Fidelity'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. Fidelity calculates a range of loss by applying both methodologies and then applies judgement 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 allowance 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 -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. 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 year ended December 31, 1993 amounted to approximately \$18,458,000 including \$5,192,000 from the writedown of core deposit intangible assets (which writedown is included in interest expense) based upon a branch profitability and analysis and a \$8,776,000 writedown of goodwill (which writedown is included in operating expenses) based upon an analysis of the recoverability of goodwill indicating an impairment of value.

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. The financial instruments 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.

NOTE 14 - TAXES ON INCOME

As of December 31, 1995, the Company has for income tax purposes net operating loss carryforwards and capital loss carryforwards of approximately \$2.1 million and \$10 million, respectively. These carryforwards will expire in the years 1999 through 2004 and are subject to certain limitations.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 14 - TAXES ON INCOME, (CONT'D)

Since, in view of the Company's recent history of operating losses, realization of such tax benefits may be unlikely, a full valuation reserve has been provided.

The tax sharing agreement between Citadel and Fidelity was terminated prior to the Restructuring. In connection with such termination, Citadel and Fidelity agreed that certain amounts, estimated to be approximately \$3.2 million, that would have 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.

At the time of the Restructuring, Citadel and Fidelity entered into a tax disaffiliation agreement (the "Tax Disaffiliation Agreement"). In general under the tax disaffiliation Agreement, Fidelity is responsible for (a) all adjustments to the tax liability of Fidelity and its subsidiaries for the periods before the Restructuring 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 Restructuring in respect to that part of the taxable year through the date of the Restructuring, and (c) any tax liability of Fidelity and its subsidiaries for periods after the Restructuring. For this purpose any liability for taxes for periods on or before the Restructuring is 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.

Deferred income taxes reflect the net tax effect of "temporary differences" between the financial statement carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. During 1995 the Company finalized and filed its tax return for the year ended December 31, 1994. Based upon these filings the Company has made certain adjustments to the deferred tax assets previously estimated for the year ended December 31, 1994. Allocations of tax loss carryforwards have been adjusted to reflect At December 31, 1995 and 1994, the components of the deferred tax liabilities and assets are as follows:

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 14 - TAXES ON INCOME (CONT'D)

December 31,
1995 1994
----- -----

(in thousands)

FEDERAL

Deferred tax liabilities:

Other	\$ --	\$ 20
	-----	-----
Total deferred tax liabilities	--	20
	-----	-----

Deferred tax assets:

Acquired and option properties	3,100	3,664
Investment in Fidelity	--	4,000
Capital losses from sale of Fidelity	3,430	--
Bulksale indemnification	1,400	1,400
Net operating loss carryforward	938	525
Other	385	385
	-----	-----
Gross deferred tax assets	9,253	5,974
	-----	-----
Valuation allowance	\$ (9,253)	(5,954)
	-----	-----
Deferred tax assets, net of allowance	--	20
	-----	-----
Net Deferred tax liability	\$ --	\$ --
	=====	=====

STATE

Deferred tax liabilities:

Other	\$ --	\$ 5
	-----	-----
Gross deferred tax liabilities	--	5
	-----	-----

Deferred tax assets:

Acquired and option properties	850	1,003
Investment in Fidelity	--	1,000
Capital losses from sale of Fidelity	930	--
Bulk sale indemnification	372	372
Net operating loss carryforward	120	94
	-----	-----
Gross deferred tax assets	2,272	2,469
Valuation reserve	(2,272)	(2,464)
	-----	-----
Deferred tax assets, net of allowance	0	5
	-----	-----
Net deferred tax liability	\$ --	\$ 0
	=====	=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 14 - TAXES ON INCOME (CONT'D)

Income tax expense (benefit) is as follows:

	Year Ended December 31,		
	1995	1994	1993
	-----	-----	-----
	(In thousands)		
Current			
Federal	\$ --	\$ --	\$ (51,033)
State	--	--	75
	-----	-----	-----
	--	--	(50,958)
	-----	-----	-----
Deferred			
Federal	--	--	17,746
State	--	--	(3,255)

-----	-----	-----
--	--	14,491
-----	-----	-----
\$ --	\$ --	\$(36,467)
=====	=====	=====

The provision for income taxes is different from amounts computed by applying the U.S. statutory rate to earnings losses before taxes. The reason for these differences follows:

	Year Ended December 31,		
	1995	1994	1993
	-----	-----	-----
	(In thousands)		
Expected tax provision (benefit)	\$ 475	\$(67,439)	\$(35,234)
(Increase) reduction in taxes resulting from:			
Realization of deferred tax asset from book and tax basis of acquired properties sold	(530)	--	--
Losses for which no tax benefit was recorded	55	50,915	--
Goodwill	--	--	3,108
State taxes provided, net of Federal tax benefit	--	--	(4,398)
Other	--	--	57
	-----	-----	-----
Actual tax provision	\$ --	\$(16,524)	\$(36,467)
	=====	=====	=====

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

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NOTE 15 - QUARTERLY OPERATING DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	-----	-----	-----	-----
	(In thousands except per share amounts)			
1995				
Real estate income	\$ 1,113	\$ 1,432	\$ 1,812	\$ 1,755
Real estate general and administrative expenses	1,308	1,362	1,907	1,637
Gain on sale of properties	1,541	--	--	--
Loss of Fidelity	--	41	--	--
Net income (loss)	1,346	31	(95)	116
Net income (loss) per share	0.15	0.00	(0.02)	0.01
1994				
Real estate income	\$	\$	\$ 812	\$ 1,303
Real estate general and administrative expenses			940	3,120
Loss of Fidelity	14,757	91,218	58,908	7,081
Administrative charge from Fidelity	393	393	130	--
Net (loss)	(14,757)	(92,004)	(59,166)	(8,898)
Net (loss) per share	(2.24)	(13.95)	(8.97)	(1.29)

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

Pursuant to the conversion terms of the 3% Cumulative Voting Convertible Preferred Stock, the number of shares contingently issuable depends on the average market price of the stock at the day of conversion. Earnings per share for the first quarter of 1995 has been retroactively restated from \$0.20 to \$0.15 to reflect the number of shares contingently issuable upon the conversion of the Preferred Stock to common stock based upon the values calculated as of December 31, 1995.

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Financial Statement Schedule III

REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1995 (IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION
		LAND	BUILDING AND IMPROVEMENTS	
Commercial Apartment	\$ 4,396	\$1,488	\$ 4,507	\$103
Apartment	5,732	2,917	4,874	
Apartment	762	261	970	
Commercial	5,296	2,951	4,212	63
Land		400	--	
	----- \$16,186 =====	----- \$8,017 =====	----- \$14,563 =====	----- \$166 =====

DESCRIPTION	DECEMBER 31, 1995			ACCUMULATED DEPRECIATION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IS COMPUTED
	LAND	BUILDING	TOTAL			
Commercial Apartment	\$1,488	\$ 4,610	\$ 6,098	\$184	8/4/94	40
Apartment	2,917	4,874	7,791	250	8/4/94	27.5
Apartment	261	970	1,231	50	8/4/94	27.5
Commercial	2,951	4,275	7,226	69	5/8/95	40
Land	400		400		8/14/95	N/A
	----- \$8,017 =====	----- \$14,729 =====	----- \$22,746 =====	----- \$553 =====		

(1) The properties listed above were acquired pursuant to agreements entered into between the Company and Fidelity at the time of the Restructuring. The aggregate gross cost of property held at December 31, 1995 for federal income tax purposes approximated \$30,616,000.

(2) The following reconciliation reflects the aggregate rollforward activity of property held and accumulated depreciation for the two years ended December 31, 1995:

	Gross Amount	Accumulated Depreciation
Balance at December 31, 1993	\$ --	\$ --
Depreciation expense		(197)

Acquisitions	20,055	-----
Balance at December 31, 1994	20,055	(197)
Depreciation expense		(420)
Acquisitions	7,163	
Improvements	166	
Property received through foreclosure on note receivable	400	
Cost of real estate sold	(5,038)	64
	-----	-----
Balance at December 31, 1995	\$22,746	\$ (553)
	=====	=====

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS & EXECUTIVE OFFICERS

NAME	AGE	CURRENT OCCUPATION	FIRST BECAME DIRECTOR
-----	---	-----	-----
James J. Cotter(1) (3)	57	Chairman of the Board of Citadel, Chairman of the Board of Craig Corporation, and Chairman of the Board of Reading Company	1986
William D. Gould(1)	57	Attorney and Member, Troy & Gould Professional Corporation; Director of Craig Corporation	1995
S. Craig Tompkins(3)	45	Secretary/Treasurer and Principal Accounting Officer of Citadel, Vice Chairman of the Board of Citadel, President and Director of Craig Corporation, President and Director of Reading Company, and Director of G&L Realty Corp.	1993
Ronald I. Simon(2) (3)	57	Private Investor/Financial Consultant; Chairman of Sonat Corporation	1995
Alfred Villasenor, Jr(1) (2).	66	President of Unisure Insurance Services, Inc.	1987
Steve Wesson	38	President and Chief Executive Officer	

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Member of the Executive Committee.

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

Mr. Cotter was first elected to the Board in 1986, and resigned in 1988. He was re-elected to the Board in June 1991, named Acting Chairman of the Board of Directors of Citadel and Fidelity Federal Bank, a Federal Savings Bank ("Fidelity") in October 1991, and named Chairman of the Board of Citadel on June 5, 1992. Mr. Cotter has been Chairman of the Board of Craig Corporation ("Craig Corporation") (retail, grocery, motion picture exhibition and real estate) since 1988 and a Director of that company since 1985. He is also the Executive Vice President and a Director of The Decurion Corporation (motion picture exhibition). Mr. Cotter began his association with The Decurion Corporation in 1969. Mr. Cotter has been the Chief Executive Officer and a Director of Townhouse Cinemas Corporation (motion picture exhibition) since 1987. Mr. Cotter is the General Partner of James J. Cotter, Ltd., a general partner in Hecco Ventures I, a California General Partnership and a general partner in Hecco Ventures II, a California General Partnership (Hecco I and Hecco II are involved in investment activities), and has been a Director of Stater Bros., Inc. (retail grocery) since 1987. Mr. Cotter has served as a Director of Reading Company (motion picture exhibition and real estate) since 1990 and as the Chairman of the Board of that company since 1991.

Mr. Gould is Chairman of the Compensation Committee. Mr. Gould has been a member of the law practice of Troy & Gould Professional Corporation specializing in corporate law since July 1986. Mr. Gould

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has been a Director of Craig Corporation for more than the past five years and is currently Chairman of the Compensation Committee of Craig Corporation.

Mr. Simon has been a director of the Company since June 1995 and is Chairman of the Audit Committee. Mr. Simon is a financial consultant and private investor. He is currently Chairman of Sonat Corporation, a manufacturer of interactive voice response equipment and was a Director of Reading Company from 1990 to June 1995. Formerly, Mr. Simon was the Managing Director of the Henley Group, Inc. and a Director of Craig Corporation from 1987-1990.

Mr. Tompkins was a partner of Gibson Dunn & Crutcher until March 1993 when he resigned to become President of each of Craig and Reading. Mr. Tompkins has served as a Director of each of Craig and Reading since February 1993. Mr. Tompkins was elected to the Board of Directors of G&L Realty Corp., a New York Stock Exchange listed real estate investment trust, in December of 1993, and was elected Vice Chairman of the Board of Citadel in July of 1994. Mr. Tompkins also serves as the Secretary/Treasurer and Principal Accounting Officer for Citadel.

Mr. Villasenor is the President and the owner of Unisure Insurance Services, Incorporated, a corporation which has specialized in life, business life and group health insurance for over 30 years. Mr. Villasenor served on the Board of Directors of ELAR, a reinsurance company from 1990 to 1991. Mr. Villasenor served as a Director of Fidelity from 1987 until the Restructuring and as a Director of Gateway Investments, Inc. (a wholly owned subsidiary of Fidelity) from June 22, 1993 until February 24, 1995.

Mr. Wesson served as CEO of Burton Property Trust Inc., the U.S. real estate subsidiary of the Burton Group PLC until he joined the Company as a consultant in 1993. Mr. Wesson became the President and Chief Executive Officer of the Company at the date of the Restructuring in August 1994.

There are no family relationships between the officers of the Company. All officers are elected annually by the Board of Directors.

Directors who are not officers or employees of the Company receive for services as a director, an annual retainer of \$15,000 plus \$1,500 if serving as a Committee Chairman and \$800 for each meeting attended in person (or \$300 in the case of telephonic meetings). During 1995, the Board of Directors authorized a payment of \$192,500 to Mr. Cotter, the Chairman of the Board, in recognition of his past service to the Company with respect to the Restructuring.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The Summary Compensation Table sets forth the compensation earned for the years ended December 31, 1995, 1994 and 1993 by each of the most highly compensated executive officers of the company whose compensation exceeded \$100,000 in all capacities in which they served.

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION/ AWARDS	
		SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION
Steve Wesson President and Chief Executive Officer	1995	\$175,000	\$100,000	--(1)	33,000	
	1994(2)	\$ 70,564	\$25,000	--(1)		\$5,564

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- (1) Excludes perquisites less than \$50,000, or 10% of salary plus bonus, if less.
- (2) Includes compensation received as President and Chief Executive Officer of Citadel from August 5, 1994 to December 31, 1994.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following summarizes options granted in 1995(1).

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE	EXPIRATION DATE	POTENTIALLY REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
					5%	10%
Steve Wesson	33,000	100%	\$2.69	2004	\$55,925	\$141,144

- (1) Although not granted until August 31, 1995, such options were provided for in Mr. Wesson's employment agreement with Citadel, effective August 4, 1994.

AGGREGATED OPTION/SAR IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTION/SARS AT FY-END (#)	
			EXERCISABLE/UNEXERCISABLE	EXERCISABLE/UNEXERCISABLE	EXERCISABLE/UNEXERCISABLE	EXERCISABLE/UNEXERCISABLE
Steve Wesson	N/A	N/A	22,000/11,000		0(1)	

- (1) None of the options held by Mr. Wesson are in-the-money.

EMPLOYMENT CONTRACTS AND CHANGE IN CONTROL AGREEMENTS

Citadel and Steve Wesson entered into an Executive Employment Agreement, effective as of August 4, 1994 (the "Employment Agreement"). The term of the Employment Agreement is two years and is automatically renewed for subsequent one year terms unless either party gives notice of non-renewal. Mr. Wesson is paid an annual salary of \$175,000 and a minimum annual bonus of \$50,000. Pursuant to the Employment Agreement, Mr. Wesson was granted options in 1995 to purchase 33,000 shares of Common Stock of Citadel.

On June 27, 1990 the Board authorized Citadel to enter into indemnity agreements with its then current as well as future directors and officers. Since that time, Citadel's officers and directors have entered such agreements. Under these agreements, Citadel agrees to indemnify its officers and directors against

all expenses, liabilities and losses incurred in connection with any threatened, pending or completed action, suit or proceeding, whether civil or criminal, administrative or investigative, to which any such officer or director is a party or is threatened to be made a party, in any manner, based upon, arising from, relating to or by reason of the fact that he is, was, shall be or shall have been an officer or director, employee, agent or fiduciary of Citadel. Each of the current Citadel directors have entered into indemnity agreements with Citadel. Similar agreements also exist between Citadel's subsidiaries and the officers and directors of such subsidiaries.

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COMPENSATION COMMITTEE

From August 4, 1994 to August 31, 1995, Citadel dissolved the Compensation Committee and the entire Board of Directors took responsibility for the compensation decisions. On August 31, 1995, the Compensation Committee was reinstated to include Directors Cotter, Gould and Villasenor. It is currently Citadel's policy that directors whose compensation is at issue are not involved in the discussion of, or voting on, such compensation.

Mr. Wesson and Mr. Tompkins are the executive officers of Citadel. In accordance with Citadel's policy on executive officer compensation, Mr. Wesson and Mr. Tompkins are not involved in the discussion of, or voting on, their respective compensation. Mr. Tompkins receives no compensation for his services as an executive officer, but received director's fees. For the year ended December 31, 1995, such fee aggregated \$95,700, including a bonus of \$60,000 for services rendered to Citadel with respect to the Restructuring.

Mr. Tompkins is President and a Director of Craig Corporation and Reading Corporation. Mr. Cotter is the Chairman of the Board of Craig Corporation and Reading. Mr. Cotter is a member of the Reading Executive Committee, which serves as the compensation committee for that company. Mr. Gould is a Director of Craig and is Chairman of the Craig Compensation Committee.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the shares of Common Stock, Preferred Stock and Voting Stock beneficially owned as of April 8, 1996 by (i) each director and nominee, (ii) all directors and executive officers as a group, and (iii) each person known to Citadel to be the beneficial owner of more than 5% of either the Common Stock or the Preferred Stock. Except as noted, the indicated beneficial owner of the shares has sole voting power and sole investment power.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
-----	-----	-----
James J. Cotter(1) (4)	4,424,371 shares of Common Stock and 1,329,114 shares of Preferred Stock	49.9% of Common Stock and 100% of Preferred Stock
Steve Wesson(4)	22,000 shares of Common Stock(2)	*
Alfred Villasenor, Jr.(4)	900 shares of Common Stock	*
S. Craig Tompkins(4)	--	--
Ronald I. Simon(4)		
William D. Gould(4)		

Craig Corporation(1) (4)	4,424,371 shares of Common Stock and 1,329,114 shares of Preferred Stock	49.9% of Common Stock and 100% of Preferred Stock
Reading Corporation (1) 30 South Fifteenth Street Ste. 1300 Philadelphia, PA 19102-4813	1,564,473 shares of Common Stock	26% of Common Stock and 21.3% of Voting Stock
Lawndale Capital Management, Inc., Andrew E. Shapiro, Diamond A Partners, L.P., and Diamond A Investors, L.P. One Sansome Street, Suite 3900 San Francisco, California 94104(3)	396,600 shares of Common Stock(3)	6.6% of Common Stock and 5.4% of Voting Stock(3)

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NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
-----	-----	-----
John Winfield(5) 2121 Avenue of the Stars, Suite 2020 Los Angeles, CA 90067	342,200 shares of Common Stock	5.7% of the Common Stock and 4.7% of Voting Stock(3)
All directors and executive officers as a Group (5 persons)(1)	4,447,271 shares of Common Stock and 1,329,114 shares of Preferred Stock	50% of Common Stock and 100% Preferred Stock

- (1) Mr. Cotter is the Chairman of Craig and Reading, and a principal stockholder of Craig. Craig, in turn, owns approximately 49.3% of the Common Stock of Reading. Collectively, Mr. Cotter and Craig own approximately 50.8% of the Common Stock of Reading. Craig owns directly 1,329,114 shares of Preferred Stock representing 18.1% of the currently outstanding voting securities of Citadel and a warrant (the "Warrant") to purchase 666,000 shares of Common Stock at \$3.00 per share. Reading owns directly 1,564,473 shares of Common Stock and has an option (the "Option"), not currently exercisable, to acquire from Craig the Preferred Stock and the Warrant. These securities have been listed as beneficially owned by Mr. Cotter and Craig due to the inter-relationships between Mr. Cotter, Craig and Reading. The Preferred Stock and the Common Stock underlying the Option have not been listed as beneficially owned by Reading, as the Option is not currently exercisable. The Common Shares underlying the Warrant (representing 666,000 shares) have been listed as beneficially owned by Mr. Cotter and Craig even though the exercise price is currently materially in excess of the current market value of such Common Stock. Subject to certain limitations discussed elsewhere in the Report on Form 10-K, the Preferred Stock is convertible by the holder into Common Stock. The disclosures set forth with respect to Mr. Cotter and Craig with respect to their respective beneficial ownership of Common Stock for purposes of this Item have assumed conversion of the Preferred Stock into 2,193,898 shares of Common Stock and exercise in full of the Warrants. However, this conversion feature is subject to certain limitations, including a formula exercise price which varies with the market price of Common Stock and the right of the Company to redeem the Preferred Stock to the extent that the conversion feature is exercised and the exercise price would otherwise be less than \$3.00 per share. Mr. Cotter disclaims beneficial ownership of all Citadel securities owned by Craig and/or Reading.
- (2) Pursuant to the terms of an employment agreement, Citadel granted Mr. Wesson options to purchase 33,000 shares of Common Stock. The option has vested with respect to 22,000 shares, and will vest as to 11,000 shares on August 4, 1996.

- (3) Based on ownership assuming no conversion of the Preferred Stock or exercise of the warrants.
 - (4) 550 S. Hope St., Ste. 1825, Los Angeles, California 90071
 - (5) Based upon a 13-D, Mr. Winfield has sole voting and investment power with respect to 155,000 shares and shares voting and investment power for an additional 155,000 shares with Intergroup Corporation, and also shares investment power for an additional 32,200 shares with family members.
- * Represents less than one percent of the outstanding shares of Citadel Common Stock.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Issuance of Stock to Craig Corporation

In October and November 1994, Citadel issued 74,300 shares of Common Stock and 1,329,114 shares of 3% Cumulative Voting Convertible Preferred Stock to Craig. James J. Cotter, Chairman of the Board of Citadel, was, at the time of such issuances, and currently is, the Chairman of the Board and a major stockholder of Craig. S. Craig Tompkins, Secretary/Treasurer and Principal Accounting Officer of Citadel, was, at the time of such issuances, and currently is, the President and a Director of Craig.

Settlement with Dillon and issuance of warrant to Craig Corporation

On April 3, 1995, Citadel, Craig and Roderick K. Dillon and certain of his affiliates ("Dillon") entered into agreements to settle outstanding litigation between such parties. At the time of such settlement, Dillon was the beneficial owner of over 5% of the outstanding Common Stock of Citadel. In connection with the settlement, Citadel issued to Craig a two-year warrant to purchase at \$3.00 per share 666,000 shares of Common Stock of Citadel that had been to Citadel by Dillon in connection with such settlement.

Transactions with Craig Corporation and Reading Company

Commencing in August 1995, Citadel began renting corporate office space from Craig on a month to month basis and engaged Craig to provide certain administrative services. During fiscal 1995, \$45,000 was paid to Craig for such rent and services. In addition, Citadel provided real estate consulting services to Craig's affiliate, Reading, during fiscal 1995, for which Citadel was paid \$120,000.

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PART IV

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

(a) (1) FINANCIAL STATEMENTS

DESCRIPTION -----	PG. NO -----
Independent Auditor's Report.....	F-2
Consolidated Balance Sheets as of December 31, 1995 and 1994.....	F-3
Consolidated Statements of operations for Each of the Three Years in the Period Ended December 31, 1995.....	F-4
Consolidated Statements of Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 1995.....	F-5
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 1995.....	F-6

(a) (2) FINANCIAL STATEMENT SCHEDULE

Financial Statement Schedule III -- Real Estate
and Accumulated Depreciation..... II-1

(b) REPORTS ON FORM 8-K

- (i) The Company filed a Report on Form 8-K on April 4, 1995, reporting on Item 5, "Other Information."
- (ii) The Company filed a Report on Form 8-K on April 25, 1995, reporting on Item 5, "Financial Statements"

(c) EXHIBITS

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EXHIBIT

NO.	DESCRIPTION
- - - -	-----
3.1	Certificate of Amendment of Restated Certificate of Incorporation of Citadel Holding Corporation, (filed as Exhibit 3.1 to the Company's Report on Form 10-K for the year-end December 31, 1994, and incorporated herein by reference).
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)
3.3	Amendment to By-laws of Citadel Holding Corporation (filed herewith).
3.4	Amendment to By-laws of Citadel Holding Corporation (filed herewith).
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)

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EXHIBIT

NO.

DESCRIPTION

- - - -

- 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)
- 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., Tincum 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., Tincum 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)

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EXHIBIT

NO.

DESCRIPTION

- ---

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)

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)

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EXHIBIT

EXHIBIT NO.	DESCRIPTION
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 JP 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)
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 as Exhibit 10.40 to the Company's Report on Form 10-K for the year ended December 31, 1994)
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)
10.42	Standard Office lease, dated as of July 15, 1994, by and between Citadel Realty, Inc. and Fidelity Federal Bank (filed as Exhibit 10.42 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference)
10.43	First Amendment to Standard Office Lease, dated May 15, 1995, by and between Citadel Realty, Inc. and Fidelity Federal Bank (filed as Exhibit 10.43 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference)
10.44	Form of Stock Purchase Agreement, dated April 17, 1995, entered into by Citadel Holding Corporation and certain purchases of shares of Class B Common Stock of Fidelity Federal Bank (filed as Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference)

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EXHIBIT

NO.	DESCRIPTION
10.45	Environmental Indemnity Agreement, dated May 15, 1995, by and among Citadel Realty, Inc., in favor of Fidelity Federal Bank (filed as Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference)
10.46	Promissory Note secured by Deed of Trust, dated May 15, 1995, made by Citadel Realty, Inc., in favor of Fidelity Federal Bank (filed as Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference)
10.47	Guaranty of Payment dated May 15, 1995 by Citadel Holding Corporation in favor of Fidelity Federal Bank (filed as Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference)
10.48	Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing, dated as of May 15, 1995, made by Citadel Realty, Inc. in favor of Fidelity Federal Bank (filed as Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference)
10.49	Office Lease Modification between Citadel Realty, Inc. and American Express Travel Related Services Company dated March 1, 1996 (filed herewith)
21	Subsidiaries of the Company (filed herewith)
27	Financial Data Schedule (filed herewith)

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SIGNATURE

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

CITADEL HOLDING CORPORATION

(Registrant)

Date: April 15, 1996 /s/ Steve Wesson

 Steve Wesson
 President and Chief Executive Officer

Date: April 15, 1996 /s/ S. Craig Tompkins

 S. Craig Tompkins
 Principal Accounting Officer

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

SIGNATURE	TITLES(S)	DATE
/s/ James J. Cotter ----- James J. Cotter	Chairman of the Board and Director	April 15, 1996
/s/ S. Craig Tompkins ----- S. Craig Tompkins	Director, Secretary/Treasurer and Principal Accounting Officer	April 15, 1996

/s/ Alfred Villasenor, Jr. Director

April 15, 1996

Alfred Villasenor, Jr.

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AMENDMENT

TO

BYLAWS

OF

CITADEL HOLDING CORPORATION

The Bylaws of Citadel Holding Corporation (the "Corporation") are hereby amended as of the 15th Day of September 1994 to delete the last sentence of Article III, Section 3, and to replace it with the following sentence:

The number of directors which shall constitute the whole board shall be five (5).

Except as amended hereby, the Bylaws of the Corporation shall continue in full force and effect.

/s/ James J. Cotter

James J. Cotter, Chairman

/s/ S. Craig Tompkins

S. Craig Tompkins, Vice Chairman

/s/ Peter W. Geiger

Peter W. Geiger, Director

/s/ Alfred Villasenor, Jr.

Alfred Villasenor, Jr., Director

/s/ Steve Wesson

Steve Wesson, Director

AMENDMENT

TO

BYLAWS

OF

CITADEL HOLDING CORPORATION

The Bylaws of Citadel Holding Corporation (the "Corporation") are hereby amended as of the 26th Day of May, 1995 to delete the last sentence of Article III, Section 3, and to replace it with the following sentence:

The number of directors which shall constitute the whole board shall be seven (7), provided that effective as of the annual meeting of stockholders to be held in 1995, the number of directors which shall constitute the whole board shall be reduced to five (5).

Except as amended hereby, the Bylaws of the Corporation shall continue in full force and effect.

/s/ James J. Cotter

James J. Cotter, Chairman

/s/ S. Craig Tompkins

S. Craig Tompkins, Vice Chairman

/s/ Peter W. Geiger

Peter W. Geiger, Director

/s/ Alfred Villasenor, Jr.

Alfred Villasenor, Jr., Director

/s/ Steve Wesson

Steve Wesson, Director

OFFICE LEASE MODIFICATION

This Office Lease Modification (this "Modification") is made effective as of the 1st day of March, 1996, by and among American Express Company, a New York corporation ("AmEX"), American Express Travel Related Services Company, Inc., a New York corporation ("Travel Services"), and Citadel Realty, Inc., a Delaware corporation ("Landlord") as assignee of Fidelity Federal Bank.

RECITALS

A. AmEX entered into that certain Office Lease dated February 3, 1992 as thereafter amended by (i) that certain First Amendment to Lease dated May 31, 1994 and (ii) that certain Second Amendment to Lease (the "Second Amendment") dated October, 1994 (collectively, "the AmEX Lease") dealing with Suites 171 and 227 within the building having the address of 1661 East Camelback Road, Phoenix, Arizona 85016 (the "Building"), and (iii) that certain Third Amendment to Lease dated July 24, 1995.

B. Travel Services entered into that certain Office Lease dated February 7, 1992 (the "Travel Services Lease") with respect to Suite 150, Suite 300 and Suite 400 of the Building. AmEX and Travel Services are hereinafter referred to together as "Tenants."

C. Fidelity Federal Bank, a federal savings bank, the original landlord, has assigned its rights under the AmEX Lease and the Travel Services Lease to Landlord.

D. Landlord desires to extend the term of the Leases with respect to all suites leased by Tenants except Suite 171 for a period of 24 months and, with respect to Suite 171, to extend the term of the AmEX Lease of that Suite only for a period of twenty (20) months, so that all Suites in the Building leased by Tenants shall expire on February 28, 1999.

E. Tenants desire to extend the term of all Suites Tenants lease in the Building through February 28, 1999.

Now therefore, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Tenants and Landlord hereby agree as follows:

AGREEMENT

1. Extension Fee. Tenants agree to pay the total sum of \$100,000 in cash, due upon joint execution and delivery of this Modification to Landlord, in consideration of Landlord's agreement to the non-customary, short-term extension contemplated by this Modification, in addition to the Tenants' Base Annual Rent and the other sums contemplated by this Modification.

2. Base Annual Rental. Tenants agree that the Base Annual Rent for all Suites leased by Tenants in the Building shall be \$17.00 per rentable square foot (or \$1,699,558 for 99,974 rentable square feet) per year, plus transaction privilege tax thereon, commencing March 1, 1997 on Suites 150, 227, 300 and 400, and commencing July 1, 1997 on Suite 171.

3. Term. All references to the Term Expiration Date for the lease in Section I, Article F of the February 3, 1992 AmEX Lease and Section I, Article F of the Travel Services Lease are hereby deleted, and references to February 28, 1999 are hereby inserted as such Term Expiration Date.

4. Utilities. Tenants agree that all previous billings submitted by Landlord with respect to the cost of providing HVAC beyond the Building standard operating hours are reasonable and accepted, and waives all rental offsets or

deductions or claims for overcharges with respect to those charges billed.

The foregoing waiver applies to claims against Landlord and its officers, directors, shareholders, parents and subsidiaries in addition to the entity constituting Landlord.

5. Commission. Upon full execution and delivery of this Modification,

Landlord shall pay to Charles Dunn Company and Trammell Crow Company a leasing commission provided in separate agreements.

6. Termination of Renewal Rights; "As Is". Any options or other rights of

renewal with respect to the Lease Term contained in either the AmEX Lease or the Travel Services Lease, upon execution of this Modification by Tenants, are void and of no effect. Tenants hereby accept the Demised Premises in "as is" and "where is" condition through the Term Expiration Date of February 28, 1999.

7. Overtime HVAC. (i) Effective March 1, 1996, Landlord shall supply

Tenants with overtime HVAC (in each instance) at least 24 hours advance notice provided to Landlord on Tenants' letterhead and signed by Tenants' duly authorized representative. "Overtime HVAC" is herein defined as service provided outside standard building hours, which for the purposes of this paragraph 7 shall be 8:00 a.m. to 6:00 p.m., Mondays through Fridays and 8:00 a.m. to 1:00 p.m. Saturdays, all bank holidays excepted. Tenants shall pay to Landlord with the next due monthly installment of Base Annual Rent the sum of \$35.00 for each hour (or portion thereof, if less than a 60 minute increment) during which overtime HVAC is provided to Tenants, or either of them.

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(ii) In each of the AmEX Lease and the Travel Services Lease:

(1) In Section II, Article 12, the full text of the parenthetical in subpart (b) of that Article, beginning with the words "and at other times", hereby is deleted.

(2) In Section II, Article 28(A)(2)(a)(b), after the word "utilities" on the first full line of that subpart (b), add the words "(except as connected with Tenant's overtime HVAC usage)".

(3) In Exhibit B, Paragraph 22, at the end of that paragraph, add the words "subject to the provisions of that certain Office Lease Modification between Tenant and Landlord made as of March 1, 1996".

(iii) In Exhibit C, Article 38 of the AmEX Lease a new (C) hereby is added as follows:

(C) Notwithstanding any of the foregoing in this Article 38, calculation of the Costs of Tenant's Overstandard Electricity Usage shall not apply to Tenant's overtime HVAC usage; such overtime HVAC usage shall be subject to computation and payment in accordance with the provisions of that certain Office Lease Modification between Tenant and Landlord made as of March 1, 1996.

(iv) In Exhibit C, Article 40 of the Travel Services Lease a new (C) hereby is added as follows:

(C) Notwithstanding any of the foregoing in this Article 40, calculation of the Costs of Tenant's Overstandard Electricity Usage shall not apply to Tenant's overtime HVAC usage; such overtime HVAC usage shall be subject to computation and payment in accordance with the provisions of that certain Office Lease Modification between Tenant and Landlord made as of March 1, 1996.

8. Parking Stall Charges. Section II, Article 39 of the Travel

Services Lease (contained in Exhibit C to such lease) is hereby amended, in the fifth sentence thereof, to read as follows: The monthly charge for each parking stall during the period from March 1, 1997 through February 28, 1999 shall be \$20.00.

9. Miscellaneous; Ratification. All capitalized terms not defined

herein shall have the meanings ascribed to them in the AmEX Lease and the Travel Services Lease. Except as otherwise amended by this Modification, Landlord and Tenants hereby ratify, confirm and approve all provisions of each Lease referenced herein.

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10. Lapse of Offer. The offer contemplated by this Modification

shall be void and of no effect if not fully executed by Tenants and delivered to Landlord by February 29, 1996.

In witness whereof, AmEX, Travel Services and Landlord have executed this Modification as of the date first above written.

AMERICAN EXPRESS COMPANY, a New York corporation

By _____
Its _____

AMERICAN EXPRESS TRAVEL RELATED SERVICES COMPANY, INC., a New York corporation

By _____
Its _____

CITADEL REALTY, INC., a Delaware corporation

By _____
Its _____

By _____
Its _____

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LIST OF SUBSIDIARIES

Citadel Realty Inc.	100% owned
14455 Ventura Blvd, Inc.	100% owned

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