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FORM 10-K

READING INTERNATIONAL INC - RDI

Filed: March 31, 1997 (period: December 31, 1996)

Annual report with a comprehensive overview of the company

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

[X] 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, 1996

[] 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 OFFICES)

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 each exchange on which 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 X No .

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was \$12,208,000 as of March 20, 1997.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of March 20, 1997, there were 6,003,924 shares of Common 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, 1996
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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") was organized in 1983 and has been engaged in recent periods primarily in the business of owning and managing its commercial and residential properties and in the offering of various real estate consulting services to its affiliates. During 1996, the Company also considered certain opportunities to move into other businesses, including the land based entertainment industry and in October 1996 invested \$7 million to acquire 70,000 shares of the Series A Voting Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") of Reading Entertainment, Inc. ("REI" and collectively with its consolidated subsidiaries, "Reading") and the Asset Put Option described below (the "Reading Investment Transaction"). Until April 1994, Citadel was engaged principally in the business of serving as the holding company for Fidelity Federal Bank, FSB ("Fidelity").

At December 31, 1996, the Company's assets had a book value of \$30.3 million, consisting principally of two office buildings (located in Glendale, California and Phoenix, Arizona), the Company's investment in Reading and cash and cash equivalents, and long term liabilities of \$10.3 million.

The Reading Investment Transaction provided the Company an opportunity to make an initial investment in the movie exhibition industry, and the ability, thereafter, to review the implementation by Reading of its business plan and, if it approves of the progress made by Reading, to make a further investment in this industry through the exercise of its Asset Put Option. The Company has the right to require Reading to redeem the securities issued to it in the Reading Investment Transaction after five years, or sooner if Reading fails to pay dividends on such securities for four quarters.

As set forth in the Asset Put and Registration Rights Agreement, (the "Asset Put Agreement"), the Asset Put Option is exercisable any time after October 15, 1996 and until approximately April 2000. The Asset Put Option gives the Company the right to require Reading to acquire, for shares of Reading Common Stock, substantially all of the Company's assets and assume related liabilities (such as mortgages) (the "Asset Put"). In exchange for up to \$20 million in aggregate appraised value of such assets, Reading is obligated to deliver to the Company that number of shares of Reading Common Stock determined by dividing the value of Citadel's assets by \$11.75 per share if the notice is received by October 31, 1997 and thereafter \$12.25 per share. If the appraised value of the Company's assets is in excess of \$20 million, Reading is obligated pay for the excess by issuing Common Stock at the then fair market value, up to a maximum of \$30 million of assets. If the average trading price of Reading Common Stock exceeds 130% of the then applicable exercise price for more than 60 days (the "Repricing Trigger"), then the exercise price will adjust to the fair market of the Reading Common Stock from time to time, unless the Company exercises the Asset Put within 120 days of receipt of notice from Reading of the occurrence of the Repricing Trigger. The Asset Put Agreement has been filed as Exhibit 10.52 to this Report. Any description of the rights granted by that agreement is necessarily summary in nature and qualified by reference to the definitive terms of the Asset Put Agreement.

Reading is currently involved in conventional multiplex cinema exhibition in Puerto Rico through its Cine Vista Cinemas chain, in the exhibition of art and specialty film through its interest in the Angelika Film Center (a specialty art multiplex cinema and cafe complex located in the Soho area of New York City), and the development of a new chain of conventional multiplex cinema and entertainment center complexes in Australia. Reading opened its first multiplex cinema in Australia in December 1996. In addition, Reading

intends to expand the Angelika Film Center concept to other U.S. cities. Reading has executed a lease to develop an 8-plex art cinema and cafe complex as a part of the Bayou Place development in Houston, Texas, and is currently reviewing a number of potential locations suitable for such complexes. At December 31, 1996,

Reading owns approximately 26% of the Company's outstanding common stock.

Reading is a publicly traded company whose shares are quoted on the NASD/NMS and listed for trading on the NASDAQ Philadelphia Stock Exchange. Set forth as Exhibit 10.58 to this report is the Report on Form 10K filed by Reading with respect to the fiscal year ended December 31, 1996. Reading is currently controlled by Craig Corporation, a Delaware corporation ("Craig") which owns common and preferred stock in Reading representing approximately 78% of the voting power of that company. Craig also holds options to acquire 666,000 shares of Citadel stock at \$3.00 per share, which options are due to expire on April 11, 1997. Craig has advised the Company that it intends to exercise such options.

On August 4, 1994, Citadel and Fidelity completed a recapitalization and restructuring transaction (the "Restructuring"), which resulted in, among other things, the reduction of Citadel's interest in Fidelity from 100% to approximately 16%, the acquisition by the Company from Fidelity of certain real estate assets, and the receipt by way of dividend from Fidelity of options to acquire at book value certain other real estate assets. During fiscal 1995, substantially all of the Company's remaining interest in Fidelity was sold.

Citadel currently intends, at least for the near term, to continue to manage its real estate assets, to provide real estate consulting services to its affiliates, to work to resolve the outstanding litigation claims against it, and to monitor the progress of Reading in its Beyond-the-Home entertainment business. Depending upon the success of Reading in the implementation of its business plan, the Company may exercise its Asset Put Option or elect to hold or dispose of its current preferred stock interest in Reading, or to convert such preferred stock interest into Reading common stock pursuant to the exercise of the conversion feature of such preferred stock and/or to hold or dispose of such Reading common stock. Alternatively or additionally, the Company may seek or consider, if offered, some further transaction or transactions with Reading and/or Craig which would permit the Company's stockholders to further participate, directly or indirectly, in Reading's Beyond-the-Home entertainment business. However, no such transaction is currently under consideration by the Company. Furthermore, in the view of the Company, the continued presence of various litigation claims constitute an impediment to a merger or liquidation of the Company at the present time. No assurance can be given that the currently outstanding litigation claims against the Company will necessarily be resolved in the near term or on terms favorable to the Company or that any one or more transactions with respect to Craig and/or Reading will be forthcoming. The Company may, from time to time, also consider other real estate transactions.

Real estate consulting services are currently being provided by the Company to Reading under an arrangement pursuant to which Reading reimburses Citadel for its costs in providing such services. The Company believes that this arrangement is beneficial to the Company, since the Company would not otherwise have sufficient cash flow to maintain the level of executive talent currently available to it and since this arrangement allows its executives to monitor and to provide input with respect to the development of Reading's land based entertainment businesses. During fiscal 1996, Reading paid to Citadel \$169,000 with respect to such consulting services. Citadel's management is currently studying ways in which to further reduce the Company's net overhead and general administrative expenses, however, no assurances can be given to this regard.

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.

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S. Craig Tompkins became the Secretary/Treasurer of Citadel in September, 1994. Mr. Tompkins is also the Vice Chairman and a director of Citadel, the President and a director of Craig and the Vice Chairman and a director of Reading. Prior to joining Craig and Reading in March, 1993, Mr. Tompkins was a partner in the law firm of Gibson, Dunn & Crutcher.

Brett Marsh is responsible for the real estate activities of the Company. Prior to joining the Company, Mr. Marsh was the Senior Vice President of Burton Company Trust, Inc., the U.S. real estate subsidiary of the Burton Group PLC.

In this position, Mr. Marsh was responsible for the real estate portfolio of that company.

The Company has one additional employee, and shares space and has contracted for certain administrative and accounting services with Craig.

ITEM 2: PROPERTIES

REAL ESTATE INTERESTS

The table below provides an overview of the real estate assets owned by the Company at December 31, 1996.

ADDRESS	TYPE	UNITS/SQUARE FEET	% LEASED AT 12/31/96	MAJOR TENANTS *	REMAINING LEASE TERMS
ARBOLEDA 1661 Camelback Rd. Phoenix, Arizona	Office/ Restaurant	178,000	99	American Express (56%) Others	February 1999 1-5 Years
Glendale Building 600 No. Brand Blvd. Glendale, CA	Office	89,000	100	Fidelity (13%) Disney (87%)	May 2005 February 2007
PARTHENIA 21028 Parthenia Canoga Park, Calif.	Apartment	27 26,000	80	None	6-12 months

*% of rentable space leased

ARBOLEDA, PHOENIX

This property was acquired by the Company for \$6.4 million in August 1994 and is substantially leased to American Express Company, which occupies 56% (100,252 sq. ft.) of the property.

BRAND, GLENDALE

This property was acquired by the Company for \$7.12 million in May 1995 and is leased 87% to Disney Enterprises, Inc. ("Disney") and 13% to Fidelity, with Fidelity occupying the ground floor.

The base rental rate for the first five years of the Fidelity lease term is \$26,000 per month (including parking). With the lease providing for annual rental increases at a rate equal to the lower of the increase in the Consumer Price Index or 3%, the rental rate of the Fidelity lease at December 31, 1996 is \$26,600 per month. After the first five years of the lease term, the rental rate 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.

On October 1, 1996, the Company entered into a ten year full service lease for all of the floors, excluding the ground floor (approximately 80,000 square feet), with Disney. The rental rate for the first five years of the lease term beginning February 1, 1997 is approximately \$148,000 per month (excluding parking) and approximately \$164,000 (excluding parking) for the remaining five-year term. Disney has the option to renew the lease for two consecutive five year terms. The lease provides that the Company will contribute towards tenant improvements and common area upgrades approximately \$2.3 million. In addition, the Company anticipates incurring costs for other building upgrades, governmental compliance, commissions and legal fees amounting to approximately \$1.2 million. Concurrently with the execution of the Disney lease, the Company amended its then existing lease with Fidelity resulting in 1) termination of the

Fidelity lease with respect to floors four through six, resulting in a reduction of rent payments amounting to approximately \$75,000 per month after January 31, 1997, 2) termination of Fidelity's option to purchase the Glendale Building, 3) a modification of the mortgage with Fidelity on the building to eliminate the prepayment penalty and 4) reimbursement on February 1, 1997 by the Company to Fidelity of rental payments in the amount of approximately \$450,000 (See Note 3 to the Consolidated Financial Statements).

PARTHENIA
- - - - -

The Parthenia property was sold in January 1997 for \$1,210,000, which amount, net of closing costs, approximated book value.

EXECUTIVE OFFICES
- - - - -

The Company currently shares executive office space with Craig, under an arrangement whereby the Company and Craig allocate the costs of such office space and certain support facilities. During fiscal 1996, the Company's share of such office space and support facilities approximated \$24,000. The Company believes that this arrangement is beneficial to the Company in that it permits the Company to maintain quality executive office facilities at a lesser cost that would be the case if the Company were to maintain comparable facilities separate and apart from Craig.

FINANCING OF REAL ESTATE INTERESTS

The Company's 1994 acquisition of the Arboleda and Parthenia properties was 100% leveraged: Financing was obtained through the combination of a conventional mortgage loan from Fidelity on the Arboleda Property with the balance of the Arboleda purchase price and the entire purchase price of the Parthenia Property financed through drawdowns on an \$8.2 million line of credit from Craig (the "Craig Line of Credit").

The loan secured by the Arboleda Property has a seven-year term, amortizing over 25 years, with an adjustable rate of interest tied to a 30 day LIBOR rate plus 4.5% per annum, with an initial rate of 9.25% per annum. The interest rate on this loan is currently 9.875%.

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"). 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.

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 interest rate on this loan is currently 9.875%.

In May, 1995, Citadel obtained a loan of \$765,000 from American Savings on the Parthenia property. The loan provided 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. This loan was repaid in full in January 1997, concurrent with the sale of the Parthenia Property.

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 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 (the "Section 16 Action"). Citadel believes it has meritorious defenses to these claims and has not reserved any amounts with respect thereto. 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/or Reading), alleging malicious prosecution in connection with the Section 16 Action. 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. In August 1996, the Los Angeles County Superior Court ordered summary judgment in favor of Citadel and all other defendants. Roven has appealed that judgment.

FIDELITY EMPLOYEE LITIGATION

A former Fidelity employee, William Strocco, brought a wrongful termination and defamation action against Fidelity and Citadel, which was filed in Los Angeles County Superior Court on March 9, 1995. Citadel was named as a defendant on the basis that Citadel allegedly conspired with and induced Fidelity to breach its employment agreement with Strocco. In July 1996, the Superior Court ordered summary judgment in favor of Citadel. The case was subsequently settled by Fidelity and the plaintiff.

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SECURITIES LITIGATION

In July 1995, Citadel was named as a defendant in a lawsuit alleging violations of federal and state securities laws in connection with the offering of common stock of Citadel's then wholly owned subsidiary, Fidelity, in 1994 (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. The complaint which has been amended on three occasions in response to motions to dismiss brought by Fidelity and Citadel, and which as amended, has deleted defendants, J.P. Morgan Securities, Inc. and Deloitte & Touche LLP, alleged that false and misleading information was provided by the defendants in connection with Fidelity's stock offering and the defendants knew and failed to disclose negative information concerning Fidelity. Defendant has also alleged that defendants should have advised it of its legal rights with respect to withdrawal from the offering after it had executed subscription documentation. 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 of Citadel's interest in Fidelity, and Citadel, to date, has not retained separate counsel with respect to this litigation and is not incurring outside costs of defense. In August 1996, the Federal District Court for the Central District of California dismissed with prejudice all federal claims in the case against Citadel, Fidelity and Greenwood and dismissed all state claims without prejudice to the ability of the plaintiff to file such claims in a new state court action. The plaintiff has appealed this judgment. In October 1996, the plaintiff filed a class action suit in the Los Angeles Superior Court alleging claims substantially similar to those previously filed in federal court, to which Citadel and the remaining defendants demurred. In March 1997, the Superior Court sustained this demurrers without leave to amend. In light of the Plaintiff's appeal of the Federal District Court's dismissal of its Federal claims, the Company assumes that the Plaintiff will likewise appeal the Superior Court's dismissal of its State claims. Citadel believes that it has meritorious defenses to these claims, and has not reserved any amounts with respect thereto. However, the damages claimed by the plaintiff are in an unspecified amount, and the proceeds of the offering which is the subject of the complaint were in excess of the net worth of the Company.

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, 1996.

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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 (IN DOLLARS)	LOW
1996:		
Fourth Quarter	2 13/16	2 7/16
Third Quarter	2 13/16	2 1/4
Second Quarter	2 1/2	2 1/4
First Quarter	2 9/16	2 1/4
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

HOLDERS OF RECORD

The number of holders of record of the Company's common stock at March 20, 1997 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 in satisfaction of certain indebtedness owed by the Company under the Craig Line of Credit. The Preferred Stock carried a liquidation preference equal to its stated value and bears a cumulative (noncompounded) annual dividend equal to 3% of the stated value. Incident to the Reading Investment Transaction, Craig transferred the Preferred Stock to Reading, and Reading and the Company exchanged the Preferred Stock for an equal number of shares of the Company's Series B 3% Cumulative Voting Convertible Preferred Stock (the "Series B Preferred Stock" and collectively with the Preferred Stock, the "CHC Preferred Stock"), such Series B Preferred Stock included certain revised terms as negotiated by the Company in the context of the Reading Investment Transaction. In December 1996, the Company redeemed such Series B Preferred Stock pursuant to the exercise of certain

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redemption rights in favor of the Company, as set forth in the Certificate of Designation, for approximately \$6.19 million.

During 1996, the Board of Directors declared and paid dividends on the CHC Preferred Stock in the amount of approximately \$232,000.

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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.

	1996	At or for the Year Ended December 31, 1995	1994	December 31, 1993	1992
	-----	-----	-----	-----	-----
	(In thousands, except per share data)				
Income from real estate operations	\$ 5,871	\$ 6,112	\$ 2,115		
Gain on property sales	1,493	1,541			
Net interest income after provision for estimated loan losses				\$ 36,101	\$ 79,601
Gains (losses) on sale of loans, net				194	1,117
Gains (losses) on sale of mortgage-back securities				1,342	
Gains (losses) on sales of investment securities				(54)	
Other income (expense)				(35,870)	(6,602)
Administrative charge from Fidelity			916		
Gain (Loss) of and Write-down of investment in Fidelity (6)	4,000	(41)	(171,964)		
Operating expense	(4,938)	(6,214)	(4,060)	(105,341)	(77,911)
Earnings (loss) before income taxes	6,426	1,398	(174,825)	(103,628)	(3,795)
Income tax expense (benefit)				(36,467)	(5,841)
Net earnings (loss)	\$ 6,426	\$ 1,398	\$ (174,825)	\$ (67,161)	\$ 2,046
Earnings (loss) per common and common equivalent share	\$0.80	\$0.17	\$ (26.45)	\$ (11.56)	\$0.62
Average common and common equivalent shares (1) (2) (5)	7,983,416	8,233,174	6,610,280	5,809,570	3,297,812
Balance sheet Data:					
Total assets	\$ 30,292	\$ 39,815	\$ 39,912	\$4,389,519	\$4,698,326
Cash and investments	6,356	16,291	4,805	238,220	177,599
Total loans, net				3,713,383	3,991,781
Deposits				3,368,643	3,457,918
Borrowings	10,303	16,186	14,846	734,230	908,400
Subordinated notes				60,000	60,000
Stockholders' equity	17,724	17,720	17,838	187,403	223,186
Cash dividends declared on Preferred Stock	232	101	--	--	

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ITEM 6. SELECTED FINANCIAL DATA (CONT'D)

	1996	At or for the Year Ended December 31, 1995	1994	December 31, 1993	1992
	-----	-----	-----	-----	-----
Other Data:					
Real estate loans funded				\$422,355	\$435,690
Average interest rate on new loans				6.75%	7.77%
Loans sold				\$137,870	\$204,435
Nonperforming assets to total assets				5.37%	4.99%
Number of deposit accounts				241,093	233,037
Interest rate margin at end of period (3)				2.19%	2.68%
Interest rate margin for the period (3)				2.28%	2.67%
Retail branch offices (4)				42	43

- (1) Net of treasury shares, where applicable.
- (2) 1993 data includes 3,297,812 shares issued in March 1993 in connection with a stock rights offering, which produced net proceeds to the Company of \$31.4 million.
- (3) Excluding the writedowns of core deposit intangibles of \$5.2 million, interest rate margins at and for the year ended December 31, 1993, would have been 2.32% and 2.39%.
- (4) All retail branches were located in Southern California.
- (5) The 1996 and 1995 data includes the effect of shares assumed to be issued on the conversion of the then outstanding 3% Cumulative Voting Convertible Preferred Stock amounting to 2,046,784 common shares.
- (6) The 1996 gain resulted from a non-recurring recognition of previously deferred proceeds from the bulk sale of loans and properties by the Company's previously owned subsidiary, Fidelity.

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

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. During this time period, the Company has considered acquisitions outside of the ownership and management of commercial and residential properties, and as a consequence of the real estate advisory and consulting services provided on a fee basis to its shareholder affiliate, Reading Entertainment, Inc. ("REI" and collectively with its consolidated subsidiaries, "Reading"), has gained familiarity with the cinema exhibition industry and the operations and prospects of Reading.

In May 1996, the Company's shareholder affiliates, Reading and Craig Corporation ("CC" and collectively with its consolidated subsidiaries, "Craig") authorized their respective managements to work together to develop one or more proposals to provide Reading with the capital funding necessary to pursue its entertainment industry business plan. In June 1996, the Company authorized its management to cooperate with such efforts and formed a special committee of the Board composed of outside directors unaffiliated with Craig and/or Reading to participate in the negotiation and review of any such potential transaction (the "Independent Committee"). The Independent Committee retained legal counsel and investment banking advisors to assist it in this process.

On October 15, 1996, the Company, with the approval of the Board of Directors, consummated the transaction (the "Reading Investment Transaction") contemplated by an exchange Agreement (the "Exchange Agreement") dated as of September 4, 1996 by and among Citadel, Reading and Craig and certain of their respective affiliates. Pursuant to the terms of the Exchange Agreement, the Company contributed cash in the amount of \$7 million to Reading in exchange for 70,000 shares of Reading Series A Voting Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") and the Asset Put Option. Craig contributed assets in exchange for 2,476,190 shares of Reading Common Stock and 550,000 shares of Reading Series B Voting Cumulative Convertible Preferred Stock. The assets transferred by Craig consisted of 693,650 shares of Series B Preferred Stock of Stater Bros. Holdings Inc., Craig's 50% membership interest in Reading International Cinemas LLC, and 1,329,114 shares of the Company's Preferred Stock. Upon consummation of the transaction, Craig and the Company held in the aggregate approximately 82.4% of the voting power of Reading, with Craig's holdings representing approximately 77.4% of the voting power and the Company's holdings representing approximately 5% of such voting power. See footnote 4 of the Notes to Consolidated Financial Statements for more detailed information concerning the provisions of the Exchange Agreement.

In accordance with the Exchange Agreement, Reading exchanged the Preferred Stock of the Company received from Craig for an equal number of shares of the Company's Series B 3% Cumulative Voting Convertible Preferred Stock (the "Series B Preferred Stock"). The terms of the Company's Series B Preferred Stock were substantially identical to the terms of the Company's previously issued Preferred Stock except (i) the Redemption Accrual Percentage was reduced from 9% to 3% after October 15, 1996 and (ii) except upon a change of control of the Company, the holders of the Series

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B Preferred Stock would no longer have the right to convert the Series B Preferred Stock into Company Common Stock during the one year period commencing on the fifteenth day following the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 1996. In December 1996, Reading notified the Company of its exercise of its conversion rights. On December 20, 1996, Citadel redeemed the Series B Preferred Stock from Reading pursuant to the exercise of certain redemption rights set forth in the Certificate of Designation with respect to the Series B Preferred Stock. Such redemption price amounted to approximately \$6.19 million. As a consequence of the Series B Preferred Stock redemption, Reading's ownership of Citadel decreased to reflect its approximately 26% common stock holdings.

The Asset Put Option is exercisable any time after October 15, 1996 through a date thirty days after Reading's Form 10-K is filed with respect to its year ended December 31, 1999, and gives the Company the right to exchange, for shares of Reading Common Stock, all or substantially all of the Company's

assets, as defined, together with any debt encumbering such assets (the "Asset Put"). In exchange for up to \$20 million in aggregate appraised value of the Company's assets on the exercise of the Asset Put Option, Reading is obligated to deliver to the Company that number of shares of Reading Common Stock determined by dividing the value of the Company's assets by \$11.75 per share, if the notice is received by October 31, 1997, and thereafter, \$12.25 per share. If the appraised value of the Company's assets is in excess of \$20 million, Reading is obligated to pay for the excess by issuing Common Stock at the then fair market value up to a maximum of \$30 million of assets. If the average trading price of Reading Common Stock exceeds 130% of the then applicable exchange price for more than 60 days, then the exchange price will thereafter be the fair market of the Reading Common Stock from time to time, unless the Company exercises the Asset Put within 120 days of receipt of notice from Reading of the occurrence of such average trading price over such 60 day period.

The Reading Investment Transaction provides the Company an opportunity to make an initial investment in the Beyond-the-Home segment of the entertainment industry, and the ability, thereafter, to review the implementation by Reading of its business plan and, if it approves of the progress made by Reading, to make a further investment in this industry through the exercise of its Asset Put Option to exchange all or substantially all of its assets for Reading Common Stock. The Company has the right to require Reading to redeem the securities issued to it in the Reading Investment Transaction after five years or sooner if Reading fails to pay dividends on such securities for four quarters.

Reading is a publicly traded company whose shares are listed on the NASDAQ. Reading is currently involved in conventional multiplex cinema exhibition in Puerto Rico through its Cine Vista Cinemas chain, in the exhibition of art and specialty film through its interest in the Angelika Film Center (a specialty art multiplex cinema and cafe complex located in the Soho area of New York City), and the development of a new chain of conventional multiplex cinemas and entertainment centers in Australia. Reading opened its first multiplex cinema in Australia in December 1996. In addition, Reading expects to expand the Angelika Film Center concept to other U.S. cities, has executed a lease to develop an 8-plex art cinema and cafe complex as a part of the Bayou Place development in Houston, Texas, and is currently reviewing a number of potential locations suitable for such complexes.

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RESULTS OF OPERATIONS

Due to the nature of the Company's business activities the Company's historical and future revenues have varied significantly reflecting the results of real estate sales and the disposition of its previously owned subsidiary, Fidelity. In addition, rental income and earnings may vary significantly depending upon the properties owned by the Company during the periods being reported. Accordingly, year to year comparisons of operating results will not be indicative of future financial results.

YEAR ENDED DECEMBER 31, 1996 ("FISCAL 1996) VERSUS YEAR ENDED DECEMBER 31, 1995

("FISCAL 1995")

The Company's net earnings for Fiscal 1996 amounted to approximately \$6,426,000 or \$0.80 per share, as compared to \$1,398,000 or \$0.17 per share for Fiscal 1995. Included in net earnings for Fiscal 1996 is (1) approximately \$1,493,000 from the sale of an apartment property and an undeveloped parcel of land and (2) non-recurring income amounting to \$4,000,000 resulting from the recognition for financial statement purposes of previously deferred proceeds from the bulk sale of loans and properties by Citadel's previously owned subsidiary, Fidelity Federal Bank ("Fidelity"). At the time of the bulk sale in 1994 by Fidelity, Citadel agreed to indemnify Fidelity, up to \$4,000,000, with respect to certain losses that might be incurred by Fidelity in the event of a breach by Fidelity of certain representations made to the purchaser of such loans and properties. During 1996, Fidelity reached a settlement with the purchaser regarding such bulk sale claims and released Citadel from the indemnity. Included in the 1995 Fiscal Year net earnings is approximately \$1,541,000 from the sale of two rental properties.

Interest and dividend income amounted to \$939,000 in Fiscal 1996 as compared to \$710,000 in Fiscal 1995. The increase between Fiscal 1996 and 1995 was due to higher investable fund balances during most of 1996. Cash balances decreased in October 1996 as a result of the Company's \$7 million investment in Reading and again in December 1996 as a result of the Company's \$6.19 million redemption of its Series B Preferred Stock. Included in interest and dividend income in Fiscal 1996 is dividend income of approximately \$95,000 earned with respect to the Company's Reading Series A Preferred Stock.

Rental income amounted to approximately \$4,932,000 in Fiscal 1996 as compared to \$5,402,000 in Fiscal 1995. The decrease in Fiscal 1996 is principally due to a reduction of the number of rental properties owned by the Company between the periods. The apartment building held for sale at December 31, 1996 was sold in January 1997 for an amount, net of expenses, approximating book value. An apartment building (the "Veselich Building") was sold in May 1996, resulting in a reduction of rental income amounting to approximately \$1 million as compared to Fiscal 1995. Such decrease was partially offset by an increase in rental income amounting to approximately \$270,000 resulting, in part, from the two-year lease renewal of approximately 58% of the Arboleda property at increased rates and an increase in rental income amounting to approximately \$300,000 resulting from an entire years ownership of a six floor commercial building located in Glendale, California (the "Glendale Building"). As of December 31, 1996 rental properties consisted of one apartment building (held for sale) and two commercial buildings as compared to two apartment buildings and two commercial buildings (one of which was purchased in May 1995) as of December 31, 1995.

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The Glendale Building was purchased in May 1995 from Fidelity. Two floors of the Glendale Building were leased to Public Storage until April 1996 and four floors, including the ground floor, were leased to Fidelity under a long-term lease. In October 1996, the Company amended the office lease with Fidelity for the Glendale Building resulting in, among other things, the termination of Fidelity's lease of floors four through six, and concurrently with such amendment, entered into a ten year lease with Disney Enterprises Inc. ("Disney") for all the floors, excluding the ground floor, which continues to be leased by Fidelity. The rental rate for the first five years of the Disney lease term beginning February 1, 1997 is approximately \$148,000 per month and approximately \$164,000 for the remaining five year term (in each case excluding parking). Disney has the option to renew the lease for two consecutive five year periods. The lease provides that the Company will contribute towards tenant improvements and common area upgrades approximately \$2.3 million. In addition, the Company anticipates incurring costs for other building upgrades, governmental compliance, commissions and legal fees prior to the commencement of lease payments by Disney of approximately \$1.2 million. The commissions, legal fees and reimbursement to Fidelity, totaling approximately \$1,326,000 are included in the Balance Sheet at December 31, 1996 as "Capitalized leasing costs" and are being amortized over the term of the lease.

Real estate operating costs decreased in Fiscal 1996 to \$2,481,000 as compared to \$2,660,000 in Fiscal 1995, principally as a result of the sale of the Veselich Building. This decrease was partially offset by costs associated with operating the Glendale Building purchased in May 1995.

Interest expense was comparable in Fiscal 1996 and 1995 and amounted to approximately \$1,317,000 in Fiscal 1996 as compared to \$1,327,000 in Fiscal 1995. The comparability of such amounts reported as interest expense is a result of the time periods mortgage loans were outstanding during each of the two fiscal years. The Company obtained two mortgages aggregating approximately \$6.1 million in the second quarter of 1995. In May 1996, the Company upon the sale of a rental property for approximately \$8.941 million, net of expenses, repaid a mortgage loan on said property amounting to approximately \$5.7 million. Accordingly, outstanding mortgages decreased approximately \$5,882,000 between December 31, 1996 and December 31, 1995 and in January 1997 decreased approximately \$755,000 due to an additional early repayment of a mortgage loan upon the sale of the Parthenia property. The interest rate on the remaining outstanding loans approximated 9.875% at December 31, 1996.

General and administrative expenses decreased to approximately \$745,000 in Fiscal 1996 as compared to \$1,807,000 in Fiscal 1995. The \$880,000 decrease reflected in Fiscal 1996 is primarily attributable to (i) a \$290,000 reduction in outside legal and professional expenses, (ii) a decrease in directors fees of

approximately \$250,000 in the Fiscal 1996, (iii) an \$89,000 insurance reimbursement of legal costs and (iv) the non-recurrence of approximately \$250,000 of costs incurred in Fiscal 1995 associated with a parcel of land which was sold in Fiscal 1996. In addition, Fiscal 1996 general and administrative expenses includes approximately \$169,000 in fee income for consulting services provided by employees of the Company to Reading as compared to \$120,000 in Fiscal 1995.

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YEAR ENDED DECEMBER 31, 1995 ("FISCAL 1995") VERSUS YEAR ENDED DECEMBER 31, 1994

("FISCAL 1994")

Prior to a restructuring in August 1994, Citadel was a financial services holding company engaged in the savings bank business through Fidelity. It conducted virtually no operations at the holding company level. In the Restructuring, Citadel's interest in Fidelity was reduced from 100% to 16.2% and Citadel transferred the stock of its other subsidiary, Gateway, to Fidelity leaving Citadel with no historical operating business. As a result, effective January 1, 1994, Citadel ceased including the results of Fidelity and Gateway 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) and December 31, 1994 (5 months of real estate operations).

In addition to the reduction of Citadel's interest in Fidelity, in the Restructuring, (1) the Company acquired from Fidelity 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, under a short-term line of credit; (2) the Company received, by way of dividend from Fidelity, options to acquire at book value (\$9.3 million) two office buildings used by Fidelity in its operations (the "Building Options"); (3) the Company acquired, again by way of a dividend, Fidelity's interest in certain outstanding litigation, and (4) Citadel agreed to indemnify Fidelity, up to a limit of \$4 million, with respect to certain representations and warranties made by Fidelity to certain third party buyers in connection with bulk sales made as part of the Restructuring (the "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 an office building in Sherman Oaks, California 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 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 remaining interest in Fidelity and settled certain litigation, 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 (i) the net cash proceeds combined with the amount ascribed to the common stock received (\$2.125 per share), to (ii) 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 attributed 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, 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 which closed in May 1996.

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 costs. Subsequent to 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

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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. During Fiscal 1995, the Company incurred additional legal fees pertaining to outstanding litigation 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.

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 reimbursed Craig for certain legal costs associated with the litigation amounting to approximately \$62,000.

BUSINESS PLAN, CAPITAL RESOURCES AND LIQUIDITY OF THE COMPANY

Fiscal 1996

Fiscal 1996 cash and cash equivalents decreased by approximately \$9,932,000 from \$16,291,000 at December 31, 1995 to \$6,359,000 at December 31, 1996. Net cash provided by investing activities for the year ended December 31, 1996 amounted to \$1,460,000 and net cash used in financing activities amounted to approximately \$12,305,000. The principal sources of liquid funds in Fiscal 1996 was from the sale of properties amounting to \$9,361,000. The principal uses of liquid funds in 1996 included (i) a \$7 million investment in its shareholder, Reading, (ii) a \$5,883,000 repayment of mortgage loans including \$5,690,000 repaid as a result of a rental property sale in May 1996, (iii) the Company's redemption from Reading of its Series

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B Preferred Stock in the amount of \$6,190,000, (iv) improvements to rental properties amounting to \$504,000 and (v) the payment of preferred stock dividends amounting to \$232,000.

The Company expects that its sources of funds in the near term will include (i) cash on hand and related interest income, (ii) cash flow from the operations of its real estate properties, (iii) approximately \$350,000 of proceeds from the sale of a rental property net of a mortgage loan repayment with respect to an apartment building sold in January 1997, (iv) consulting fee income from Reading and (v) a quarterly preferred stock dividend from Reading amounting to approximately \$455,000 annually.

In the short-term, uses of funds are expected to include (i) funding of the Glendale Building leasehold improvements and building upgrades required under the terms of the Disney lease amounting to approximately \$3 million, (ii) operating expenses, (iii) payment of December 31, 1996 accrued liabilities including approximately \$870,000 of unpaid commissions and releasing costs incurred in releasing the Glendale Building, and (iv) debt service pursuant to the property mortgages.

Management believes that the Company's sources of funds will be sufficient to meet its cash flow requirements for the foreseeable future. The October 1996 Reading Investment Transaction, described above, provided the Company with the opportunity to make an initial investment in the Beyond-the-Home segment of the entertainment industry, and the ability thereafter, to review the implementation by Reading of its business plan and, if it approves of the progress made by Reading, to make a further investment in this industry through the exercise of

its Asset Put Option to exchange all or substantially all of its assets for Reading Common Stock. The Company has the right to require Reading to redeem the securities issued to it in the Exchange Transaction after five years or sooner if Reading fails to pay dividends on such securities for four quarters.

Fiscal 1995
 - -----

Cash and cash equivalents increased by approximately \$11,486,000 in Fiscal 1995 to \$16,291,000 at December 31, 1995. Net cash provided by investing activities amounted to \$11,165,000 including cash proceeds from the sale of its remaining 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 financing amounted to approximately \$6,104,000. During Fiscal 1995, principal uses of funds included the purchase and improvement of rental properties amounting to \$9,610,000 and the repayment of long-term and short-term principal borrowings of approximately \$4,764,000.

Fiscal 1994
 - -----

Cash and cash equivalents decreased by approximately \$141,156,000 in Fiscal 1994, inclusive of a decrease of approximately \$143,677,000, resulting from the deconsolidation of the Company's previously owned subsidiary, Fidelity. In August 1994, Citadel completed a restructuring in which among other things, Citadel's ownership interest in Fidelity was reduced to 16% and the Company formed a new subsidiary which purchased four real properties using funds of approximately \$20,055,000. Proceeds to purchase such properties was obtained through long-term mortgage debt amounting to approximately \$13,930,000 and a \$6,200,000 short-term credit line from the Company's shareholder affiliate, Craig.

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, 1996 and 1995 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement 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, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, 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, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Los Angeles, California
March 20, 1997

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	1996	1995
	-----	-----
	(In thousands of dollars)	
ASSETS		

Cash and cash equivalents	\$ 6,356	\$ 16,291
Properties held for sale	1,145	7,942
Rental properties, less accumulated depreciation	13,288	14,251
Investment in shareholder affiliate	7,000	--
Capitalized leasing costs	1,576	70
Other receivables	311	447
Other assets	616	814
	-----	-----
Total assets	\$ 30,292	\$ 39,815
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

LIABILITIES		
Security deposits payable	\$ 76	\$ 253
Accounts payable and accrued liabilities	2,189	1,656
Deferred proceeds from bulk sales agreement	--	4,000
Mortgage notes payable	10,303	16,186
	-----	-----
Total liabilities	12,568	22,095
	-----	-----

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 at December 31, 1995	--	13
Serial preferred stock, par value \$.01, 5,000,000 shares authorized, 3% Cumulative Voting Convertible, none outstanding	--	--
Common stock, par value \$.01, 20,000,000 shares authorized, 6,669,924 shares issued and outstanding at December 31, 1996 and 1995	67	67
Additional paid-in capital	59,020	65,197
Deficit	(39,948)	(46,142)
Cost of treasury shares, 666,000 shares	(1,415)	(1,415)
	-----	-----
Total stockholders' equity	17,724	17,720
	-----	-----
Total liabilities and stockholders' equity	\$ 30,292	\$ 39,815
	=====	=====

See accompanying notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	1996	1995	1994
	-----	-----	-----
	(In thousands of dollars, except per share amounts)		

Real Estate Operations:

Rental income	\$4,932	\$5,402	\$ 2,070
Interest income	939	710	45
	-----	-----	-----
	5,871	6,112	2,115
Real estate operating expenses	2,481	2,660	1,350
Depreciation and amortization	395	420	276
Interest expense	1,317	1,327	649
General and administrative expenses	745	1,807	1,785
	-----	-----	-----
Total expenses	4,938	6,214	4,060
Gain on sale of properties	1,493	1,541	--
	-----	-----	-----
Earnings (loss) from Real Estate Operations	2,426	1,439	(1,945)
	-----	-----	-----
Administrative Charge from Fidelity	--	--	(916)
Gain (Loss) of and Write-down of Investment in Fidelity	4,000	(41)	(171,964)
	-----	-----	-----
Earnings (loss) before taxes	6,426	1,398	(174,825)
Income tax expense (benefit)	--	--	--
	-----	-----	-----
Net earnings (loss)	\$6,426	\$1,398	\$ (174,825)
	=====	=====	=====
Net earnings (loss) per common and common equivalent share	\$0.80	\$0.17	\$ (26.45)
	=====	=====	=====

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, 1996
(IN THOUSANDS OF DOLLARS)

	Preferred Stock		Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Balances at January 1, 1994			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
Redemption of Preferred stock	(1,329)	(13)			(6,177)			(6,190)
Net earnings						6,426		6,426
Preferred stock dividends						(232)		(232)
Balances at Dec. 31, 1996	-----	\$ --	6,670	\$67	\$59,020	\$ (39,948)	\$(1,415)	\$ 17,724

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)

	Year Ended December 31,		
	1996	1995	1994
OPERATING ACTIVITIES			
Net earnings (loss)	\$ 6,426	\$ 1,398	\$(174,825)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Deconsolidation of Fidelity	--	--	111,988
(Gain) Loss from investment in Fidelity	(4,000)	41	59,892
Deferred proceeds from Bulk Sales Agreement	--	--	4,000
Depreciation and amortization	395	420	276
Gain on sale of rental property	(1,493)	(1,541)	--
Amortization of deferred loan costs	88	58	--
(Increase) decrease in other receivables	137	382	(1,219)
(Increase) decrease in other assets	(129)	(216)	(625)
Increase in security deposits payable	(177)	26	227
Increase (decrease) in accrued liabilities	(337)	(1,345)	3,001
Net cash provided by (used in) operating activities	910	(777)	2,715
INVESTING ACTIVITIES			
Proceeds from sale of Fidelity stock	--	11,938	--

Purchase of Reading Entertainment, Inc. securities	(7,000)	--	--
Proceeds from sale of properties	9,361	8,837	--
Payment of capitalized leasing costs	(397)	--	--
Purchase of and additions to real estate	(504)	(9,610)	(20,055)
	-----	-----	-----
Net cash provided by (used in) investing activities	1,460	11,165	(20,055)
FINANCING ACTIVITIES			
Redemption of Preferred Stock from shareholder affiliate	(6,190)	--	--
Proceeds from long-term mortgage borrowings	--	6,104	13,930
Repayments of long-term borrowings	(5,883)	(3,814)	(34)
Short-term borrowings from affiliates	--	--	6,200
Repayment of borrowings from affiliates	--	(950)	--
Dividends paid	(232)	(101)	--
Capitalized financing costs	--	(141)	(246)
Costs of preferred stock issuance	--	--	(275)
Proceeds from issuance of common stock	--	--	286
	-----	-----	-----
Net cash provided by (used in) financing activities	(12,305)	1,098	19,861
Less cash and cash equivalents of Fidelity at beginning of period	--	--	(143,677)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(9,935)	11,486	(141,156)
Cash and cash equivalents at beginning of year	16,291	4,805	145,961
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 6,356	\$16,291	\$ 4,805
	=====	=====	=====

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:			
Interest on mortgages and line of credit	\$ 1,269	\$ 1,292	\$ 548
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	--

See notes to accompanying consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION AND PRINCIPLES 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 October 15, 1996, the Company consummated the transaction (the "Exchange Transaction") contemplated by an exchange agreement (the "Exchange Agreement") with its shareholder affiliates, Craig Corporation ("Craig") and Reading Entertainment, Inc. ("Reading"). Pursuant to the terms of the Exchange Agreement, the Company contributed cash in the amount of \$7 million to Reading in exchange for 70,000 shares of Reading Series A Voting Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") and an option to transfer all or substantially all (subject to certain limitations) of its assets to Reading for Reading Common Stock (the "Asset Put Option"). See Note 4. The Company accounts for its investment in Reading at cost.

As a result of a restructuring in August 1994, described in Note 5, effective January 1, 1994, Citadel no longer consolidates its previously wholly owned subsidiary, Fidelity Federal Bank ("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 "Gain (Loss) of and Writedown of Investment in Fidelity".

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, 1996 is approximately \$5.75 million 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 respective leases or the useful lives of the improvements, whichever is shorter.

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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)

Deferred Financing Costs

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

Capitalized Leasing Costs

Commissions and other costs incurred in connection with obtaining leases are amortized over the terms of the respective leases on a straight line basis.

Earnings (Loss) per Share Data

Earnings per share is based on 7,983,416, 8,233,174 and 6,610,280, the weighted average number of shares of common stock and common stock equivalents outstanding during the years ended December 31, 1996, 1995 and 1994, respectively. The 3% Cumulative Voting Convertible Preferred Stock and the outstanding Warrants and stock options are common stock equivalents. For 1996 and 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 during the period of time such stock was outstanding and the outstanding Warrants and stock options. The number of shares assumed converted as of the beginning of the period being reported amounted to 2,046,784 and was calculated in accordance with the Preferred Stock conversion terms described in Note 8. The Preferred Stock is not included in the 1994 calculation as its effect was anti-dilutive.

Use of Estimates

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

Accounting for the Impairment of Long Lived Assets

During the fiscal year ended December 31, 1996, the Company adopted Statement of Accounting Standard No. 121 "Accounting for the Impairment of Long Lived Assets

and for Long Lived Assets to be Disposed of". Among other provisions, the statement changed current accounting practices for the evaluation of the impairment of long lived assets. The adoption did not have a material affect on the Company's Consolidated Financial Statements.

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

NOTE 3 - RENTAL PROPERTIES AND PROPERTIES HELD FOR SALE

The Company's rental properties and properties held for sale at December 31, 1996 and 1995 consisted of the following:

	1996	1995
	-----	-----
	(In thousands)	
RENTAL PROPERTIES:		
Land	\$ 4,438	\$ 4,699
Building and improvements	9,389	9,855
	-----	-----
Total	13,827	14,554
Less accumulated depreciation	(539)	(303)
	-----	-----
Rental properties, net	\$13,288	\$14,251
	=====	=====
PROPERTIES HELD FOR SALE:		
Apartment building	\$ 1,230	\$ 7,791
Accumulated depreciation	(85)	(249)
	-----	-----
Net	1,145	7,542
Undeveloped land	--	400
	-----	-----
Properties held for sale	\$ 1,145	\$ 7,942
	=====	=====

At December 31, 1996 rental properties consisted of two commercial buildings as compared to one apartment building and two commercial building at December 31, 1995. In January 1997, the property held for sale at December 31, 1996 was sold at an amount approximating book value.

In May 1996, the Company sold the apartment rental property held for sale at December 31, 1995, for approximately \$8.94 million, net of expenses. The sale resulted in a gain of approximately \$1.473 million. Concurrent with the sale, the Company paid off the related mortgage note payable amounting to approximately \$5.7 million. In addition, in August 1996, the Company sold the undeveloped parcel of land in Claremont for a price, net of expenses, which resulted in a gain of approximately \$20,000.

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.

On February 2, 1995, the Company exercised the Building Options described in Note 5 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 Building the Company 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 a loan fee of 1% plus normal closing costs.

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

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

In August 1994, the Company and Fidelity entered into a ten year, full service gross lease for four of the six floors of an office building owned by the Company in Glendale, California (the "Glendale Building"). The rental rate for the first five years of the lease term was approximately \$26,000 per month (including parking) for the ground floor and approximately \$75,000 per month (including parking), for the fourth through sixth floors. On October 1, 1996, the Company and Fidelity amended the office lease for the Glendale Building resulting in (1) termination of the lease obligation for floors four through six resulting in a reduction of rent payments amounting to approximately \$75,000 per month after January 31, 1997, (2) termination of Fidelity's option to purchase the Glendale Building, (3) a modification of the mortgage with Fidelity on the Glendale Building eliminating the prepayment penalty and (4) an obligation by the Company to refund to Fidelity previous rents approximating \$450,000 on February 1, 1997. Concurrent with the amendment of the Fidelity lease and mortgage, the Company entered into a ten year, full service lease for all of the floors, excluding the ground floor (approximately 80,000 square feet), of the Glendale Building with Disney Enterprises, Inc. ("Disney"). The rental rate for the first five years of the Disney lease term beginning February 1, 1997 is approximately \$148,000 per month (excluding parking) and approximately \$164,000 (excluding parking) for the remaining five year term. Disney has the option to renew the lease for two consecutive five year periods. The lease provides that the Company will contribute towards tenant improvements and common area upgrades approximately \$2.3 million. In addition, the Company anticipates incurring costs for other building upgrades, governmental compliance, commissions and legal fees prior to the commencement of lease payments by Disney of approximately \$1.2 million. The commissions, legal fees and the \$450,000 payment due Fidelity, totaling approximately \$1,326,000 are included in the Balance Sheet at December 31, 1996 as "Capitalized leasing costs" and are being amortized over the term of the lease .

NOTE 4 - INVESTMENT IN SHAREHOLDER AFFILIATE

On October 15, 1996, the Company, with the approval of the Board of Directors, consummated the transaction (the "Reading Investment Transaction") contemplated by an exchange Agreement (the "Exchange Agreement") dated as of September 4, 1996 by and among the Company, Reading and Craig and certain of their respective affiliates. Pursuant to the terms of the Exchange Agreement, the Company contributed cash in the amount of \$7 million to Reading in exchange for 70,000 shares of Reading Series A Voting Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") and the Asset Put Option. Craig contributed assets in exchange for 2,476,190 shares of Reading Common Stock and 550,000 shares of Reading Series B Voting Cumulative Convertible Preferred Stock. The assets transferred by Craig consisted of 693,650 shares of Series B Preferred Stock of Stater Bros. Holdings Inc., Craig's 50% membership interest in Reading International Cinemas LLC, and 1,329,114 shares of the Company's Preferred Stock. In accordance with the Exchange Agreement, Reading exchanged the Preferred Stock

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

NOTE 4 - INVESTMENT IN SHAREHOLDER AFFILIATE, CONT'D

of the Company received from Craig in the Exchange for an equal number of shares of the Company's Series B 3% Cumulative Voting Convertible Preferred Stock (the "Series B Preferred Stock"). Such Series B Preferred Stock received by Reading in the Exchange Transaction was redeemed by the Company in December 1996 (Note 8).

Upon consummation of the transaction, Craig and the Company held in the aggregate approximately 82.4% of the voting power of Reading, with Craig's holdings representing approximately 77.4% of the voting power of Reading and the Company's holdings representing approximately 5% of such voting power. In February 1997, Craig increased its ownership in Reading resulting in an increase in its voting power of Reading to 78%. At December 31, 1996, Reading holds 1,564,973 shares or approximately 26% of the Company's outstanding common stock. Craig also holds a warrant, which expires in April 1997, to purchase 666,000 shares of the Company's Common Stock at a purchase price of \$3.00.

The 70,000 shares of Series A Preferred Stock acquired by the Company has (i) a liquidation preference of \$100 per share or \$7 million ("Stated Value"), (ii) bears a cumulative dividend of 6.5%, payable quarterly and (iii) is convertible any time after 18 months from issuance (or earlier upon a change of control of Reading) into shares of Reading Common Stock at a conversion price of \$11.50 per share. Reading may, at its option, redeem the Series A Preferred Stock at any time after October 15, 2001, in whole or in part, at a redemption price equal to a percentage of the Stated Value (initially 108% and decreasing 2% per annum until the percentage equals 100%). The Company has the right for a 90-day period beginning October 15, 2001 (provided the Company has not exercised the Asset Put Option described below), or in the event of a change of control of Reading to require Reading to repurchase the shares of the Series A Preferred Stock for their aggregate Stated Value plus accumulated dividends. In addition, if Reading fails to pay dividends for four quarters, the Company has the option to require Reading to repurchase such shares at their aggregate liquidation value plus accumulated dividends. Included in interest and dividend income is approximately \$95,000 representing dividends earned and paid to the Company with respect to the Company's ownership of the Reading Series A Preferred Stock.

The Asset Put Option is exercisable any time after October 15, 1996 through a date thirty days after Reading's Form 10-K is filed with respect to its year ended December 31, 1999, and gives the Company the right to exchange all or substantially all of its assets, as defined, together with any debt encumbering such assets, for shares of Reading Common Stock (the "Asset Put"). In exchange for up to \$20 million in aggregate appraised value of the Company's assets on the exercise of the Asset Put Option, Reading is obligated to deliver to the Company a number of shares of Reading Common Stock determined by dividing the value of the Company's assets by \$11.75 per share if the notice is received by October 31, 1997 and thereafter, \$12.25 per share. If the appraised value of the Company's assets is in excess of \$20 million, Reading is obligated to pay for the excess by issuing Common Stock at the then fair market value up to a maximum of \$30 million of assets. If the average trading price of Reading Common Stock exceeds 130% of the then applicable exchange price for more than 60 days, then the exchange price

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

NOTE 4 - INVESTMENT IN SHAREHOLDER AFFILIATE, CONT'D

will thereafter be the fair market of the Reading Common Stock from time to time, unless the Company exercises the Asset Put within 120 days of receipt of notice from Reading of the occurrence of such average trading price over such 60 day period. For financial reporting purposes the Company did not allocate any value to the Asset Put Option, due to the Company's belief that the value is not material and that the methods of valuing options include numerous subjective assumptions and are not intended to value non-transferable options.

The Company has certain demand and piggy-back registration rights with respect to Reading Common Stock issuable on conversion of the Series A Voting Cumulative Convertible Preferred Stock or on exercise of the Asset Put. With respect to the Reading Investment Transaction, Reading agreed to reimburse the Company for its out of pocket costs, estimated to be approximately \$265,000, up to a maximum of \$280,000.

Reading is a publicly traded company whose shares are listed on the NASDAQ. Reading is currently involved in conventional multiplex cinema exhibition in Puerto Rico through its Cine Vista Cinemas chain, in the exhibition of art and specialty film through its interest in the Angelika Film Center (a specialty art multiplex cinema and cafe complex located in the Soho area of New York City),

and the development of a new chain of conventional multiplex cinemas and entertainment centers in Australia. Reading opened its first multiplex cinema in Australia in December 1996. In addition, Reading expects to expand the Angelika Film Center concept to other U.S. cities, has executed a lease to develop an 8-plex art cinema and cafe complex as a part of the Bayou Place development in Houston, Texas, and is currently reviewing a number of potential locations suitable for such complexes.

Summarized financial information of Reading as of and for the three months and twelve months ended December 31, 1996 follows:

CONDENSED BALANCE SHEET:

	December 31, 1996

	(In thousands)
Cash and cash equivalents	\$ 48,680
Other current assets	7,765
Equity investment in Citadel	4,850
Preferred stock of Stater	67,978
Property and equipment	21,130
Intangible assets	26,229
Other assets	5,122

Total Assets	\$181,754
	=====
Current liabilities	\$ 13,716
Other liabilities	5,084
Preferred Stock held by Citadel	7,000
Shareholders' equity	155,954

Total Liabilities and Equity	\$181,754
	=====

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

NOTE 4 - INVESTMENT IN SHAREHOLDER AFFILIATE, CONT'D

CONDENSED STATEMENTS OF OPERATIONS:

	Three Months Ended December 31, 1996	Year Ended December 31, 1996
	-----	-----
	(In thousands)	(In thousands)
Revenue:		
Theater	\$ 5,233	\$ 18,236
Real Estate	332	543
Interest and dividends	2,695	4,165
	-----	-----
Total revenue	8,260	22,944
Theater costs	(4,204)	(14,452)
Depreciation and amortization	(578)	(1,793)
General and administrative	(3,869)	(7,106)
	-----	-----
(Loss) from operations	(391)	(407)
Equity in earnings of Citadel	51	1,526
Other income, net	3,263	4,327
	-----	-----
Earnings before income taxes	2,923	5,446

Income tax benefit	1,315	1,236
Minority interest	353	321
	-----	-----
Net income	4,591	7,003
Less preferred stock dividends	(911)	(911)
Net Income applicable to common stock shareholders	\$3,680	\$6,092
	=====	=====

Included in income tax benefit for the three months and year ended December 31, 1996 is approximately \$1.8 million resulting from the recognition of previously reserved income tax assets, net of AMT tax. In addition, other income for the three months and year ended December 31, 1996, includes legal settlements and other non-recurring income of approximately \$3.4 million and \$4.6 million, respectively.

NOTE 5 - INVESTMENT IN FIDELITY

On August 4, 1994, Citadel completed a 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% through the issuance of 4,202,243 shares of Class A and Class C common stock of Fidelity to new investors in a public offering.

During fiscal 1995, the Company's investment in Fidelity was reduced by (1) the sale of 1,295,000 shares of the Class B Common Stock of Fidelity in consideration for a cash 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, 1996 the Company holds for sale 1,810 shares of Fidelity stock.

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

NOTE 5 - INVESTMENT IN FIDELITY, CONT'D

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 described below. The loss from operations of Fidelity through August 4, 1994 was partially offset by an income tax benefit of \$16,524,000.

In addition to the reduction of Citadel's interest in Fidelity, several other significant events occurred in the Restructuring, including:

- a. The purchase by a newly formed subsidiary of Citadel, Citadel Realty, Inc.

("CRI") of 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, under a short-term line of credit.

b. The receipt by Citadel from Fidelity by way of a dividend of (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 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.

c. The execution and delivery by Citadel and Fidelity of a Stockholders' Agreement, under which 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 were to be determined to have breached certain representations made in connection with certain bulk sales of loans and properties in 1994. As a significant number of material issues were unresolved with regard to the Company's ultimate exposure with respect to the Company's ultimate exposure with respect to the indemnity clause negotiated with Fidelity, the Company included \$4 million on its Balance Sheet at December 31, 1995 as

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

NOTE 5 - INVESTMENT IN FIDELITY, CONT'D

- - - - -

"Deferred proceeds from bulk sales agreement". During 1996, Fidelity reached a settlement with the purchaser regarding the bulk sales claims and released the Company from the indemnity given to Fidelity. Accordingly, the Company has reflected in the Statements of Operations for the year ended December 31, 1996, a non-recurring gain related to its previous investment in Fidelity, which resulted from the reversal of the \$4 million deferral.

NOTE 6 - OTHER ASSETS

- - - - -

Other assets are summarized as follows:

	December 31,	
	1996	1995
	-----	-----
	(in thousands)	
Deferred financing costs	\$ 204	\$ 271
Accumulated amortization	(64)	(43)
	-----	-----
Deferred financing costs, net	140	228
Impounds	354	291
Prepaid expenses	110	195
Other	12	100
	-----	-----
	\$ 616	\$ 814
	=====	=====

NOTE 7 - MORTGAGE NOTES PAYABLE

- - - - -

Mortgage notes payable at December 31, 1996 and 1995 is as follows:

	December 31,	
	1996	1995
	-----	-----
	(in thousands)	
Notes payable to Fidelity - principal and interest paid monthly at rates equal to LIBOR plus 4.5%, maturing through 2004	\$ 9,548	\$15,424
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	755	762
	-----	-----
	\$10,303	\$16,186
	=====	=====

As of December 31, 1996, the 30 day LIBOR interest rate was 5.375% and the 11th District Cost of Funds was 4.839%.

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

Aggregate future principal payments as of December 31, 1996 are as follows:

Year Ending December 31,	(in thousands)
-----	-----
1997	\$ 170
1998	188
1999	207
2000	228
2001	252
Thereafter	9,258

	\$10,303
	=====

NOTE 8 - 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 to its shareholder affiliate, Craig Corporation ("Craig"). 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. The Preferred Stock carried a liquidation preference equal to its stated value and had a cumulative (noncompounded) annual dividend equal to 3% of the stated value. Each share of the Preferred Stock entitled the holder to one vote on all matters submitted to a vote of the Company's stockholders.

The Preferred Stock was convertible at the option of the holder into common stock. The conversion ratio was 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 was below \$3.00, the Company could redeem the Preferred Stock tendered for conversion calculated as 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.

As described in Note 4, on October 15, 1996, the Company issued 1,329,114 shares of Series B 3% Cumulative Convertible Preferred Stock ("Series B Preferred Stock") to Reading in exchange for the Series A Preferred Stock. The terms of the Series B Preferred Stock were substantially identical to the terms of the

Series A Preferred Stock except that (i) the Redemption Accrual Percentage was reduced from 9% to 3% after October 15, 1996 and (ii) except upon a change of control of the Company, the holders of the Series B Preferred Stock would no longer have the right to convert the Series B Preferred Stock into Company Common Stock during the one year period commencing on the fifteenth day following the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 1996. In December 1996, Reading notified the Company of its exercise of its

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

NOTE 8 - 3% CUMULATIVE VOTING CONVERTIBLE PREFERRED STOCK, CONT'D

conversion rights. On December 20, 1996, Citadel redeemed the Series B Preferred from Reading pursuant to the exercise of certain redemption rights set forth in the Certificate of Designation with respect to the Series B Preferred Stock. Such redemption price amounted to approximately \$6.19 million. As a consequence of the Series B Preferred Stock redemption, Reading's voting ownership of Citadel decreased to reflect their approximately 26% common stock holdings.

Included as a reduction of stockholders' equity for the year ended December 31, 1996 and 1995 is \$232,000 and \$101,500, respectively, representing dividends declared and paid for the period from the date of the Preferred Stock issuance in November 1994 until the redemption of the Series B Preferred Stock in December 1996.

NOTE 9 - 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) -----
1997	\$ 4,503
1998	4,596
1999	2,814
2000	2,223
2001	2,129
Thereafter	14,111

	\$30,376
	=====

Commencing in August 1995, the Company began renting corporate office space from its 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 \$96,000 and \$45,000 paid to Craig for such rent and services for the years ended December 31, 1996 and 1995, respectively. In addition, the Company provided real estate consulting services to Reading during the years ended December 31, 1996 and 1995 for which the Company was paid approximately \$169,000 and \$120,000, respectively. Such amounts are included in the statement of operations as a reduction of general and administrative expenses.

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

NOTE 10 - 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 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. 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 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 11 - STOCK OPTIONS

Pursuant to an employment agreement, the Company granted to the President stock options to purchase 33,000 shares of common stock at a price of \$2.69 per share. As of December 31, 1996, the 33,000 shares were exercisable. Effective October 1996, the Company adopted the Citadel 1996 Nonemployee Director Stock Option Plan (the "1996 Stock Option Plan") which provides that each director who is not an employee or officer of the Company will automatically be granted immediately vested options to purchase 10,000 shares of Common Stock at an exercise price that is greater or less than the fair market value, as defined, per share of Common Stock on the date of grant by an amount equal to the amount by which \$3.00 per share is greater or less than the fair market value per share of Common Stock on the effective date of the 1996 Stock Option Plan. At December 31, 1996, vested options to purchase 20,000 shares of Common Stock at an exercise price of \$3.00 per share are outstanding.

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

NOTE 12 - INCOME TAXES

As of December 31, 1996, the Company has for income tax purposes net operating loss carryforwards and capital loss carryforwards of approximately \$2.1 million and \$7.4 million, respectively. These carryforwards will expire in the years 1999 through 2004 and are subject to certain limitations. 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. During 1996, the Company and Fidelity reached settlement with respect to all open tax periods prior to 1991. Subsequent tax years are currently under audit by the Internal Revenue Service.

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 1996, the Company finalized and filed its tax return for the year ended December 31, 1995. Based upon these filings the Company has made certain adjustments to deferred tax assets previously estimated for the year ended December 31, 1995. 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 12 - TAXES ON INCOME, CONT'D

	December 31,	
	1996	1995
	-----	-----
	(in thousands)	
FEDERAL:		
Deferred tax assets:		
Acquired and option properties	2,110	3,100
Capital losses from sale of Fidelity	2,600	3,430
Bulksale indemnification	--	1,400
Net operating loss carryforward	600	938
Other	385	385
	-----	-----
Gross deferred tax assets	5,695	9,253
	-----	-----
Valuation allowance	\$ (5,695)	(9,253)
	-----	-----
Net Deferred tax liability	\$ --	\$ --
	=====	=====
STATE:		
Deferred tax assets:		
Acquired and option properties	570	850
Capital losses from sale of Fidelity	690	930
Bulk sale indemnification	--	372
Net operating loss carryforward	120	120
	-----	-----
Gross deferred tax assets	1,380	2,272
	-----	-----
Valuation reserve	(1,380)	(2,272)
	-----	-----
Net deferred tax liability	\$ --	\$ 0

=====

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,		
	1996	1995	1994
	-----	-----	-----
	(In thousands)		
Expected tax provision (benefit)	\$ 2,185	\$ 475	\$ (67,439)
(Increase) reduction in taxes resulting from:			
Realization of deferred tax asset from book and tax basis of acquired properties sold	(520)	(530)	--
Bulk sale indemnification not taxable	(1,400)	--	--
Utilization of net operating losses	(310)	--	--
Losses for which no tax benefit was recorded	--	55	50,915
Other	45	--	--
	-----	-----	-----
Actual tax provision	\$ --	\$ --	\$ (16,524)
	=====	=====	=====

As stated in Note 5, an income tax benefit of \$16.524 million was recorded for 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 14 - QUARTERLY OPERATING DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	-----	-----	-----	-----
	(In thousands except per share amounts)			
1996				
Real estate income	\$ 1,740	\$ 1,572	\$ 1,278	\$ 1,281
Real estate general and administrative expenses	(1,497)	(1,504)	(1,101)	(836)
Gain on sale of properties	--	1,473	20	--
Gain on Fidelity	--	4,000	--	--
Net income	243	5,541	197	445
Net income (loss) per share	0.02	0.69	0.03	0.06
1995				
Real estate income	\$ 1,113	\$ 1,432	\$ 1,812	\$ 1,755
Real estate general and administrative expenses	(1,308)	(1,360)	(1,907)	(1,639)
Gain on sale of properties	1,541	--	--	--
Gain (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

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 while they were outstanding was dependent on the preceding 60 day average market price of the stock at the date of conversion. Earnings per share for the first, second and third quarters of 1996 has been retroactively restated to reflect the number of shares contingently issuable upon the conversions of the Preferred Stock to Common Stock based upon the values calculated as of December 19, 1996.

Financial Statement Schedule III

REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 1996 (IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION
		LAND	BUILDING AND IMPROVEMENTS	
Commercial	\$ 4,344	\$1,488	\$4,507	\$199
Apartment	755	261	970	
Commercial	5,204	2,951	4,212	469
	-----	-----	-----	-----
	\$10,303	\$4,700	\$9,689	\$668
	=====	=====	=====	=====

DESCRIPTION	DECEMBER 31, 1996			ACCUMULATED DEPRECIATION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IS COMPUTED
	LAND	BUILDING	TOTAL			
Commercial	\$1,488	\$ 4,706	\$ 6,194	\$277	8/4/94	40
Apartment	261	970	1,231	85	8/4/94	27.5
Commercial	2,951	4,681	7,632	262	5/8/95	40
	-----	-----	-----	-----		
	\$4,700	\$10,357	\$15,057	\$624		
	=====	=====	=====	=====		

- (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, 1996 for federal income tax purposes approximated \$20,972,000.
- (2) The following reconciliation reflects the aggregate rollforward activity of property held and accumulated depreciation for the three years ended December 31, 1996:

	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)
Depreciation expense		(395)
Acquisitions	504	
Cost of real estate sold	(8,193)	324
	-----	-----
Balance at December 31, 1996	\$15,057	\$ (624)
	=====	=====

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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)	59	Chairman of the Board of Citadel, Chairman of the Board of Craig Corporation ("Craig"), and Chairman of the Board of Reading Entertainment, Inc. ("REI")	1986
S. Craig Tompkins (3)	46	Secretary/Treasurer and Principal Accounting Officer of Citadel, Vice Chairman of the Board of Citadel, President and Director of Craig, Vice Chairman of the Board of REI, and Director of G&L Realty Corp.	1993
Ronald I. Simon (2) (3)	58	Private Investor/Financial Consultant; Chairman and Chief Financial Officer of Sonant Corporation, Director of each of Softnet Systems, Inc., and Westcorp Investments.	1995
Alfred Villasenor, Jr. (1) (2).	67	President of Unisure Insurance Services, Incorporated	1987

(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') previously owned by Citadel 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 since 1988 and a Director of that company since 1985. Since 1996, Mr. Cotter has served as a Director of REI (motion picture exhibition and real estate), which the company was formed pursuant to a reorganization of Reading Company under a Delaware holding company, effective October 1996. Since 1990 Mr. Cotter has also served as a Director of Reading Company, currently a wholly owned subsidiary of REI, and since 1991, as the Chairman of the Board of that company. Craig owns approximately 78% of the voting power of the outstanding securities of REI. Mr. Cotter 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 is also a Director and Executive Vice President of Pacific Theatres, Inc., a wholly owned subsidiary of the Decurion Corporation. 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 are shareholders in Craig), and has been a Director of Stater Bros., Inc. (retail grocery) since 1987.

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Mr. Simon has been a director of the Company since June 1995. Mr. Simon is a financial consultant and private investor. He is currently Chairman and Chief Financial Officer of Sonant Corporation, a manufacturer of interactive voice response equipment, Westcorp Investments, a wholly owned subsidiary of Westcorp, and Softnet Systems, Inc. Formerly, Mr. Simon was the Managing Director of the Henley Group, Inc., a Director of Craig Corporation from 1987-1990 and a Director of Reading Company from 1989 to 1995.

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 Company since February 1993 and has served as a Director of REI since its formation in 1996. 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. In February 1997, Mr. Tompkins resigned as President of REI and was made Vice Chairman of REI.

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 35 years. He is also a general partner in the 2368 Torrance Partnership, a California real estate holding company. Mr. Villasenor served on the Board of Directors of ELAR, a reinsurance company from 1986 to 1991. In 1987, Mr. Villasenor was elected to the Board of Directors of Citadel and Fidelity and served on the Board of Fidelity until 1994. Mr. Villasenor also served as a Director of Gateway Investments, Inc. (a wholly owned subsidiary of Fidelity) from June 22, 1993 until February 24, 1995.

All officers are elected annually by the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The officers of Citadel currently include Steve Wesson and S. Craig Tompkins. The Summary Compensation Table sets forth the compensation earned for the years ended December 31, 1996, 1995 and 1994 by each of the most highly compensated executive officers of the company whose compensation exceeded \$100,000 in all capacities in which they served.

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NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			OTHER ANNUAL COMPENSATION (1)	LONG TERM COMPENSATION SECURITIES UNDERLYING STOCK OPTIONS GRANTED	ALL OTHER COMPENSATION
		SALARY	BONUS				
Steve Wesson	1996	\$175,000	\$ 50,000	(1)	--	--	
President and Chief	1995	\$175,000	\$100,000	(1)	--	--	
Executive Officer	1994 (2)	\$ 70,564	\$ 25,000	(1)	33,000	\$5,564	

(1) Excludes perquisites if the aggregate amount thereof is 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, 1995.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following summarizes options were granted in 1996.

NAME	INDIVIDUAL GRANTS				POTENTIALLY REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	NUMBER OF SECURITIES UNDERLYING GRANTED	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE	EXPIRATION DATE	5%	10%
Alfred Villasenor	10,000	50%	\$3.00	2006	\$18,900	\$47,800
Ronald I. Simon	10,000	50%	\$3.00	2006	\$18,900	\$47,800

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 (#)
Steve Wesson	N/A	N/A	33,000/0	\$ 2,062
Alfred Villasenor	N/A	N/A	10,000/0	0 (1)
Ronald I. Simon	N/A	N/A	10,000/0	0 (1)

(1) The options are not 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 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.

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 and currently includes include Directors Cotter and Villasenor. It is currently Citadel's policy that directors who are executive officers and 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 his service as Vice Chairman in the amount of \$35,000 with respect to 1996.

Other than the Chairman of the Board, directors who are not officers or employees of the Company receive, for their services as a director, an annual retainer of \$15,000 plus \$1,500, if serving as Committee Chairman and \$800 for each meeting attended in person (or \$300 in the case of a telephonic meeting). The Chairman of the Board receives \$45,000 annually. During 1996, Messrs. Villasenor and Simon received \$10,000 as additional fees for their participation as members of the Independent Committee formed by the Company to review the Reading Investment Transaction.

Additionally, pursuant to the Citadel Holding Corporation 1996 Nonemployee Director Stock Option Plan effective October 1996 (the "1996 Stock Option Plan"), each director of the Company who is not an employee or officer (for purposes of the 1996 Stock Option Plan, the Chairman of the Board and the Principal Accounting Officer of Citadel are deemed officers of the Company) of the Company shall, upon becoming a member of the Board of Directors, automatically be granted immediately vested option to purchase 10,000 shares of Common Stock at an exercise price that is greater or less than the fair market value (as such term is defined in the 1996 Stock Option Plan) per share of Common Stock on the date of grant by an amount equal to the amount by which \$3.00 per share is greater or less than the fair market value per share of Common Stock on the effective date of the 1996 Stock Option Plan (the "Plan Effective Date"). The non-officer directors who were incumbent

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on the Plan Effective Date (Messrs. Simon and Villasenor) received immediately vested options to purchase 10,000 shares of Common Stock at an exercise price of \$3.00 per share.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Tompkins is President of Craig and a Director of Craig and REI. Mr. Cotter is the Chairman of the Board of Craig and REI. Mr. Cotter is a member of the executive committees of REI, which, among other things, is responsible for the compensation of the executive officers of such companies.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based solely on a review of the copies of the forms which the Company received and written representations from certain reporting persons, the Company believes that, during the fiscal year ended December 31, 1996, all filing requirements applicable to its reporting persons were complied with except Mr. Alfred Villasenor filed one late Form 4 in December 1996 to report the sale of 900 shares of the Company's Common Stock, which transaction occurred in April 1996.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the shares of Common Stock, beneficially owned as of March 20, 1997 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 the Common Stock. Except as noted, the indicated beneficial owner of the shares has sole voting power and sole investment power.

COMMON STOCK		
NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS (7)
James J. Cotter(1) (4)	2,230,473	33.2%
Steve Wesson(4)	33,000 (2)	*
Alfred Villasenor, Jr.(4)	10,000 (3)	*
S. Craig Tompkins(4)	--	--
Ronald I. Simon(4)	10,000 shares(3)	*
Craig Corporation(1) (4)	2,230,473	33.2%
Reading Holdings, Inc., an indirect wholly owned subsidiary of REI (1) 30 South Fifteenth Street, Suite 1300 Philadelphia, PA 19102-4813	1,564,473	23.2%
Lawndale Capital Management, Inc., One Sansome Street, Suite 3900 San Francisco, California 94104	579,000(6)	8.6%
Andrew E. Shapiro One Sansome Street, Suite 3900 San Francisco, California 94104	579,000(6)	8.6%

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COMMON STOCK		
NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Diamond A Partners, L.P. One Sansome Street, Suite 3900 San Francisco, California 94104	501,000 (6)	7.5%
Diamond A Investors, L.P. One Sansome Street, Suite 3900 San Francisco, California 94104	77,900 (6)	1.2%
Private Management Group(5) 20 Corporate Park, Suite 400 Irvine, CA 92606	675,000	10.0%
All directors and executive officers as a Group (5 persons) (1)	2,283,473	34%

(1) Mr. Cotter is the Chairman of Craig and REI, and a principal stockholder of Craig. Craig currently owns approximately 78% of the voting power of the

outstanding capital stock of REI. Craig owns directly 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. These securities have been listed as beneficially owned by Mr. Cotter and Craig due to the relationships between Mr. Cotter, Craig and REI. 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 in excess of the current market value of such Common Stock. Mr. Cotter disclaims beneficial ownership of all Citadel securities owned by Craig and/or Reading.

- (2) Pursuant to the terms of his Employment Agreement, Citadel granted Mr. Wesson options to purchase 33,000 shares of Common Stock.
- (3) Includes 10,000 shares of Common Stock which may be acquired through the exercise of stock options granted pursuant to the 1996 Stock Option Plan.
- (4) 550 South Hope Street, Suite 1825, Los Angeles, California 90071
- (5) Based upon Schedule 13-G filed February 28, 1997.
- (6) Includes 501,100 shares which are owned by Diamond A Partners, L.P., ("DAP") and 77,900 shares which are owned by Diamond A Investors, L.P. ("DAI") but have shared voting and dispositive power with Lawndale Capital Management, LLC ("LCM") and Andrew E. Shapiro. According to Amendment No. 5 to the Report on Schedule 13D filed on October 29, 1996, LCM is the investment advisor to and general partner of DAP and DAI, which are investment limited partnership. Andrew E. Shapiro is the sole manager of LCM.
- (7) Based on ownership assuming conversion of the stock options (53,000 shares) and the conversion of the Warrant to purchase 666,000 shares.

* Represents less than one percent of the outstanding shares of Citadel Common Stock.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

CERTAIN TRANSACTIONS

Reading Investment Transaction

In October 1996, Citadel and its wholly-owned subsidiary, Citadel Acquisition Corp., Inc. ("CAC"), closed a transaction with Craig, REI and Reading Company and certain affiliates thereof. Pursuant to the terms of an Exchange Agreement, CAC contributed cash in the amount of \$7 million to REI in exchange for (i) 70,000 shares of Series A Preferred Stock of REI, (ii) the granting to Citadel of an option, exercisable at any time until 30 days after REI files its Annual Report on Form 10-K for the year ended December 31, 1999, to exchange all or substantially all of its assets for shares of REI Common Stock, subject to certain contractual limitations and (iii) the granting of certain demand and piggy-back registration rights with respect to REI Common Stock received on the conversion of the Series A Preferred Stock or on such asset exchange. Additionally, pursuant to the terms of such Exchange Agreement, REI issued (i) 125,098 shares of its Series B Preferred Stock and 563,210 shares of its common stock to Craig in exchange for Craig's 50% interest in a cinemas joint venture with a Reading Company affiliate and the 1,329,114 shares of Citadel Series A 3% Cumulative Voting Convertible Preferred Stock, par value \$.01 per share (the "Citadel Series A Preferred Stock") owned by Craig and (ii) 424,902 shares of its Series B Preferred Stock and 1,912,980 shares of its common stock to a Craig affiliate in exchange for 693,650 shares of stock of State Bros. Holdings, Inc. Pursuant to the Exchange Agreement, REI exchanged the Citadel Series A Preferred Stock for an equal number of shares of Citadel Series B Preferred Stock. The terms of the Citadel Series A Preferred Stock were substantially identical to the Citadel Series B Preferred Stock except that (i) the Redemption Accrual Percentage was reduced to 3% from and after the closing and (ii) except on a change of control of Citadel, the holders of the Citadel Series B Preferred Stock did not have the right to convert the Citadel Series B Preferred Stock into Common Stock during the one-year period commencing on the 15th day following the filing of Citadel's Annual Report on Form 10-K for the year ending December 31, 1996.

Redemption of Series B Preferred Stock

In December 1996, REI notified to the Company of its exercise of its conversion rights with respect to the Citadel Series B Preferred Stock. On December 20, 1996, Citadel redeemed the Preferred Stock from Reading pursuant to the exercise of its redemption rights. The redemption price amounted to \$6.19 million.

Transactions with Craig Corporation and Reading Entertainment, Inc.

Commencing August 1995, Citadel began renting corporate office space from Craig on a month-to-month basis and engaged Craig to provide Citadel with certain administrative services. During fiscal 1996, \$96,000 was paid to Craig for such rent and services. In addition, Citadel provided real estate consulting services to Reading Company during fiscal 1996, for which Citadel was paid \$169,000.

PART IV

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

(a) (1) FINANCIAL STATEMENTS

DESCRIPTION -----	PG. NO -----
Report of Independent Auditors.....	20
Consolidated Balance Sheets as of December 31, 1996 and 1995.....	21
Consolidated Statements of operations for Each of the Three Years in the Period Ended December 31, 1996.....	22
Consolidated Statements of Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 1996.....	23
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 1996.....	24
Notes to Consolidated Financial Statements.....	25

(a) (2) FINANCIAL STATEMENT SCHEDULE

Financial Statement Schedule III -- Real Estate and Accumulated Depreciation.....	40
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(b) REPORTS ON FORM 8-K

(i) The Company filed a Report on Form 8-K on October 30, 1996, reporting on Item 5, "Other Information."

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

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 0-K for the year ended December 31, 1988, and incorporated herein by reference)

- 3.3 Amendment to By-laws of Citadel Holding Corporation (filed as Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
- 3.4 Amendment to By-laws of Citadel Holding Corporation (filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.)
- 3.5 Amendment to By-laws of Citadel Holding Corporation (filed as Exhibit 3.5 to the Company's Report on Form 8-K dated October 30, 1996.
- 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)
- 4.2 Certificate of Designation of the Series B 3% Cumulative Voting Convertible Preferred Stock of Citadel Holding Corporation (filed herewith)
- 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)

EXHIBIT
NO.

DESCRIPTION

- 10.8 Loan and REO Purchase Agreement (Primary), dated as of July 13, 1994, between Fidelity Federal Bank and Colony Capital, Inc. (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)

- 10.9 Deposit Escrow Agreement, dated as of July 13, 1994, among Colony Capital, Inc., Fidelity Federal Bank, and Morgan Guaranty Trust Company of New York (filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.10 Real Estate Purchase Agreement, dated as of August 3, 1994, between Fidelity Federal Bank and Citadel Realty, Inc. (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.11 Loan and REO Purchase Agreement (Secondary), dated as of July 12, 1994, between Fidelity Federal Bank and EMC Mortgage Corporation (filed as Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.12 Deposit Escrow Agreement, dated as of July 13, 1994, between EMC Mortgage Corporation, Fidelity Federal Bank, and Morgan Guaranty Trust Company of New York (filed as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 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)

EXHIBIT
NO.

DESCRIPTION

10.19 Pledge Agreement, dated as of August 2, 1994, between Citadel Holding Corporation and Craig Corporation (filed as Exhibit 10.19 to the

Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)

- 10.20 Promissory Note, dated August 3, 1994, by Citadel Realty, Inc., in favor of Fidelity Federal Bank (filed as Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.21 Promissory Note, dated July 28, 1994, by Citadel Realty, Inc., in favor of Fidelity Federal Bank (filed as Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.22 Guaranty Agreement, dated August 3, 1994, by Citadel Holding Corporation, in favor of Fidelity Federal Bank (filed as Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.23. Unsecured Environmental Indemnity Agreement dated as of August 3, 1994, by Citadel Realty, Inc., in favor of Fidelity Federal Bank (filed as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.24 Unsecured Environmental Indemnity Agreement dated as of July 28, 1994, by Citadel Realty, Inc. in favor of Fidelity Federal Bank (filed as Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.25 Registration Rights Agreement dated as of June 30, 1994, between Fidelity Federal Bank, Citadel Holding Corporation and certain holders of Class C Common Stock of Fidelity Federal Bank (filed as Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 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)

EXHIBIT
NO.
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DESCRIPTION

- 10.30 Amendment No. 2 to Executive Employment Agreement, dated as of August 4, 1994, between Richard M. Greenwood and Fidelity Federal Bank (filed as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by

reference)

- 10.31 Amended and Restated Term Note, dated October 29, 1992, by Richard M. Greenwood in favor of Citadel Holding Corporation (filed as Exhibit 10.31 to the Company's Quarterly Report on form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.32 Letter Agreement dated August 4, 1994, between Richard M. Greenwood and Citadel Holding Corporation (filed as Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.33 Amended and Restated Charter S of Fidelity Federal Bank (filed as Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.34 Amended Service Agreement between Fidelity Federal Bank and Citadel Holding Corporation dated as of August 1, 1994 (filed as Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.35 Placement Agency Agreement, dated July 12, 1994 between 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 Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).
- 10.41* Employment Agreement between Citadel Holding Corporation and Steve Wesson (filed as Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, and incorporated herein by reference)

EXHIBIT
NO.

DESCRIPTION

- 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)
- 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 10.46 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 10.48 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 as Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference)
- 10.50 Letter of Intent dated August 12, 1996 by and between Reading Company, Citadel Holding Corporation, Craig Corporation, Reading Entertainment, Inc., Craig Management, Inc., and Citadel Acquisition Corp., Inc. (filed as Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 and incorporated herein by reference)
- 10.51 Exchange Agreement dated September 4, 1996 among Citadel Holding Corporation, Citadel Acquisition Corp., Inc. Craig Corporation, Craig Management, Inc., Reading Entertainment, Inc., Reading Company (filed herewith)
- 10.52 Asset Put and Registration Rights Agreement dated October 15, 1996 among Citadel Holding Corporation, Citadel Acquisition Corp., Inc., Reading Entertainment, Inc., and Craig Corporation (filed herewith)
- 10.53 Certificate of Designation of the Series A Voting Cumulative Convertible Preferred Stock of Reading Entertainment, Inc., (filed herewith)

EXHIBIT
NO.

DESCRIPTION

10.54 Lease between Citadel Realty, Inc., Lessor and Disney Enterprises, Inc., Lessee dated October 1, 1996 (filed as Exhibit 10.54 to the

Ronald I. Simon

/s/ Alfred Villasenor, Jr.

Alfred Villasenor, Jr.

Director

March 31, 1997

EXHIBIT 4.2

CERTIFICATE OF DESIGNATION

OF THE SERIES B 3% CUMULATIVE VOTING CONVERTIBLE PREFERRED STOCK

(Par Value \$.01 Per Share)

OF

CITADEL HOLDING CORPORATION

Pursuant to Section 151 of the
General Corporation Law of the State of Delaware

Citadel Holding Corporation, a Delaware corporation (the "Company"),

certifies that pursuant to the authority conferred upon the Board of Directors
of the Company (the "Board of Directors") by the Certificate of Incorporation of

the Company (the "Certificate of Incorporation"), and in accordance with the

provisions of Section 151 of the General Corporation Law of the State of
Delaware, as amended (the "GCL"), the Board of Directors, on

August 23, 1996, adopted the following resolution creating a series of
its Preferred Stock, par value \$.01 per share:

RESOLVED, that a class of the Company's authorized preferred stock, par
value \$.01 per share, which shall consist of 1,329,114 shares of Preferred
Stock, be hereby created, and that the designation and amount thereof and the
voting powers, preferences, limitations, restrictions and relative rights and
the qualifications, limitations and restrictions thereof are as follows:

1. Designation, Issuance and Stated Value. The designation of such series

of the Preferred Stock authorized by this resolution shall be the Series B 3%
Cumulative Voting Convertible Preferred Stock (the "Preferred Stock"). The

maximum number of shares of Preferred Stock shall be 1,329,114. The shares of
Preferred Stock shall be issued by the Company for their Stated Value (as
defined herein), in such amounts, at such times and to such persons as shall be
specified by the Board of Directors from time to time. For the purposes hereof,
the "Stated Value" of each share of Preferred Stock (regardless of its par

value) shall be \$3.95 per share.

2. Rank. The Preferred Stock shall, with respect to dividend rights and

rights upon liquidation, winding up and dissolution, rank prior to the Company's
common stock, par value \$.01 per share (the "Common Stock"), and to all other

classes and series of equity securities of the Company now or hereafter
authorized, issued or outstanding (the Common Stock and such other classes and
series of equity securities may be referred to herein collectively as the

"Junior Stock"), other than any class or series of equity securities of the

Company ranking on a parity with (the "Parity Stock") or senior to (the "Senior

Stock") the Preferred Stock as to dividend rights and/or rights upon

liquidation, dissolution or winding up of the Company. The Preferred Stock
shall be subordinate to and rank junior to all indebtedness of the Company now
or hereafter outstanding. The Preferred Stock shall be subject to creation of
Senior Stock, Parity Stock and Junior Stock, to the extent not expressly
prohibited by the Certificate of Incorporation, with respect to the payment of
dividends and/or rights upon liquidation, dissolution or winding up of the
Company.

3. Cumulative Dividends; Priority.

(a) Payment of Dividends. The holder of record of each share of

Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, a quarterly per share dividend (the "Quarterly Dividend") equal to (i) one-fourth of 3% of the

Stated Value of such share (pro-rated for any portion of a Dividend Period (as defined below) that such share shall have been issued and outstanding), plus (ii) accrued but unpaid per share dividends as to which a Dividend Payment Date (as defined below) has occurred. Dividends shall accrue from the last Dividend Payment Date (as defined below) prior to the Closing Date (the "Closing Date") of the Exchange Agreement by and among Reading Company, the Company, Craig Corporation, Reading Entertainment, Inc., Craig Management, Inc. and Citadel Acquisition Corp., Inc. and be payable (subject to declaration) quarterly on the fifteenth day of January, April, July and October in each year (or if such day is a non-business day, on the next business day), commencing on the first Dividend Payment Date to occur after the Closing Date, in respect of the immediately preceding calendar quarter (each of such dates a "Dividend Payment

Date"). Each declared dividend shall be payable to holders of record as they

appear on the stock books of the Company at the close of business on such record dates as are determined by the Board of Directors or a duly authorized committee thereof (each of such dates a "Record Date"), which Record Dates shall be not

more than 45 calendar days nor fewer than ten calendar days preceding the Dividend Payment Dates therefor. Quarterly dividend periods (each a "Dividend

Period") shall be the calendar quarters that commence on and include the first

day of January, April, July and October of each year and shall end on and include the end of the calendar quarter that commenced with each of such dates. Dividends on the Preferred Stock shall be fully cumulative and shall accrue (whether or not declared), on a daily basis, from the first day of each Dividend Period; provided, however, that the initial quarterly dividend payable on the first Dividend Payment Date to occur after the Closing Date, and the amount of any dividend payable for any other Dividend Period shorter than a full Dividend Period shall be computed on the basis of a 360-day year composed of twelve 30-day months and the actual number of days elapsed in the relevant Dividend Period.

(b) Priority as to Dividends. No full dividend shall be declared by the Board of Directors or paid or set apart for payment by the Company on any Parity Stock for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum set apart sufficient for such payment on the Preferred Stock through the most recent Dividend Payment Date. If any dividends are not paid or set apart in full, as aforesaid, upon the shares of the Preferred Stock and any Parity Stock, all dividends declared upon the Preferred Stock and any Parity Stock shall be declared pro rata so that the amount of dividends declared per share on the Preferred Stock and such Parity Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Preferred Stock and such Parity Stock bear to each other. Unless full cumulative dividends, if any, accrued on all outstanding shares of the Preferred Stock have been or contemporaneously are declared and paid or declared and a sum set apart sufficient for such payment through the most recently completed Dividend Period, no dividend shall be declared or paid or set aside for payment or other distribution declared or made upon the Common Stock or upon any other Junior Stock (other than a dividend or distribution paid in shares of, or warrants, rights or options exercisable for or convertible into, Common Stock or any other Junior Stock), nor shall any Common Stock nor any other Junior Stock be redeemed, purchased or otherwise acquired for any consideration, nor may any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such securities, by the Company, except by conversion into or exchange for Junior Stock. Unless full cumulative dividends, if any, accrued on all outstanding shares of the Senior Stock have been or contemporaneously are declared and paid or declared and a sum set apart sufficient for such payment through the most recently completed dividend period therefor, no dividend shall be declared or paid or set aside for payment or other distribution declared or made upon the Preferred Stock (other than a dividend or distribution paid in shares of, or warrants, rights or options exercisable for or convertible into,

Preferred Stock), nor shall any Preferred Stock be redeemed, purchased or otherwise acquired for any consideration, nor may any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such securities, by the Company, except by conversion into or exchange for Preferred Stock, Parity Stock or Junior Stock. Holders of the shares of the Preferred Stock shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends as provided in Section (3) (a).

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(c) Miscellaneous Provisions Relating to Dividends. Payment of

dividends shall be subject to the following provisions:

(i) Subject to the foregoing provisions of this Section 3, the Board of Directors may declare and the Company may pay or set apart for payment dividends and other distributions on any of the Junior Stock or Parity Stock, and may redeem, purchase or otherwise acquire out of funds legally available therefor any Junior Stock, and the holders of the shares of the Preferred Stock shall not be entitled to share therein;

(ii) Any dividend payment made on shares of the Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to shares of the Preferred Stock;

(iii) All dividends paid with respect to shares of the Preferred Stock pursuant to this Section 3 shall be paid pro rata to the holders entitled thereto; and

(iv) Holders of shares of the Preferred Stock shall be entitled to receive the dividends provided for in this Section 3 in preference to and in priority over any dividends upon any of the Junior Stock; and

(v) Accrued but unpaid dividends on preferred stock shall not earn interest or compound.

4. Redemption at the Option of the Company.

(a) General. Except as expressly provided herein, the Company shall not have any right to redeem shares of the Preferred Stock prior to November 10, 1997. Thereafter, the Company shall have the right, at its sole option and election, subject to Section 6, to redeem outstanding shares of the Preferred Stock, in whole or in part at any, time and from time to time at a per share price (the "Redemption Price") equal to the sum of:

(i) the Stated Value; plus

(ii) all accrued but unpaid Quarterly Dividends, whether or not declared, plus

(iii) the "Premium," which shall mean:

(A) if the Redemption Date (as defined below) is on or prior to November 10, 1998, an amount equal to an accrual on the Stated Value of 9% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(B) if the Redemption Date is after November 10, 1998 and on or prior to November 10, 1999, an amount equal to an accrual on the Stated Value of 8% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(C) if the Redemption Date is after November 10, 1999 and on or prior to November 10, 2000, an amount equal to an accrual on the Stated Value of 7% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(D) if the Redemption Date is after November 10, 2000 and

on or prior to November 10, 2001, an amount equal to an accrual on the Stated Value of 6% per annum (not

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compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(E) if the Redemption Date is after November 10, 2001 and on or prior to November 10, 2002, an amount equal to an accrual on the Stated Value of 5% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(F) if the Redemption Date is after November 10, 2002 and on or prior to November 10, 2003, an amount equal to an accrual on the Stated Value of 4% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(G) if the Redemption Date is after November 10, 2003 and on or prior to November 10, 2004, an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(H) if the Redemption Date is after November 10, 2004 and on or prior to November 10, 2005, an amount equal to an accrual on the Stated Value of 2% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(I) if the Redemption Date is after November 10, 2005 and on or prior to November 10, 2006, an amount equal to an accrual on the Stated Value of 1% per annum (not compounded) from November 10, 1994 to the Closing Date, plus an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Closing Date to the Redemption Date; or

(J) if the Redemption Date is after November 10, 2006, zero.

Holders of shares of Preferred Stock to be redeemed who fail to claim the Redemption Price on the Redemption Date shall not be entitled to interest on the Redemption Price after the Redemption Date.

(b) Notice of Redemption. The Company shall mail notice of redemption

of the Preferred Stock (a "Redemption Notice") at least 30, but no more than 60,

days prior to the date fixed for redemption (the "Redemption Date") to each

holder of Preferred Stock to be redeemed, at such holder's address as it appears
on the books of the Company.

(c) Deposit. If such notice of redemption shall have been so mailed,

and if on or before the Redemption Date specified in such notice all said funds
necessary for such redemption shall have been irrevocably deposited in trust
(which deposit shall not be made sooner than the 15th day following the date of
the Company's mailing of the notice of redemption pursuant to Section 4(b)), for
the account of the holder of the shares of the Preferred Stock to be redeemed
(and so as to be and continue to be available therefor), with a bank or trust
company named in such notice doing business in the State of California and
having combined capital and surplus of at least \$50,000,000, thereupon and
without awaiting the Redemption Date, all shares of the Preferred Stock with
respect to which such notice shall have been so mailed and such deposit shall
have been so made shall be deemed to be no longer outstanding, and all rights
with respect to such shares of the Preferred Stock shall forthwith upon such
deposit in trust cease and terminate, except only the right of the holders
thereof on or after the Redemption Date to receive from such deposit the amount
payable on redemption thereof, but without interest, upon surrender (and

endorsement or assignment to transfer, if required by the Company) of their certificates. In case the holders of shares of the Preferred Stock that shall have been redeemed shall not within two years (or any longer period if required by law) after the Redemption Date claim any amount so deposited in trust for the redemption of such shares, such bank or trust company shall, upon demand and if permitted by applicable law, pay over to the Company any such unclaimed amount so deposited with it, and shall thereupon be relieved of all responsibility in respect thereof, and thereafter the holders of such shares shall, subject to applicable escheat laws, look only to the Company for payment of the redemption price thereof, but without interest.

5. Redemption Following Change in Control.

(a) Redemption at Option of Holder of Preferred Stock. In the event

of a Change in Control (as defined below), each holder of shares of Preferred Stock shall have the right, at the sole option and election of such holder exercisable on or before the 90th day following the earliest event constituting a Change in Control, to require the Company to redeem some or all of the shares of Preferred Stock owned by such holder at the Redemption Price. For purposes of this Section 5, a "Change in Control" shall mean 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 Corporation, a Delaware corporation ("Craig"), and its successors and affiliates, acquires beneficial ownership of over 35% of the outstanding voting securities of the Company ("affiliate" of a person shall mean any person directly or

indirectly controlling, controlled by or under common control with such person, and "control" of a person shall mean the power to direct the

affairs of such person by reason of ownership of voting stock, contract or otherwise); or

(ii) the directors of the Company as of October 10, 1994 (the "Current Directors"), and any future directors ("Continuing Directors") of

the Company 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.

(b) Exercise of Redemption Rights. The holder of any shares of the

Preferred Stock seeking to exercise its redemption rights pursuant to Section 5(a) may exercise its right to require the Company to redeem such shares by surrendering for such purpose to the Company, at its principal office or at such other office or agency maintained by the Company for that purpose, a certificate or certificates representing the shares of Preferred Stock to be redeemed accompanied by a written notice stating that such holder elects to require the Company to redeem all or a specified integral number of such shares in accordance with the provisions of this Section 5. As promptly as practicable, and in any event within ten business days after the surrender of such certificates and the receipt of such notice relating thereto, the Company shall deliver or cause to be delivered to the holder of the shares being redeemed payment for such shares in immediately available funds and, if less than the full number of shares of the Preferred Stock evidenced by the surrendered certificate or certificates are being redeemed, a new certificate or certificates, of like tenor, for the number of shares evidenced by such surrendered certificate or certificates less the number of shares redeemed. Such redemptions shall be deemed to have been made at the close of business on the date of such payment and the rights of the holder thereof, except for the right to receive the payment for the redeemed shares in accordance herewith, shall cease on such date.

6. General Provisions Relating to Redemptions. Redemptions pursuant to

Sections 4 and 5 shall be subject to the following terms and conditions:

(a) Pro-Rata Redemption. If less than all of the Preferred Stock at

the time outstanding is to be redeemed, the shares so to be redeemed shall be selected by lot, pro-rata or in such other manner as the Board of Directors may determine to be fair and proper.

(b) Payment of Taxes. The Company shall not be required to pay any

tax that may be payable in respect of any payment in respect of a redemption of shares of Preferred Stock to a name

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other than that of the registered holder of Preferred Stock redeemed or to be redeemed, and no such redemption payment shall be made unless and until the person requesting such payment has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid.

(c) Status of Shares Redeemed. Shares of Preferred Stock redeemed,

purchased or otherwise acquired for value by the Company shall, after such acquisition, be retired, and shall thereafter have the status of authorized and unissued shares of preferred stock and may be reissued by the Company at any time as shares of any series of preferred stock.

(d) Conversion Prior to Redemption. From the date of a Redemption

Notice until the earlier of the Redemption Date or the date the deposit of funds in trust is made pursuant to Section 4(c), holders of shares of Preferred Stock subject to a Redemption Notice shall retain their right to an Optional Conversion (as defined in Section 7) of their shares.

7. Optional Conversion. Subject to the provisions of this Section 7 and

of Section 8, shares of Preferred Stock shall be convertible, at the option of the holder thereof (an "Optional Conversion"), into shares of Common Stock at a

conversion ratio (the "Conversion Ratio") of one share of Preferred Stock for a

fraction of a share of Common Stock, the numerator of which is the sum of the Stated Value plus any accrued but unpaid per share Quarterly Dividends, and the denominator of which is the average of the closing prices per share of the Common Stock on the American Stock Exchange (the "AMEX") for each of the 60

business days immediately preceding the Original Conversion Date (as defined below), as quoted in The Wall Street Journal, or if the Common Stock is not listed or admitted to trade on AMEX, the average of the closing prices per share of the Common Stock on the principal national securities exchange on which the Common Stock is listed or admitted to trade for each of the 60 business days immediately preceding the Original Conversion Date (as defined below), as quoted in The Wall Street Journal, or if the Common Stock is not listed or admitted to trade on any such exchange, the average of the closing bid and asked prices for Common Stock as reported by NASDAQ for each of the 60 business days immediately preceding the Original Conversion Date (as defined below), as quoted in The Wall Street Journal, or other similar organization if NASDAQ is no longer reporting such information, or if not so available, the fair market price as determined in good faith by the Board of Directors of the Company (the "Market Price"),

subject to the following:

(a) Limits on Market Price. If the Market Price for any Optional

Conversion would exceed \$5.00, the Conversion Ratio shall be calculated as if the Market Price were \$5.00.

(b) Option of the Company to Redeem Tendered Preferred Stock. Subject

to the provisions of this Section 7(b), if the Market Price for any Optional Conversion shall be below \$3.00, the Company shall have the option, exercisable for 30 days after receipt by the Company of the Notice of Conversion (as defined below) by written notice to the holder, to redeem any or all of the shares of Preferred Stock that have been tendered for conversion by the holder thereof

(the "Tendered Preferred Stock") at the Redemption Price pursuant to Section

4(a); provided, however, that the Company shall complete such redemption within 90 days of the Company's notice of redemption and the Premium shall be calculated through the date of redemption using the accrual rate, as provided in Section 4(a)(iii), in effect on the Original Conversion Date (as defined below).

(c) Exercise of Optional Conversion Rights. The holder of any shares

of the Preferred Stock seeking to exercise its optional conversion rights pursuant to Section 7(a) may exercise its right to require the Company to convert such shares by surrendering for such purpose to the Company, at its principal office or at such other office or agency maintained by the Company for that purpose, a certificate or certificates representing the shares of Tendered Preferred Stock to be converted accompanied by a written notice stating that such holder elects to require the Company to convert all or a specified integral number of such shares into shares of Common Stock in accordance with the provisions of this Section 7 (the "Notice of Conversion"), and the date of

delivery to the Company of such Notice of Conversion shall be the "Original Conversion Date" for such shares of Tendered Preferred Stock. Subject to

Section 7(b), as promptly as practicable, the Company shall deliver or cause to be delivered to the holder of the shares of

Tendered Preferred Stock, (i) a new certificate or certificates representing the number of shares of Common Stock into which the Tendered Preferred Stock has been converted, and (ii) if less than the full number of shares of Preferred Stock evidenced by the surrendered certificate(s) are being converted, a new certificate or certificates, of like tenor, for the number of shares of Preferred Stock that have not been converted and that the holder shall retain. Such conversions shall be deemed to have been made at the close of business on the Original Conversion Date and the rights of the holder thereof, except the right to receive the new certificate or certificates, shall cease on the Original Conversion Date or the Final Conversion Date (as defined below), as applicable.

(d) Limits on Time of Conversion. Holders of shares of Preferred

Stock shall not be entitled to convert shares of Preferred Stock into shares of Common Stock for a one-year period commencing on the 15th day following the filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, except in the event of a Change in Control of the Company.

8. General Provisions Relating to Conversion. Conversions pursuant to

Sections 7 shall be subject to the following terms and conditions:

(a) Conversion Restrictions Pursuant to AMEX Rules. If an Optional

Conversion would result, on the Original Conversion Date, in the issuance of a number of shares of Common Stock (the "Issuable Common Stock") that exceeds 20%

of the then-outstanding shares of Common Stock and if the AMEX rules and regulations, including, but not limited to, (S)713 of the AMEX Company Guide (the "AMEX Rules") shall require the affirmative vote of the stockholders of the

Company with respect to such issuance before it will approve such excess shares of Issuable Common Stock for listing on AMEX (the "Ineligible Common Stock"),

then, subject to any rights the Company may have to redeem the Preferred Stock in accordance with Section 7(b), the Company shall convert into Common Stock only the number of shares of Preferred Stock that will not result in the issuance of any Ineligible Common Stock, and shall deliver to the holder of the shares of Preferred Stock that were the subject of the Optional Conversion or Automatic Conversion a certificate for evidencing the shares of Preferred Stock that would have been converted but for the issuance of Ineligible Common Stock (the "Unconverted Preferred Stock"). The holder shall retain the Unconverted

Preferred Stock until the next annual or special meeting of the stockholders of the Company at which the Company, subject to any rights it may have to redeem

the Unconverted Preferred Stock in accordance with Section 7(b), shall submit a proposal for stockholder approval of the issuance of the Ineligible Common Stock. Pending such stockholder approval, the Unconverted Preferred Stock shall continue to be outstanding and entitled to all rights and privileges hereunder.

(i) If such stockholder approval is obtained, the Unconverted Preferred Stock shall, as soon as practically possible and on a date selected by the Board of Directors (the "Final Conversion Date"), be converted into shares

of Common Stock at the ratio applicable to the Original Conversion Date upon (A) surrender to the Company of the certificate(s) representing the Unconverted Preferred Stock, (B) the Company's remittance to the holder of such Unconverted Preferred Stock of the benefits such holder would have received had the Unconverted Preferred Stock been converted into the Ineligible Common Stock on the Original Conversion Date, including, but not limited to, the benefits of any cash dividends, stock dividends, stock splits, reverse stock splits, and recapitalizations of the Common Stock, declared (and not rescinded) or effective, during the period from the Original Conversion Date through the Final Conversion Date (the "Stockholder Approval Period"), and (C) such holder's forfeiture or refund to the Company of any Quarterly Dividends on the Unconverted Preferred Stock that have accrued or been paid in respect of the Unconverted Preferred Stock during the Stockholder Approval Period.

(ii) If such stockholder approval is not obtained, the Company shall redeem the Unconverted Preferred Stock at the Redemption Price; provided, however, that the Premium shall be calculated through the date of redemption using the accrual rate in effect on the Original Conversion Date.

(b) Request of Majority for Stockholder Vote. At any time before a

conversion described in Section 8(a) occurs, the Company shall, upon the request of a majority of the outstanding

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shares of Preferred Stock, submit a proposal for stockholder approval of the issuance of all shares of Common Stock issuable upon conversion of the Preferred Stock, including, without limitation, the Ineligible Common Stock, at the next meeting of stockholders of the Company that follows such request.

(c) Conversion Restrictions Pursuant to Number of Authorized Shares of

Common Stock. If there are an insufficient number of authorized shares of

Common Stock to satisfy an Optional Conversion or an Automatic Conversion, the number of shares of Preferred Stock that would have been converted in the absence of such insufficiency shall be exchanged by the Company for a new class of preferred shares (the "New Shares") having the same aggregate stated value as the shares exchanged therefor and a stated value per share equal to the Market Price (up to a maximum of \$5.00); provided, however, that such new class shall have identical rights, privileges and preferences as those of the Preferred Stock, except as stated in this Section 8(c). If there are an insufficient number of authorized New Shares to satisfy such exchange, the holders of shares of Preferred Stock to be so exchanged shall each receive a pro rata allocation of available New Shares for such exchange, and each such holder shall have the right, exercisable by written notice of such exercise delivered to the Company within 30 days of such exchange accompanied by certificates evidencing the remainder of their shares of Preferred Stock that would have been so exchanged but for such insufficiency, to require the Company to redeem such remaining shares at the Redemption Price in effect on the date of such exchange and in accordance with the provisions of Section 6.

(d) Pro-Rata Conversion. If less than all of the Preferred Stock at

the time outstanding is to be converted, the shares so to be converted shall be selected by lot, pro-rata or in such other manner as the Board of Directors may determine to be fair and proper.

(e) No Fractional Shares. No fractional shares or scrip representing

fractional shares of Common Stock shall be issued upon the conversion of any shares of Preferred Stock. Instead of any fractional interest in a share of Common Stock that would otherwise be deliverable upon the conversion of Preferred Stock, the Company shall pay to the holder an amount in cash (computed

to the nearest cent) equal to the Market Price. If more than one share shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Preferred Stock so surrendered.

(f) Payment of Taxes. The Company will pay any and all documentary,

stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock on the conversion of shares of Preferred Stock pursuant to this Section 8; provided, however, that the Company shall not be required to pay any tax that may be payable in respect of any registration of transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the registered holder of Preferred Stock converted or to be converted, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid.

(g) Status of Shares Converted. Shares of Preferred Stock converted

by the Company, shall, after such conversion, be retired, and shall thereafter have the status of authorized and unissued shares of preferred stock and may be reissued by the Company at any time as shares of any series of preferred stock.

9. Voting Rights. The holders of Preferred Stock shall have the

following voting rights:

(a) One Vote Per Share. Except as provided herein or by law, each

share of Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the Company's stockholders.

(b) Voting With Common Stock. Except as otherwise provided herein or

by law, the holders of Preferred Stock and the holders of Common Stock shall vote together as one class on all matters submitted to a vote of the Company's stockholders.

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(c) Dividend Arrearages and Election of Director. If dividends in an

amount equal to two Quarterly Dividends have accrued and remain unpaid for two consecutive Dividend Periods, the holders of the Preferred Stock will thereupon have the right to vote as a separate class to elect one special director to the Board of Directors (in addition to the then authorized number of directors) and at each succeeding annual meeting of stockholders thereafter until such right is terminated as hereinafter provided. Upon payment of all dividend arrearages, the holders of Preferred Stock will be divested of such voting rights (until any future time when dividends in an amount equal to two Quarterly Dividends have accrued and remained unpaid for two consecutive Dividend Periods) and the term of the special director will thereupon terminate and the authorized number of directors will be reduced by one.

(d) Parity or Senior Stock. So long as any shares of the Preferred

Stock are outstanding (except when notice of the redemption of all outstanding shares of Preferred Stock has been given pursuant to Section 4(b) and shares of Common Stock and any necessary funds have been deposited in trust for such redemption pursuant to Section 4(c)), the Company shall not, without the affirmative vote or consent of the holders of at least a majority of the outstanding shares of Preferred Stock and any other series of preferred stock entitled to vote thereon at the time outstanding voting or consenting, as the case may be, together as one class, given in person or by proxy, either in writing or by resolution adopted at an annual or special meeting called for the purpose, create, authorize or issue any new class of Parity Stock or Senior Stock.

(e) Matters Affecting the Rights of Holders of Preferred Stock. So

long as any shares of the Preferred Stock are outstanding (except when notice of the redemption of all outstanding shares of Preferred Stock has been given pursuant to Section 4(b) and shares of Common Stock and any necessary funds have

been deposited in trust for such redemption pursuant to Section 4(c)), the Company shall not, without the affirmative vote or consent of the holders of at least a majority of the outstanding shares of Preferred Stock and any other series of preferred stock entitled to vote thereon at the time outstanding voting or consenting, as the case may be, together as one class, given in person or by proxy, either in writing or by resolution adopted at an annual or special meeting called for the purpose, amend the Certificate of Incorporation or this Certificate of Designation, directly or indirectly, whether through a merger or otherwise, so as to affect materially and adversely the specified rights, preferences, privileges or voting rights of holders of shares of Preferred Stock.

(f) Matters Deemed Not to Affect the Rights of Holders of Preferred

Stock. Except as set forth in Section 9(d) above, the creation, authorization

or issuance of any shares of any Junior Stock, Parity Stock or Senior Stock, the creation of any indebtedness of any kind of the Company, or the increase or decrease in the amount of authorized capital stock of any class, including Preferred Stock, shall not require the consent of the holders of Preferred Stock and shall not be deemed to affect materially and adversely the rights, preferences, privileges or voting rights of holders of shares of Preferred Stock.

(g) Nomination of Director. Subject to the fiduciary duty of the

Board of Directors the holders of a majority of the outstanding shares of the Preferred Stock shall have, in addition to their rights under Section 9(c), the right to nominate one director nominee to the slate of director nominees submitted to the stockholders of the Company by the Board of Directors.

10. No Sinking Fund. No sinking fund will be established for the

retirement or redemption of shares of Preferred Stock.

11. Preemptive Rights. Each holder of any of the shares of Preferred

Stock shall be entitled to a preemptive right to purchase or subscribe for any unissued voting stock of any class of the Company, or any unissued stock or unissued other instrument which is, or may, upon the occurrence of certain condition(s), be convertible into voting stock of the Company, that the Board of Directors may propose to issue by means of an increase of the outstanding shares of capital stock of any class, or the issuance of bonds, certificates of indebtedness, debentures or other securities convertible into voting stock of the Company (the "Proposed Voting Securities"). Such preemptive rights shall extend only to the extent necessary to allow such holder of shares of Preferred Stock to maintain its proportionate share of the outstanding voting stock of the Company and the number of shares (or dollar amount, as applicable) of

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Proposed Voting Securities each holder of Preferred Stock shall be entitled to purchase or subscribe for shall be the amount determined by multiplying the number of shares (or dollar amount, as applicable) of Proposed Voting Securities by a fraction, the numerator of which shall be the number of shares of Preferred Stock held by such holder, and the denominator of which shall be the number of votes entitled to be cast by all outstanding voting securities of the Company before the proposed issuance.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designation to be executed by Steve Wesson, its President as of October 8, 1996.

CITADEL HOLDING CORPORATION

By: /s/ Steve Wesson

Name: Steve Wesson
Title: President and Chief Executive Officer

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EXCHANGE AGREEMENT

DATED AS OF SEPTEMBER 4, 1996

BY AND AMONG

READING ENTERTAINMENT, INC.
 READING COMPANY
 CRAIG CORPORATION
 CRAIG MANAGEMENT, INC.
 CITADEL HOLDING CORPORATION
 AND
 CITADEL ACQUISITION CORP., INC.

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Exhibit 1 - Certificate of Designations, Preferences, and Rights of Series A Voting Cumulative Convertible Preferred Stock and Series B Voting Cumulative Convertible Preferred Stock of Reading Entertainment, Inc.

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Exhibit 5.9 - Certificate of Designation of the Series B 3% Cumulative Voting Convertible Preferred Stock of Citadel Holding Corporation.

Exhibit 8.4(e) - Asset Put and Registration Rights Agreement

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EXCHANGE AGREEMENT

This Exchange Agreement (the "Agreement") is made and entered into as of this 4th day of September, 1996 by and among Reading Entertainment, Inc., a Delaware corporation ("Reading Entertainment"), Reading Company, a Pennsylvania corporation ("Reading"), Craig Corporation, a Delaware corporation ("Craig"), Craig Management, Inc., a California corporation ("CMI"), Citadel Holding Corporation, a Delaware corporation ("Citadel"), and Citadel Acquisition Corp., Inc., a Delaware corporation ("CAC"), with reference to the following:

A. Reading and Reading Entertainment desire that Reading Entertainment exchange its securities for assets, including cash, as described herein, for the purpose of enhancing its capitalization to further the development and expansion of its Beyond-the-Home Entertainment business.

B. Craig currently participates with Reading in its Beyond-the-Home Entertainment business and Craig desires to broaden its participation in

Reading's Beyond-the-Home Entertainment business by acquiring a further equity interest in Reading Entertainment.

C. Citadel, which as a result of a recapitalization of its principal asset in 1994, has assets currently consisting of cash and certain illiquid assets, desires to deploy a portion of its available liquid assets in Reading's Beyond-the-Home Entertainment business by acquiring an equity interest in Reading Entertainment.

D. The parties hereto intend that the transaction qualify for nonrecognition treatment as an exchange pursuant to Section 351 of the Internal Revenue Code of 1986, as amended (the "Code").

E. Prior to the exchange transaction described herein Reading Entertainment intends to form a wholly owned subsidiary ("Entertainment Subsidiary"), and Entertainment Subsidiary shall be merged into Reading in a transaction qualifying as a reorganization under Section 368(a)(1)(A) of the Code, with each holder of Reading Class A Common Stock and Reading Common Stock receiving shares of Reading Entertainment Common Stock (the "Reorganization").

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties and agreements set forth herein the parties hereto agree as follows:

1. DEFINITIONS

For purposes of this Agreement the following terms shall have the meanings set forth:

"Asset Put" shall have the meaning set forth in the Option Agreement.

"CAC" shall have the meaning set forth in the preface to this Agreement. CAC is a wholly owned subsidiary of Citadel.

"Certificate of Designations" shall have the meaning set forth in Section 3.3(a) of this Agreement.

1.

"Citadel" shall have the meaning set forth in the preface to this Agreement.

"Citadel Certificate of Designation" shall have the meaning set forth in Section 5.9 of this Agreement.

"Citadel Common Stock" shall mean the Common Stock of Citadel.

"Citadel Preferred Stock" shall mean the 3% Cumulative Voting Convertible Preferred Stock of Citadel, stated value \$3.95 per share.

"Closing" and "Closing Date" shall have the meanings set forth in Section 2.6 of this Agreement.

"CMI" shall have the meaning set forth in the preface to this Agreement. CMI is a wholly owned subsidiary of Craig.

"Code" shall have the meaning set forth in the preface to this Agreement.

"Craig" shall have the meaning set forth in the preface to this Agreement.

"Entertainment Subsidiary" shall have the meaning set forth in the preface to this Agreement.

"Exchange" refers to and means the exchange of assets for Reading Entertainment Preferred Stock described in Sections 2.1, 2.2 and 2.3 to this Agreement.

"LLC Agreement" shall have the meaning set forth in Section 4.4 to this Agreement.

"Option Agreement" shall have the meaning set forth in Section 8.4(e) to this Agreement.

"Original Citadel Certificate of Designation" shall mean the Certificate of Designation of the Citadel Preferred Stock.

"Prospectus" shall have the meaning set forth in Section 6.2(c) of this Agreement.

"Proxy Statement" shall have the meaning set forth in Section 6.2(a) of this Agreement.

"Reading" shall have the meaning set forth in the preface to this Agreement.

"Reading Class A Common Stock" shall mean the Class A Common Stock of Reading.

"Reading Common Stock" shall mean the Common Stock of Reading.

"Reading Entertainment" shall have the meaning set forth in the preface to this Agreement.

"Reading Entertainment Common Stock" shall mean the \$0.001 par value Common Stock of Reading Entertainment.

2.

"Reading Entertainment Preferred Stock" shall mean the Reading Entertainment Series A Preferred Stock and the Reading Entertainment Series B Preferred Stock, collectively.

"Reading Entertainment Series A Preferred Stock" shall mean the Series A Voting Cumulative Convertible Preferred Stock of Reading Entertainment, \$100 stated value per share, having the rights, preferences and privileges set forth in Exhibit 1 to this Agreement.

"Reading Entertainment Series B Preferred Stock" shall mean the Series B Voting Cumulative Convertible Preferred Stock of Reading Entertainment, \$100 stated value per share, having the rights, preferences and privileges set forth in Exhibit 1 to this Agreement.

"Reading Holdings" shall mean Reading Holdings, Inc., a Delaware corporation. Reading Holdings is a wholly owned subsidiary of Reading.

"Reading International" shall mean Reading International Cinemas LLC, a Delaware limited liability company. Reading International is owned equally by Craig and Reading Investment.

"Reading Investment" shall mean Reading Investment Company, Inc., a Delaware corporation. Reading Investment is an indirect wholly owned subsidiary of Reading.

"Reading SEC Reports" shall have the meaning set forth in Section 3.4 of this Agreement.

"Reading's Stock Option Plans" shall mean the 1982 Incentive Stock Option Plan, the 1982 Non-qualified Option Plan and the 1992 Non-qualified Stock Option Plan.

"Reading Shareholders" shall have the meaning set forth in Section 6.1 of this Agreement.

"Registration Statement" shall have the meaning set forth in Section 6.2(c) of this Agreement.

"Reorganization" shall have the meaning set forth in the preface to this Agreement.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"SEC" shall mean the Securities and Exchange Commission.

"Series B Citadel Preferred Stock" shall mean the Series B 3% Cumulative

Voting Convertible Preferred Stock of Citadel, stated value \$3.95 per share.

"Stater" shall mean Stater Bros. Holdings Inc., a Delaware corporation.

"Stater Preferred Stock" shall mean the Series B Preferred Stock of Stater.

3.

2. EXCHANGE

2.1 Assets to be Exchanged by Craig. Subject to the terms and

conditions of this Agreement, at the Closing, Craig shall deliver to Reading Entertainment all of Craig's right, title and interest in and to (i) its ownership interest in Reading International and (ii) its 1,329,114 shares of Citadel Preferred Stock, in exchange for 125,098 shares of Reading Entertainment Series B Preferred Stock and 563,210 shares of Reading Entertainment Common Stock.

2.2 Assets to be Exchanged by CMI. Subject to the terms and conditions

of this Agreement, at the Closing, CMI shall deliver to Reading Entertainment all of CMI's right, title and interest in and to 693,650 shares of Stater Preferred Stock in exchange for 424,902 shares of Reading Entertainment Series B Preferred Stock and 1,912,980 shares of Reading Entertainment Common Stock.

2.3 Assets to be Transferred by CAC. Subject to the terms and

conditions of this Agreement, at the Closing, CAC shall purchase from Reading Entertainment 70,000 shares of Reading Entertainment Series A Preferred Stock, for an aggregate cash purchase price of \$7.0 million, by wire transfer of immediately available funds.

2.4 Assets to be Exchanged by Reading Entertainment and Citadel.

Subject to the terms and conditions of this Agreement, at the Closing, Reading Entertainment shall deliver to Citadel all of Reading Entertainment's right, title and interest in and to the 1,329,114 shares of Citadel Preferred Stock which Craig shall have delivered to Reading Entertainment pursuant to Section 2.1 above, in exchange for 1,329,114 shares of Series B Citadel Preferred Stock. Upon such exchange, the 1,329,114 shares of Citadel Preferred Stock shall be cancelled by Citadel.

2.5 Instruments of Conveyance and Transfer. The conveyance, transfer

and delivery to Reading Entertainment of the assets being exchanged by Craig and CMI as herein provided, shall be effected by such stock powers, assignments, bills of sale, checks and other instruments of transfer and conveyance as shall be in form reasonably acceptable to Reading Entertainment.

2.6 Closing. Subject to the conditions set forth in Article 8, unless

this Agreement shall have been terminated as provided in Article 9, the consummation of the transactions described in Sections 2.1, 2.2, 2.3 and 2.4 above (the "Closing") shall take place at the offices of Duane, Morris & Heckscher, 1201 Market Street, Suite 1500, Wilmington, Delaware 19801-0195, on the day of the meeting of shareholders of Reading described in Article 6 of this Agreement, or as soon thereafter as is practicable (the "Closing Date").

2.7 Dividends. At the Closing, Reading Entertainment shall pay to

Craig, by certified or cashiers check, any and all accrued but unpaid dividends with respect to the Citadel Preferred Stock and shall pay to CMI, by certified or cashiers check, any and all accrued but unpaid dividends with respect to the Stater Preferred Stock (in each case, excluding dividends which have been declared and are payable to holders of record on a date prior to the Closing Date).

4.

3. REPRESENTATIONS AND WARRANTIES OF READING AND READING ENTERTAINMENT

Reading and Reading Entertainment hereby jointly and severally represent and warrant to Craig, CMI, Citadel and CAC as follows:

3.1 Organization and Authorization. Reading and Reading Entertainment

are corporations duly organized, validly existing and in good standing under the laws of the States of Pennsylvania and Delaware, respectively, and each has full corporate power and all necessary authorizations to own all of its properties and assets and to carry on its business as it is now being conducted. Reading and Reading Entertainment are each duly qualified to do business and are in good standing in each jurisdiction in which the nature of its or their business or character of its or their properties requires such qualification and where the failure to be so qualified would materially and adversely affect either corporation or its or their business, properties or rights. Reading and Reading Entertainment have delivered to Craig and Citadel complete and correct copies of their Articles of Incorporation and Certificate of Incorporation, respectively, and their By-Laws, as amended and in effect on the date of this Agreement. Reading and Reading Entertainment each have all requisite corporate power to execute, deliver and perform their obligations under this Agreement. The execution, delivery and performance of this Agreement by Reading and Reading Entertainment, and the consummation by each of them of the transactions contemplated hereby, have been duly authorized by the Boards of Directors of Reading and Reading Entertainment, subject only to obtaining shareholder approval of the Reading Shareholders. This Agreement has been duly executed and delivered by Reading and Reading Entertainment and constitutes a valid and binding agreement of Reading and Reading Entertainment, enforceable in accordance with its terms except to the extent the enforcement thereof may be limited by bankruptcy, insolvency, rehabilitation, moratorium and similar laws now or hereafter in effect relating to creditor's rights generally or by general equitable principles.

3.2 Non-Contravention. The execution and delivery of this Agreement do

not and the consummation of the transactions contemplated hereby will not (a) violate the Articles of Incorporation or By-laws of Reading or the Certificate of Incorporation or By-Laws of Reading Entertainment, (b) violate any material provision of or result in the breach or the acceleration of or entitle any party to accelerate (whether after the giving of notice or the lapse of time or both) any material obligation under any material mortgage, lease, agreement, judgment or decree, to which either Reading or Reading Entertainment is a party or by which either is bound, (c) result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance on any property of Reading or Reading Entertainment, or (d) to the knowledge of either Reading or Reading Entertainment, violate or conflict with any law, ordinance or rule to which either is subject.

3.3 Capital Stock.

(a) The authorized and outstanding capital stock of Reading is as set forth in the Reading SEC Reports (subject only to changes in the outstanding Reading Class A Common Stock which may occur through the Closing solely from the exercise of options granted pursuant to Reading's Stock Option Plans or the exchange of shares of Reading Common Stock for shares of Reading Class A Common Stock) and the outstanding capital stock of Reading Entertainment will at the Closing consist solely of Reading Entertainment

5.

Common Stock, of which not more than 4,973,175 shares will be issued and outstanding (plus any shares which may be issued and outstanding as a result of the exercise of options granted pursuant to Reading's Stock Option Plans and the shares of Reading Entertainment Common Stock and Reading Entertainment Preferred Stock to be issued hereunder). All of such issued and outstanding shares of capital stock are validly issued and outstanding, fully paid and nonassessable. The shares of Reading Entertainment Preferred Stock and Reading Entertainment Common Stock to be issued pursuant to this Agreement have been duly authorized, and, when issued and paid for pursuant to the terms hereof, will be validly issued, fully paid and non-assessable and will be entitled to all the rights, preferences and privileges set forth in the Certificate of Designations, Preferences and Rights of Series A Voting Cumulative Convertible Preferred Stock and Series B Voting Cumulative Convertible Preferred Stock of Reading Entertainment, Inc. (the "Certificate of Designations"), attached as Exhibit 1 hereto. The shares of Reading Entertainment Common Stock issuable upon

conversion of the Reading Entertainment Preferred Stock have been duly authorized and reserved for issuance upon such conversion and, when issued and delivered on such conversion in accordance with the terms of the Certificate of Designations, will be validly issued, fully paid and non-assessable. The certificates representing the shares of Reading Entertainment Preferred Stock and Reading Entertainment Common Stock to be issued pursuant to this Agreement will be in due and proper form. All corporate action required to be taken for the authorization and issuance of the Reading Entertainment Preferred Stock and the Reading Entertainment Common Stock to be issued pursuant to this Agreement has been duly and validly taken. At or prior to the Closing, the Certificate of Designations will have been filed with the Secretary of State of the State of Delaware.

(b) Except as described herein and in the Reading SEC Reports, there are no outstanding subscriptions, options, conversion rights, warrants or other agreements or commitments of any nature whatsoever obligating either Reading or Reading Entertainment to issue, deliver or sell, or cause to be issued, delivered or sold, any additional shares of capital stock of either Reading or Reading Entertainment or obligating either Reading or Reading Entertainment to grant, extend or enter into any such agreement or commitment. The shareholders of Reading and Reading Entertainment do not have any preemptive rights or other rights to subscribe for additional shares of Reading or Reading Entertainment, and no preemptive or similar rights will arise as a result of the transactions contemplated by this Agreement. Except as set forth in the Reading SEC Reports, there are no voting trusts, voting agreements, irrevocable proxies or other agreements to which either Reading or Reading Entertainment is a party, or of which either Reading or Reading Entertainment has knowledge, in effect relating to the voting or transfer of any shares of Reading or Reading Entertainment capital stock.

(c) Upon acquisition of the Reading Entertainment Series A Preferred Stock pursuant to Section 2.3 of this Agreement, CAC will not be prohibited or otherwise limited in any manner, including without limitation under Delaware General Corporation Law Section 160(a), from voting in all respects its shares of Reading Entertainment Series A Preferred Stock in accordance with the Certificate of Incorporation of Reading Entertainment, except that no such representation or warranty is given with respect to such shares of Reading Entertainment Series A Preferred Stock, if any, as are required by generally accepted accounting principles to be reflected on the financial statements of Reading Entertainment as a reciprocal stockholding.

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3.4 SEC Reports. All reports required to be filed by Reading with the

SEC since December 1, 1995 (the "Reading SEC Reports") are in compliance in all material respects with the respective report forms and were complete and correct in all material respects as of the date on which the information was furnished. As of the date each Reading SEC Report was filed with the SEC, such Reading SEC Report did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. The financial statements of Reading contained in the Reading SEC Reports were prepared in accordance with the books and records of Reading and were prepared in accordance with generally accepted accounting principles applied on a consistent basis and present fairly the financial condition of Reading as of the respective dates indicated therein and the results of operations and changes in financial position for the periods so indicated.

3.5 No Adverse Changes. Except as set forth in the Reading SEC

Reports, since March 31, 1996, Reading has conducted its business only in the ordinary course, there has not been any material adverse change in the business, financial condition, assets, liabilities, properties or business operations of Reading or Reading Entertainment, and, except as contemplated by the Reorganization or this Agreement, neither Reading nor Reading Entertainment has:

(a) issued or sold any stock, notes, bonds or other securities, or any option to purchase the same, or entered into any agreement with respect thereto, except the issuance of Reading Class A Common Stock upon the exercise of options granted under Reading's Stock Option Plans or the issuance of Reading Class A Common Stock in exchange for Reading Common Stock;

(b) declared, set aside or made any dividend or other

distribution on capital stock or redeemed, purchased or acquired any shares thereof or entered into any agreement in effect to the foregoing;

(c) amended its Articles of Incorporation or By-Laws;

(d) other than in the ordinary course of business, purchased, sold, assigned or transferred any material tangible assets (except for an interest in the Angelika Film Center as to which Reading Investment has entered into a binding contract of purchase) or any material license, franchise or other intangible asset; except as disclosed in the SEC Reports, mortgaged, pledged, granted or suffered to exist any lien or other encumbrance or charge on any material assets or properties, tangible or intangible, other than liens for taxes not yet delinquent and such other liens, encumbrances or charges which do not materially adversely affect the business or financial condition of Reading or Reading Entertainment; or waived any rights of material value or cancelled any material debts or claims;

(e) entered into any material contract or commitment other than contracts or commitments made in the ordinary course of business or pursuant to or in connection with this Agreement or the Reorganization;

(f) made or suffered any material amendment, modification or termination of any material contract, commitment or obligation to which Reading is a party;

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(g) borrowed or loaned any money other than pursuant to agreements disclosed in the Reading SEC Reports;

(h) changed its method of accounting; or

(i) agreed, whether in writing or otherwise, to take any action described in this Section 3.5.

3.6 Approvals. No consent, approval, order or authorization of, or registration, declaration or filing with any governmental authority is required in connection with the execution and delivery of this Agreement by Reading and Reading Entertainment or the consummation by Reading or Reading Entertainment of the transactions contemplated hereby, except as contemplated by Article 6 of this Agreement.

3.7 Litigation. Except as set forth in the Reading SEC Reports, there are no actions, suits or proceedings or investigations pending at law or in equity in any court or before any foreign, federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality or, to the knowledge of Reading, threatened against or affecting it which, if adversely determined would be reasonably likely to materially and adversely affect the business, operations or financial condition of Reading or Reading Entertainment.

3.8 Regulatory Compliance. Except as set forth in the Reading SEC Reports, each of Reading and Reading Entertainment is in substantial compliance with all material federal, state, local and foreign laws and regulations applicable to it, including, without limitation, environmental laws.

3.9 Brokers. All negotiations relating to this Agreement and the transactions contemplated hereby have been carried on without the intervention of any person acting on behalf of either Reading or Reading Entertainment who has or may have a valid claim against any of the parties to this Agreement for any broker's or finder's fee or similar compensation, other than such fee as may be payable by Reading to Berwind Financial Group, L.P., the financial advisor to the Independent Committee of the Board of Directors of Reading.

3.10 Accuracy of Information Furnished. The certificates, statements, and other information furnished to Craig, CMI, Citadel and CAC in writing by or on behalf of Reading or Reading Entertainment in connection with the transactions contemplated hereby do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements

therein, in light of the circumstances under which they were made, not misleading; provided, however, that no representation is made as to any financial projections contained in such information other than that any such financial projections were prepared in good faith based upon assumptions that Reading believes are reasonable.

3.11 Investment Representation. Reading Entertainment represents and

warrants to Craig and CMI that the shares of Stater Preferred Stock and Citadel Preferred Stock to be received by Reading Entertainment pursuant to Sections 2.1 and 2.2 hereof and any shares of Citadel Common Stock received upon conversion, if any, of the Citadel Preferred Stock are being or will be acquired for investment and not with a view to the sale or distribution of any part thereof, and that it has no present intention of selling, granting participation in or

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otherwise distributing the same in a transaction which would result in a violation of the Securities Act. Reading Entertainment and Reading further represent that there is no contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person with respect to any of the shares of Stater Preferred Stock or Citadel Preferred Stock being acquired pursuant to Sections 2.1 and 2.2 hereof. Reading Entertainment understands that the shares being acquired by it as described above have not been registered under the Securities Act on the ground that the exchange provided for in this Agreement and the issuance of securities are exempt pursuant to Sections 4(1) and 4(2) of the Securities Act, and that Craig's and CMI's reliance on such exemption is predicated on the representations set forth herein. Each certificate representing the Stater Preferred Stock and the Citadel Preferred Stock and any shares of Citadel Common Stock issued upon conversion of shares of the Citadel Preferred Stock may be endorsed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

Reading Entertainment understands that Stater and/or Citadel may instruct their transfer agent not to register the transfer of any of its securities unless the transfer is under conditions which do not violate the Securities Act.

3.12 Title to Assets. Upon consummation of the exchange contemplated by

Section 2.1 of this Agreement, Reading will own and have, and at the Closing will deliver to Citadel, to the extent received from Craig, good and marketable title to its interest in the Citadel Preferred Stock being transferred hereunder, free and clear of any mortgage, lien, pledge, charge, claim, conditional sales or other agreement, lease, right or encumbrance, other than the provisions of the Original Citadel Certificate of Designation.

3.13 Further Investment Representation. Reading Entertainment

represents and warrants to Citadel that the shares of Series B Citadel Preferred Stock to be received by it pursuant to Section 2.4 hereof and any shares of Citadel Common Stock received upon conversion of said shares of Series B Citadel Preferred Stock are being or will be acquired for investment and not with a view to the sale or distribution of any part thereof, and that Reading Entertainment has no present intention of selling, granting participation in or otherwise distributing the same in a transaction which would result in a violation of the Securities Act. Reading Entertainment further represents that it has no contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person with respect to any of the shares of Series B Citadel Preferred Stock being acquired pursuant to Section 2.4 hereof. Reading Entertainment understands that the shares of Series B Citadel Preferred Stock being acquired hereunder and the shares of Citadel Common Stock received upon any conversion of the Series B Citadel Preferred Stock have not been and will not be registered under the Securities Act on the ground that the exchange provided for in this Agreement and the issuance of such securities are exempt pursuant to Section 4(2) of the Securities Act, and that Citadel's reliance on such exemption is predicated on

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representations set forth herein. Each certificate representing the Series B Citadel Preferred Stock and any shares of Citadel Common Stock issued upon conversion of shares of Series B Citadel Preferred Stock may be endorsed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

Citadel may also instruct its transfer agent not to register the transfer of any securities unless the conditions specified in the foregoing legend are satisfied.

4. REPRESENTATIONS AND WARRANTIES OF CRAIG AND CMI

Craig and CMI hereby jointly and severally represent and warrant to Reading, Reading Entertainment, Citadel and CAC as follows:

4.1 Organization and Authorization. Craig and CMI are corporations

duly organized, validly existing and in good standing under the laws of the State of Delaware and California, respectively, and each has the full corporate power and all necessary authorizations to own all of its properties and assets and to carry on its business as it is now being conducted. Craig and CMI are each duly qualified to do business and are in good standing in each jurisdiction in which the nature of its or their business or character of its or their properties requires such qualification and where the failure to be so qualified would materially and adversely affect either corporation or its or their business, properties or rights. Craig and CMI have each delivered to Reading and Reading Entertainment complete and correct copies of their Certificate of Incorporation and Articles of Incorporation, respectively, and their By-Laws, as amended and in effect on the date of this Agreement. Craig and CMI each have all requisite corporate power to execute, deliver and perform their obligations under this Agreement. The execution, delivery and performance of this Agreement by Craig and CMI, and the consummation by each of them of the transactions contemplated hereby, have been duly authorized by the Boards of Directors of Craig and CMI and the shareholder of CMI, and no shareholder approval of Craig is required. Neither Craig nor CMI is an "investment company" as defined in the Investment Company Act of 1940, as amended. This Agreement has been duly executed and delivered by Craig and CMI and constitutes a valid and binding agreement of Craig and CMI, enforceable in accordance with its terms except to the extent the enforcement thereof may be limited by bankruptcy, insolvency, rehabilitation, moratorium and similar laws now or hereafter in effect relating to creditor's rights generally or by general equitable principles.

4.2 Non-Contravention. The execution and delivery of this Agreement do

not and the consummation of the transactions contemplated hereby will not (a) violate the Articles of Incorporation or By-Laws of CMI or the Certificate of Incorporation or By-Laws of Craig, (b) violate any provision of or result in the breach or the acceleration of or entitle any party to accelerate (whether after the giving of notice or the lapse of time or both) any material obligation under any mortgage, lease, agreement, license or instrument, or any order, arbitration award, judgment or decree, to which Craig or CMI is a party or by which either is bound, (c)

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result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance on any property of Craig or CMI, or (d) to the knowledge of either Craig or CMI, violate or conflict with any law, ordinance or rule to which either is subject.

4.3 Approvals. No consent, approval, order or authorization of, or

registration, declaration or filing with any governmental authority is required

in connection with the execution and delivery of this Agreement by Craig and CMI or the consummation by Craig or CMI of the transactions contemplated hereby.

4.4 Interest in Reading International. Craig owns a membership

interest in Reading International entitling it to a 50% allocable share in the net profits, net losses and similar items and in distributions from Reading International. Craig's interest in Reading International is as set forth in (i) the Limited Liability Company Agreement (the "LLC Agreement") entered into as of November 9, 1995 between Craig and Reading Investment, which LLC Agreement is in full force and effect and has not been modified or amended, and (ii) the RC Revocable Trust dated as of November 9, 1995 between Craig, Reading Investment and CMI as the trustee relating to rights upon the liquidation of Reading International, which agreement is in full force and effect and has not been modified or amended.

4.5 Title to Assets. Craig owns and has, and Reading Entertainment

will receive, good and marketable title to its interest in Reading International and the Citadel Preferred Stock being transferred hereunder, free and clear of any mortgage, lien, pledge, charge, claim, conditional sales or other agreement, lease, right or encumbrance, other than the provisions of the LLC Agreement with respect to the interest in Reading International and the provisions of the Original Citadel Certificate of Designation and the Stock Purchase and Sale Agreement dated as of March 27, 1996 by and between Craig and Reading Holdings, Inc. with respect to the Citadel Preferred Stock. CMI owns and has, and Reading Entertainment will receive, good and marketable title to the Stater Preferred Stock being transferred to Reading Entertainment pursuant to Section 2.2 hereof, free and clear of any mortgage, lien, pledge, charge, claim, conditional sales or other agreement, lease, right or encumbrance, except for the provisions and restrictions set forth in the Option Agreement described in Section 8.3(e) of this Agreement.

4.6 Accuracy of Information Furnished. The certificates, statements,

and other information furnished to Reading and Reading Entertainment in writing by or on behalf of Craig or CMI in connection with the transactions contemplated hereby, do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that no representation is made as to any financial projections contained in such information other than that any such financial projections were prepared in good faith based upon assumptions that Craig believes are reasonable.

4.7 Securities Law Compliance. None of the information supplied by

Craig or CMI in writing for inclusion in the Proxy Statement, the Registration Statement or the Prospectus, or any amendments thereof or supplements thereto, at the time of mailing of such Proxy Statement or such amendments or supplements, at the time of any meeting of shareholders to be held in connection herewith, at the time the Registration Statement becomes effective and at the mailing of the Proxy Statement and the Prospectus, will contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

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4.8 Brokers. All negotiations relating to this Agreement and the

transactions contemplated hereby have been carried on without the intervention of any person acting on behalf of Craig or CMI who has or may have a valid claim against any of the parties to this Agreement for any broker's or finder's fee or similar compensation, other than such fee as may be payable by Craig to Houlihan Lokey Howard & Zukin, the financial advisor to the Independent Committee of the Board of Directors of Craig.

4.9 Stater Financial Condition. To the best knowledge of Craig and

CMI, there has been no material adverse change in the financial condition of Stater from that reflected in its audited financial statements for the year ended September 24, 1995.

4.10 Investment Representation. Craig and CMI each represent and

warrant to Reading Entertainment that the shares of Reading Entertainment Common Stock and Reading Entertainment Series B Preferred Stock to be received by them pursuant to Sections 2.1 and 2.2 hereof and any shares of Reading Entertainment Common Stock received upon conversion of said shares of Reading Entertainment Series B Preferred Stock are being or will be acquired for investment and not with a view to the sale or distribution of any part thereof, and that neither has any present intention of selling, granting participation in or otherwise distributing the same in a transaction which would result in a violation of the Securities Act. Craig and CMI further represent that neither has any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person with respect to any of the shares of Reading Entertainment Common Stock and Reading Entertainment Series B Preferred Stock being acquired pursuant to Sections 2.1 and 2.2 hereof. Craig and CMI understand that the shares of Reading Entertainment Common Stock and Reading Entertainment Series B Preferred Stock being acquired hereunder and the shares of Reading Entertainment Common Stock received upon any conversion of the Reading Entertainment Series B Preferred Stock have not been and will not be registered under the Securities Act on the ground that the exchange provided for in this Agreement and the issuance of such securities are exempt pursuant to Section 4(2) of the Securities Act, and that Reading Entertainment's reliance on such exemption is predicated on the representations set forth herein. Each certificate representing the Reading Entertainment Common Stock and Reading Entertainment Series B Preferred Stock and any shares of Reading Entertainment Common Stock issued upon conversion of shares of Reading Entertainment Series B Preferred Stock may be endorsed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

Reading Entertainment may also instruct its transfer agent not to register the transfer of any securities unless the conditions specified in the foregoing legend are satisfied.

4.11 CMI. Craig has no present intention to liquidate CMI or to sell,

transfer or assign its ownership interest in CMI, nor to cause CMI to sell, transfer or assign any of the Reading Entertainment Common Stock or Reading Entertainment Series B Preferred Stock to be received by CMI pursuant to this Agreement. CMI has no present intention to liquidate or

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to sell, transfer or assign any of the Reading Entertainment Common Stock or Reading Entertainment Series B Preferred Stock to be received pursuant to this Agreement.

5. REPRESENTATIONS AND WARRANTIES OF CITADEL AND CAC

Citadel and CAC hereby jointly and severally represent and warrant to Reading, Reading Entertainment, Craig and CMI as follows:

5.1 Organization and Authorization. CAC and Citadel are corporations

duly organized, validly existing and in good standing under the laws of the State of Delaware, and each has the corporate power and all necessary authorizations to own all of its properties and assets and to carry on its business as it is now being conducted. CAC and Citadel are each duly qualified to do business and are in good standing in each jurisdiction in which the nature of its or their business or character of its or their properties requires such qualification and where the failure to be so qualified would materially and adversely affect CAC or Citadel or its or their business, properties or rights. CAC and Citadel have each delivered to Reading and Reading Entertainment complete and correct copies of their Certificates of Incorporation and By-Laws, as amended and in effect on the date of this Agreement. CAC and Citadel have all requisite corporate power to execute, deliver and perform their obligations under this Agreement. The execution, delivery and performance of this Agreement by CAC and Citadel, and the consummation by CAC and Citadel of the transactions contemplated hereby, have been duly authorized by the Board of Directors of CAC and Citadel, and, except as may be required with respect to an exercise by

Citadel of the Asset Put, no approval of Citadel or CAC shareholders is required. This Agreement has been duly executed and delivered by CAC and Citadel and constitutes a valid and binding agreement of CAC and Citadel, enforceable in accordance with its terms except to the extent the enforcement thereof may be limited by bankruptcy, insolvency, rehabilitation, moratorium and similar laws now or hereafter in effect relating to creditor's rights generally or by general equitable principles.

5.2 Non-Contravention. The execution and delivery of this Agreement do

not and the consummation of the transactions contemplated hereby will not (a) violate the Certificate of Incorporation or By-Laws of either CAC or Citadel, (b) violate any provision of or result in the breach or the acceleration of or entitle any party to accelerate (whether after the giving of notice or the lapse of time or both) any material obligation under any mortgage, lease, agreement, license or instrument, or any order, arbitration award, judgment or decree, to which CAC or Citadel is a party or by which it is bound, (c) result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance on any property of CAC or Citadel, or (d) to the knowledge of either Citadel or CAC, violate or conflict with any law, ordinance or rule to which either is subject.

5.3 Approvals. No consent, approval, order or authorization of, or

registration, declaration or filing with any governmental authority is required in connection with the execution and delivery of this Agreement by CAC or Citadel or the consummation by CAC or Citadel of the transactions contemplated hereby, except as may be required with respect to an exercise by Citadel of the Asset Put.

5.4 Accuracy of Information Furnished. The certificates, statements,

and other information furnished to Reading and Reading Entertainment in writing by or on behalf of CAC or Citadel in connection with the transactions contemplated hereby, do not contain any

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untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that no representation is made as to any financial projections contained in such information other than that any such financial projections were prepared in good faith based upon assumptions that Citadel believes are reasonable.

5.5 Securities Law Compliance. None of the information supplied by CAC

or Citadel in writing for inclusion in the Proxy Statement, the Registration Statement or the Prospectus, or any amendments thereof or supplements thereto, at the time of mailing of such Proxy Statement or such amendments or supplements, at the time of any meeting of stockholders to be held in connection herewith, at the time the Registration Statement becomes effective and at the mailing of the Proxy Statement and the Prospectus, will contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

5.6 Brokers. All negotiations relating to this Agreement and the

transactions contemplated hereby have been carried on without the intervention of any person acting on behalf of CAC or Citadel who has or may have a valid claim against any of the parties to this Agreement for any broker's or finder's fee or similar compensation, other than such fee as may be payable by Citadel or CAC to Crowell, Weedon & Co., the financial advisor to the Independent Committee of the Board of Directors of Citadel.

5.7 Investment Representation. CAC represents and warrants to Reading

Entertainment that the shares of Reading Entertainment Series A Preferred Stock to be received by CAC pursuant to Section 2.3 hereof and any shares of Reading Entertainment Common Stock received upon conversion of said shares are being or will be acquired for investment and not with a view to the sale or distribution of any part thereof, and that it has no present intention of selling, granting participation in or otherwise distributing the same in a transaction which would

result in a violation of the Securities Act. Citadel and CAC further represent that there is no contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person with respect to any of the shares of Reading Entertainment Series A Preferred Stock being acquired pursuant to Section 2.3 hereof. CAC understands that the shares being acquired by it hereunder and the shares of Reading Entertainment Common Stock received upon any conversion thereof have not been and will not be registered under the Securities Act on the ground that the exchange provided for in this Agreement and the issuance of such securities are exempt pursuant to Section 4(2) of the Securities Act, and that Reading Entertainment's reliance on such exemption is predicated on the representations set forth herein. Each certificate representing the Reading Entertainment Series A Preferred Stock and any shares of Reading Entertainment Common Stock issued upon conversion of shares of Reading Entertainment Series A Preferred Stock may be endorsed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

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Reading Entertainment may also instruct its transfer agent not to register the transfer of any securities unless the conditions specified in the foregoing legend are satisfied.

5.8 Independent Continuing Directors. As of the date hereof and the Closing Date, CAC has and will have not less than two Independent Continuing Directors (as defined in Article IX of the Certificate of Incorporation of CAC).

5.9 Capital Stock. The shares of Series B Citadel Preferred Stock to be issued pursuant to this Agreement have been duly authorized, and, when issued and paid for pursuant to the terms hereof, will be validly issued, fully paid and non-assessable and will be entitled to all the rights, preferences and privileges set forth in the Certificate of Designation of the Series B 3% Cumulative Voting Convertible Preferred Stock of Citadel Holding Corporation (the "Citadel Certificate of Designation"), attached as Exhibit 5.9 hereto. The shares of common stock of Citadel issuable upon conversion of the Series B Citadel Preferred Stock have been duly authorized and reserved for issuance upon such conversion and, when issued and delivered on such conversion in accordance with the terms of the Citadel Certificate of Designation, will be validly issued, fully paid and non-assessable. The form of certificates representing the shares of Series B Citadel Preferred Stock to be issued pursuant to this Agreement will comply with the Delaware General Corporation Law, as amended. All corporate action required to be taken for the authorization and issuance of the Series B Citadel Preferred Stock to be issued pursuant to the Agreement has been duly and validly taken. At or prior to the Closing, the Citadel Certificate of Designation will have been filed with the Secretary of State of the State of Delaware.

6. SHAREHOLDER APPROVAL; PROXY AND REGISTRATION FILINGS

6.1 Shareholder Approval. A meeting of the shareholders of Reading (the "Reading Shareholders") shall be held in accordance with the laws of the State of Pennsylvania on or before November 30, 1996 (or such later date or dates as may be approved by the Boards of Directors of all of the parties to this Agreement) to, among other things, consider and act upon the Exchange and the Reorganization.

6.2 Proxy Statement and Registration Statement.

(a) Reading has prepared and filed with the SEC a Proxy Statement and related proxy material meeting the requirements of Regulation 14A of the Securities Exchange Act to be mailed to shareholders in connection with the meeting of the Reading Shareholders (the "Proxy Statement") referred to above, and Reading shall use its commercially reasonable efforts to clear these materials with the SEC and mail said materials to the Reading Shareholders on or

before October 21, 1996, or as soon as practicable thereafter. Reading further covenants that the Proxy Statement at the time of mailing to the Reading Shareholders and at the time of the meeting of shareholders held to approve the Reorganization and Exchange will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading and the Proxy Statement will comply as to form in all material respects with the provisions of the Securities Exchange Act.

(b) Craig, CMI, Citadel and CAC shall furnish in writing for inclusion in the Proxy Statement and the Registration Statement, described below, such information as may

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be reasonably necessary to comply with the provisions of the Securities Act and the Securities Exchange Act and the rules and regulations thereunder and shall have been requested in writing by Reading.

(c) Reading shall prepare a registration statement (the "Registration Statement") including a form of prospectus (the "Prospectus") and one or more amendments thereto, on Form S-4 or other appropriate form covering the shares of Reading Entertainment Common Stock to be issued pursuant to the Reorganization and shall use its commercially reasonable efforts to cause the Registration Statement to become effective on or before October 21, 1996, or as soon as practicable thereafter. Reading shall deliver to Craig, CMI, Citadel and CAC copies of the Registration Statement and each amendment thereto filed or proposed to be filed (and of each related preliminary prospectus). The Registration Statement and the Prospectus, as amended at the time the Registration Statement becomes effective, are herein called the "Registration Statement" and the "Prospectus." Reading shall advise Craig, CMI, Citadel and CAC and shall confirm in writing (i) when the Registration Statement or any post-effective amendment thereto shall have become effective and when any amendment of or supplement to the Prospectus is filed with the SEC, (ii) when the SEC shall make a request or suggestion for any amendment to the Registration Statement or the Prospectus or for additional information and the nature and substance thereof, relating solely to the Reorganization or Exchange, and (iii) of the issuance by the SEC of a stop order suspending the effectiveness of the Registration Statement, and shall use its commercially reasonable efforts to prevent the issuance of a stop order and, if such order shall be issued, to obtain the withdrawal thereof at the earliest possible time. Reading represents and warrants to Craig, CMI, Citadel and CAC that the Registration Statement and the Prospectus (including the information therein provided by Reading) and any other amendments and supplements thereto, will, when they become effective, conform in all material respects to the requirements of the Securities Act and the rules and regulations thereunder, and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that Reading makes no representation or warranty as to statements or omissions therein supplied by Craig, CMI, Citadel and CAC.

(d) If, at any time prior to the Closing Date, it shall be necessary to amend or supplement the Proxy Statement or the Registration Statement to correct any statement or omission with respect to Reading, Reading Entertainment, Craig, CMI, Citadel or CAC in order to comply with any applicable legal requirements, the appropriate party to this Agreement shall supply in writing the necessary information to Reading. To the extent necessary to comply with applicable legal requirements, Reading shall amend or supplement the Proxy Statement and amend or supplement the Registration Statement and Prospectus.

7. COVENANTS

7.1 Covenants of Craig, CMI, Citadel and CAC.

(a) Craig, CMI, Citadel and CAC each hereby covenant and agree that from the date of this Agreement until the Closing Date (or until the items referred to have either been accomplished or, in good faith, abandoned), except with the prior written consent of Reading, it:

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(i) shall use its commercially reasonable efforts to

promptly furnish such information to Reading or Reading Entertainment as shall be necessary for Reading to comply with all filing and regulatory requirements imposed on Reading or Reading Entertainment with respect to the Exchange and the Reorganization; and

(ii) with respect to Craig and CMI, will not transfer, pledge, encumber or allow a mortgage, lien or other charge to be placed upon any of the assets to be transferred to Reading Entertainment pursuant to Section 2.1 or 2.2 hereunder.

(b) Subject to the terms of this Agreement, Craig agrees to vote all shares of its Reading Class A Common Stock in favor of the Reorganization and Exchange at the meeting of Reading Shareholders held to consider the same.

(c) Citadel hereby covenants and agrees that, so long as the provisions of Article IX of the Certificate of Incorporation of CAC remain applicable in accordance with their terms, Citadel (i) shall use its commercially reasonable efforts to ensure that CAC at all times has at least one Independent Continuing Director (as defined in such Article IX), and (ii) shall not and shall not permit any of its subsidiaries to cause a "short-form" merger of CAC into Citadel or any subsidiary of Citadel, or otherwise take any action which, if taken by CAC, would violate the provisions of such Article IX.

(d) Craig covenants and agrees that at the Closing it will transfer and assign to Reading Entertainment all of Craig's rights, and Reading Entertainment covenants and agrees that it will assume all of Craig's obligations, under the Preferred Stock Purchase Agreement entered into on November 10, 1994. Citadel consents to such transfer, assumption and assignment and agrees that the provisions of such Preferred Stock Purchase Agreement shall apply to the Series B Citadel Preferred Stock (and the shares of Citadel Common Stock issuable upon conversion of the Series B Citadel Preferred Stock) as if such shares were the "Shares" as defined in such Preferred Stock Purchase Agreement.

7.2 Covenants of Reading and Reading Entertainment.

(a) Reading and Reading Entertainment hereby covenant and agree that from the date of this Agreement until the Closing Date, except with the prior written consent of Craig, CMI, Citadel and CAC, which will not be unreasonably withheld or delayed, it:

(i) shall use its commercially reasonable efforts to comply with all filing and regulatory requirements which may be imposed on Reading and Reading Entertainment with respect to the Exchange and the Reorganization, including the filing with the SEC of the Proxy Statement and the Registration Statement;

(ii) shall use its commercially reasonable efforts to obtain any consent, authorization or approval of, any governmental authority or agency or other third party required to be obtained in connection with the Exchange and the Reorganization or the taking of any action in connection with the consummation thereof; and

(iii) use its commercially efforts to consummate the Reorganization and hold a meeting of Reading Shareholders to approve the Reorganization and the Exchange.

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(b) Reading and Reading Entertainment hereby covenant and agree that prior to the Closing, the Reading Entertainment Common Stock issuable upon conversion of the Reading Entertainment Series A and Series B Preferred Stock shall have been reserved for issuance by Reading Entertainment out of its authorized but unissued shares of Common Stock and the Reading Entertainment Common Stock issuable upon such conversion and the Reading Entertainment Common Stock being issued pursuant to Section 2.1 and 2.2 hereof shall have been approved for listing on NASDAQ National Market as well as any stock exchange where Reading Entertainment Common Stock may be listed, subject to official notice of issuance.

7.3 Access. From the date of this Agreement to the Closing Date,

Reading shall afford to Craig, CMI, Citadel and CAC and to the officers and

authorized representatives of each such entity (including, without limitation, counsel, financial advisors and independent accountants) reasonable access to its properties, personnel, books and records at such reasonable times and in such manner as not to disrupt normal business operations; and the officers of Reading will furnish such officers and representatives with such additional financial and operating data and other information as to its business and properties as may be reasonably requested. Likewise Craig shall afford to Reading, Citadel and CAC and to the authorized representatives of each such entity (including without limitation, counsel, financial advisors and independent accountants) reasonable access to all information held by Craig with respect to Stater. Each of the parties hereto shall insure that all confidential information which such party or any of its officers, directors, employees, counsel, agents, investment bankers, or accountants may receive under this Section 7.3 or pursuant to Section 6.2(c)(ii) shall be kept confidential and not published, disclosed, or made accessible by any of them to any other person, except the persons referred to in this sentence who are advised of and agree to maintain the confidential nature of such information; provided, however, that the restrictions of this sentence shall not apply as may otherwise be required by law, as may be necessary or appropriate in connection with the enforcement of this Agreement, or to the extent such information shall have otherwise become publicly available.

7.4 Citadel Contributions. Prior to the Closing, Citadel agrees to

contribute \$7.0 million to the capital of CAC to enable CAC to complete the transfer described in Section 2.3 of this Agreement.

8. CONDITIONS

8.1 Conditions Precedent to the Obligations of All Parties. -----

Notwithstanding any other provision of this Agreement, the obligations of the parties to effect the Exchange shall be subject to the fulfillment, as of the Closing, of each of the following conditions (unless waived by the written consent of the parties hereto):

(a) the Exchange and the Reorganization shall have been validly approved and adopted by the affirmative vote of the holders of at least a majority of the votes cast by the holders of the issued and outstanding shares of Reading Class A Common Stock and Reading Common Stock, voting together as a single class, at a duly called and held meeting of the Reading Shareholders at which a quorum is present, and the Reorganization shall have been consummated;

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(b) all permits, approvals and consents of any governmental body or agency or other third party necessary or appropriate for consummation of the Exchange and the Reorganization shall have been obtained;

(c) the Registration Statement shall have become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement shall have been issued or proceedings for that purpose instituted by the SEC; the Reading Entertainment Common Stock issuable upon conversion of the Reading Entertainment Series A and Series B Preferred Stock shall have been reserved for issuance by Reading Entertainment out of its authorized but unissued shares of Common Stock and the Reading Entertainment Common Stock issuable upon such conversion and the Reading Entertainment Common Stock being issued pursuant to Section 2.1 and 2.2 hereof shall have been approved for listing on NASDAQ National Market as well as any stock exchange where Reading Entertainment Common Stock may be listed, subject to official notice of issuance;

(d) there shall not be in effect an order or decision of a court of competent jurisdiction or a governmental agency or authority which prevents, or would materially alter the terms of, the Exchange or the Reorganization;

(e) there shall not be any action or proceeding commenced by or before any governmental agency or authority or threatened by any governmental agency or authority that enjoins, restrains or prohibits or seeks to enjoin, restrain or prohibit the Exchange or the Reorganization;

(f) the requirement to close the transfers described in Sections 2.1, 2.2, 2.3 and 2.4 of this Agreement are conditioned on all such transfers closing simultaneously;

(g) Reading and Reading Entertainment shall have received, on or prior to the mailing date of the Proxy Statement, an opinion reasonably satisfactory to them from Berwind Financial Group, L.P. to the effect that the Exchange is fair from a financial point of view to Reading and Reading Entertainment and said opinion shall not have been withdrawn or modified in a manner which is not reasonably satisfactory to Reading or Reading Entertainment; and

(h) the holders of Reading's Class A Common Stock shall not have had any dissenter's rights under Pennsylvania law in connection with the Reorganization.

8.2 Additional Conditions Precedent to the Obligations of Reading and

Reading Entertainment. In addition to the conditions contained in Section 8.1, -----

the obligations of Reading and Reading Entertainment to effect the Exchange shall also be subject to the fulfillment as of the Closing Date of each of the following conditions (unless waived in writing by Reading and Reading Entertainment):

(a) the representations and warranties of Craig, CMI, Citadel and CAC contained in Section 4 and 5, respectively, shall be true in all material respects at and as of the date hereof and as of the Closing Date as if made at and as of the Closing Date; Craig, CMI, Citadel and CAC shall have each duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement to be performed or

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complied with by them prior to or on the Closing Date; and each of Craig, CMI, Citadel and CAC shall have delivered to Reading and Reading Entertainment a certificate dated the Closing Date and signed by its President or its Chief Financial Officer to the effect set forth in this subparagraph.

(b) Reading and Reading Entertainment shall have received an opinion letter from Troy & Gould Professional Corporation, counsel to Craig and CMI, dated the Closing Date, substantially in the form previously delivered to counsel to Reading.

(c) Reading and Reading Entertainment shall have received an opinion letter from Gibson, Dunn & Crutcher, special counsel to CAC, and Citadel, dated the Closing Date, substantially in the form previously delivered to counsel to Reading. Reading and Reading Entertainment shall have received an opinion letter from its counsel, Duane, Morris & Heckscher, dated the Closing Date, substantially in the form of the draft dated the date hereof, previously delivered to Reading.

(d) All necessary corporation action on the part of the directors of Craig, CMI, Citadel and CAC in connection with the transactions contemplated in this Agreement shall have been duly and validly taken.

(e) From the date hereof, there shall have been no material adverse change in the assets, business, financial condition or results of operations of Stater and its subsidiaries, taken as a whole, or Citadel and its subsidiaries, taken as a whole.

(f) The consummation of the Exchange and the Reorganization shall not result in a "change of control" under the Code such that there would be a material adverse impact on the net operating loss carryforwards of Reading or Reading Entertainment.

(g) The Stater Stockholders Agreement, as amended, shall have been terminated.

8.3 Additional Conditions Precedent to the Obligations of Craig and

CMI. In addition to the conditions contained in Section 8.1, the obligations of -----

Craig and CMI to effect the Exchange shall also be subject to the fulfillment at the Closing Date of each of the following conditions (unless waived in writing by Craig and CMI):

(a) the representations and warranties of Reading and Reading Entertainment contained in Section 3 and the representations and warranties of Citadel and CAC contained in Section 5 shall be true in all material respects at and as of the date hereof and as of the Closing Date as if made at and as of the Closing Date; Reading, Reading Entertainment, Citadel and CAC shall each have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement to be performed or complied with prior to or at the Closing Date; and Reading, Reading Entertainment, Citadel and CAC shall have each delivered to Craig and CMI a certificate dated the Closing Date and signed by its President or Chief Financial Officer to the respective effect set forth in this subparagraph;

(b) Craig and CMI shall have received an opinion letter from Duane, Morris & Heckscher, counsel to Reading and Reading Entertainment, dated the Closing Date,

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substantially in the form previously delivered to counsel to Craig. Craig and CMI shall have received an opinion letter from Duane, Morris & Heckscher, dated the Closing Date, substantially in the form of the draft dated the date hereof, previously delivered to counsel to Craig.

(c) All necessary corporate action on the part of the directors and shareholders of Reading and the directors of Reading Entertainment and Reading Entertainment Subsidiary and the directors and shareholder of CAC in connection with the transactions contemplated in this Agreement shall have been taken by the Closing.

(d) From the date hereof, there shall have been no material adverse change in the assets, business, financial condition or results of operations of Reading or Reading Entertainment and its or their subsidiaries, taken as a whole.

(e) Reading Entertainment shall have delivered to CMI its agreement to be bound by the provisions of Article I and II of that Option Agreement entered into as of September 3, 1993 by and among Stater, Craig and CMI with respect to the Stater Preferred Stock.

(f) Immediately prior to the Closing, Reading International and Reading Investment shall have terminated any and all obligations of Craig and CMI under that Amended and Restated Capital Funding Agreement entered into as of March 8, 1996 by and among Craig, Reading Investment and CMI, and Reading Holdings shall have terminated all of its rights with respect to the Warrant Purchase Option set forth in Section 3.1 and the Preferred Purchase Option set forth in Section 2.1 of the Stock Purchase and Sale Agreement entered into as of March 27, 1996 by and between Craig and Reading Holdings.

(g) The opinion of the law firm of Morris, Nichols, Arsht & Tunnell that no approval of the shareholders of Craig is required under Delaware law in connection with the Exchange shall have been reissued and dated as of the Closing Date and shall not have been modified in a manner not reasonably satisfactory to legal counsel for Craig.

(h) The opinion of Duane, Morris & Heckscher dated as of the date of this Agreement, and delivered to Craig and CMI shall have been reissued and dated as of the Closing Date and shall not have been modified in a manner not reasonably satisfactory to legal counsel for Craig.

(i) The fairness opinion of Houlihan Lokey Howard & Zukin addressed to the Board of Directors of Craig and dated as of the date of this Agreement shall not have been withdrawn or modified in a manner not reasonably satisfactory to Craig.

(j) The total shareholders' equity of Reading as reflected in financial statements set forth in the Form 10-Q filed with the SEC for the quarter ended closest to the Closing shall not be less than \$66,218,000.

8.4 Additional Conditions Precedent to the Obligations of CAC and

Citadel. In addition to the conditions contained in Section 8.1, the

obligations of CAC and Citadel to effect the Exchange shall also be subject to the fulfillment at the Closing Date of each of the following conditions (unless

waived in writing by CAC and Citadel):

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(a) the representations and warranties of Reading and Reading Entertainment contained in Section 3 and the representations of Craig and CMI contained in Section 4 shall be true in all material respects at and as of the date hereof and as of the Closing Date as if made at and as of the Closing Date; each of Reading, Reading Entertainment, Craig and CMI shall each have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement to be performed or complied with prior to or at the Closing Date; and each of Reading, Reading Entertainment, Craig and CMI shall have delivered to CAC and Citadel a certificate dated the Closing Date and signed by its President or Chief Financial Officer to the respective effect set forth in this subparagraph.

(b) CAC and Citadel shall have received an opinion letter from Duane, Morris & Heckscher, counsel to Reading and Reading Entertainment, dated the Closing Date, substantially in the form of the draft previously delivered to counsel to Citadel. CAC and Citadel shall have received an opinion letter from Duane, Morris & Heckscher, dated the Closing Date, substantially in the form of the draft dated the date hereof previously delivered to counsel to Citadel.

(c) All necessary corporate action on the part of the directors and shareholders of Reading and the directors of Reading Entertainment and Reading Entertainment Subsidiary and the directors of Craig and CMI in connection with the transactions contemplated in this Agreement shall have been taken by the Closing.

(d) From the date hereof, there shall have been no material adverse change in the assets, business, financial condition, or results of operations of Reading or Reading Entertainment and its or their subsidiaries, taken as a whole.

(e) Each of Reading Entertainment and Craig shall have executed and delivered to Citadel and CAC an Asset Put and Registration Rights Agreement substantially in the form attached hereto as Exhibit 8.4(e) (the "Option Agreement").

(f) The fairness opinion of Crowell, Weedon & Co. addressed to the Board of Directors of Citadel and dated as of the date of this Agreement shall not have been withdrawn or modified in a manner not reasonably satisfactory to Citadel.

(g) The opinion of Duane, Morris & Heckscher dated as of the date of this Agreement and delivered to Citadel and CAC shall have been reissued and dated as of the Closing Date and shall not have been modified in a manner not reasonably satisfactory to legal counsel for Citadel.

(h) The total shareholders' equity of Reading as reflected in financial statements set forth in the Form 10-Q filed with the SEC for the quarter ended closest to the Company shall not be less than \$66,218,000.

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9. TERMINATION

9.1 Termination. This Agreement may be terminated at any time prior to -----
the Closing Date, whether before or after approval by the Reading Shareholders;

(a) by mutual consent of the respective Boards of Directors of Reading, Reading Entertainment, Craig, CMI, Citadel and CAC;

(b) by any of the respective Boards of Directors of Reading, Craig, CMI, and Citadel if the Exchange and the Reorganization shall not have been consummated on or before December 31, 1996, except as a result of the wilful acts or omissions of the party (or, in the case of Reading, Citadel or Craig, its wholly owned subsidiary, or, in the case of CMI, its parent) seeking to cancel this Agreement.

9.2 Written Notice. In order to terminate this Agreement pursuant to -----

Section 9.1, the party or parties so acting shall give written notice of such termination to the other parties.

9.3 Effect of Termination. In the event of the termination of this

Agreement pursuant to Section 9.1, the provisions of this Agreement shall become void and have no effect, with no liability on the part of any party or its shareholders or directors or officers in respect thereof, unless such termination shall have occurred as a result of the wilful breach of this Agreement by any party hereto.

10. GENERAL PROVISIONS

10.1 Survival of Representations and Warranties. Other than with respect

to Sections 3.3, 3.11, 4.5, 4.10, 5.7 and 5.9 of this Agreement, the representations and warranties set forth in this Agreement shall survive the Closing for a period of one year. The representations and warranties set forth in Sections 3.3, 3.11, 4.5, 4.10, 5.7 and 5.9 of this Agreement shall survive in perpetuity.

10.2 Notices. All notices, requests, demands or other communications

required or authorized or contemplated to be given by this Agreement shall be in writing and shall be deemed to have been duly given made and received when delivered against receipt, upon receipt of a facsimile transmission, when deposited in the United States mails (first class postage prepaid) or when deposited with Federal Express, and addressed as follows:

If to Reading or
Reading Entertainment:

Reading Company
The Graham Building
One Penn Square West
30 South 15th Street,
Suite 1300
Philadelphia, PA 19102
Attn: James A. Wunderle
Fax: (215) 569-2862

Copies to:

Duane, Morris & Heckscher

23.

One Liberty Place
Philadelphia, PA 19103
Attn: Sheldon M. Bonovitz, Esq.
Fax: (215) 979-1020
and
Dechert Price & Rhoads
4000 Bell Atlantic Tower
1717 Arch Street
Philadelphia, PA 19103
Attn: Henry N. Nassau, Esq.
Fax: (215) 994-2222

If to Craig or CMI:

Craig Corporation
550 S. Hope Street,
Suite 1825
Los Angeles, CA 90071
Attn: Robin Skophammer
Fax: (213) 239-0548

Copy to:

Troy & Gould Professional Corporation
1801 Century Park East,
16th Floor
Los Angeles, CA 90067
Attn: James C. Lockwood, Esq.
Fax: (310) 201-4746

If to CAC or Citadel:

Citadel Holding Corporation
550 S. Hope Street
Suite 1825
Los Angeles, CA 90071
Attn: Steve Wesson

Fax: (213) 239-0549

Copy to: Gibson, Dunn & Crutcher LLP
333 S. Grand Avenue
Los Angeles, CA 90071
Attn: Dhiya El-Saden, Esq.
Fax: (213) 229-7520

or such other address and fax number as any of the parties hereto may from time to time designate in writing, prior to the giving of such notice.

10.3 Amendment and Waiver. No amendment or waiver of any provision of

this Agreement shall in any event be effective, unless the same shall be in writing signed by the parties hereto, and then such amendment, waiver or consent shall be effective only in a specific instance and for the specific purpose for which given, except that the parties to this Agreement may (i) extend the time for the performance of any of the obligations or other acts of the other parties, (ii) waive any inaccuracies in the representations and warranties contained

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in this Agreement or in any document delivered pursuant hereto, and (iii) waive compliance with any of the covenants or conditions contained in this Agreement.

10.4 Counterparts. This Agreement may be executed in two or more

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

10.5 Assignability. This Agreement shall not be assigned by any party

without the prior written consent of all of the parties hereto. In the event of such assignment, this Agreement shall bind and inure to the benefit of the parties named herein and their respective successors and assigns.

10.6 Entire Agreement. This Agreement and the documents referred to

herein contain the entire understanding among the parties with respect to the transactions contemplated hereby and supersede all prior and contemporaneous agreements and understandings whether oral or written, relating to the subject matter hereof.

10.7 Applicable Law. This Agreement shall be governed by and construed

in accordance with the laws of the State of Delaware, notwithstanding any Delaware or other conflict-of-law provisions to the contrary.

10.8 Headings. The section and other headings contained in this

Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of the terms and conditions contained therein or of this Agreement.

10.9 Costs and Expenses. Each party hereto shall bear its own costs and

expenses (including fees and disbursements of legal counsel) incurred in connection with the negotiation and preparation of this Agreement and the consummation of the transactions provided for herein, except that Reading Entertainment agrees to reimburse Citadel and CAC, regardless of whether the Closing occurs, for their aggregate reasonable out-of-pocket costs and expenses (including reasonable fees and expenses of legal counsel and financial advisors) related to this Agreement and the transactions contemplated hereby up to a maximum of \$280,000.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

READING COMPANY

By: /S/ JAMES A. WUNDERLE

Its: Chief Operating Officer

READING ENTERTAINMENT, INC.

By: /S/ JAMES A. WUNDERLE

Its: Chief Operating Officer

CRAIG CORPORATION

By: /S/ S. CRAIG TOMPKINS

Its: President

CRAIG MANAGEMENT, INC.

By: /S/ S. CRAIG TOMPKINS

Its: President

CITADEL HOLDING CORPORATION

By: /S/ STEVE WESSON

Its: President

CITADEL ACQUISITION CORP., INC.

By: /S/ STEVE WESSON

Its: President

EXHIBIT 10.52

ASSET PUT AND
REGISTRATION RIGHTS AGREEMENT

This Asset Put and Registration Rights Agreement (this "Agreement") is

entered into as of this 15th day of October, 1996 by and among Reading
Entertainment, Inc., a Delaware corporation ("Reading Entertainment"), Citadel

Holding Corporation, a Delaware corporation ("Citadel"), and Citadel Acquisition

Corp., Inc., a Delaware corporation ("CAC"), with reference to the following:

A. The parties to this Agreement are also parties to an Exchange Agreement
dated as of August --, 1996 (the "Exchange Agreement") pursuant to which CAC is

purchasing 70,000 shares (the "Preferred Shares") of Reading Entertainment's

Series A Voting Cumulative Convertible Preferred Stock, stated value \$100 per
share (the "Series A Preferred Stock"), for an aggregate cash purchase price of

\$7,000,000.

B. As conditions to CAC's purchase of the Preferred Shares, Reading
Entertainment has agreed that (i) Citadel shall have an option to exchange all
or substantially all of its assets (other than Excluded Assets as defined below)
for shares (the "Exchange Shares") of Reading Entertainment's Common Stock,

\$.001 par value (the "Common Stock"), and (ii) Reading Entertainment will under

certain circumstances register under the Securities Act of 1933, as amended (the
"Act"), the Exchange Shares and any shares of Common Stock, received upon

conversion of the Preferred Shares (the "Conversion Shares"), all in accordance

with and subject to the terms of this Agreement.

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

ARTICLE ONE

ASSET PUT

1.1 Asset Put.

(a) Commencing on the date hereof, Citadel shall have the right, by
giving written notice to Reading Entertainment prior to 11:59 p.m. on the
thirtieth (30th) day following the date on which Reading Entertainment files its
Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (the
"Exchange Notice"), to exchange (the "Asset Put") all or substantially all of

its assets (other than the Excluded Assets as defined below), together with any
debt encumbering or related to such assets, including without limitation,
mortgages and leases (collectively, the "Citadel Assets"), for such number of

shares of Common Stock as are determined with reference to the Citadel Asset
Valuation and the Common Stock Value, as described below. The term "Excluded

Assets" shall mean (i) all Preferred Shares and Conversion Shares (or all shares
- -----
of capital stock of CAC, if the sole assets of CAC are Excluded Assets), (ii)
such cash and/or marketable securities as a special committee comprised of the
independent directors of the Board of Directors of Citadel may reasonably
determine are necessary in order to maintain an appropriate level of liquidity
for Citadel and its subsidiaries, (iii) any assets that, in the reasonable
opinion of the Board of Directors of Reading Entertainment, are subject to
liabilities (including, without limitation, contingent or environmental
liabilities) reasonably likely to be in excess of the fair market value of such
assets, (iv) After Acquired Assets (as defined below) to the extent the After

Acquired Assets Value (as defined in Section 1.2) exceeds \$5,000,000 and (v) assets to the extent the Citadel Asset Valuation (as defined in Section 1.2) exceeds \$30,000,000. "After Acquired Assets" shall mean any assets other than

cash and assets owned by Citadel or its subsidiaries on the date hereof and cash proceeds of the sale thereof. If any assets are excluded by reason of clause (iv) or (v), Reading Entertainment shall determine

in good faith which assets shall be Excluded Assets on such basis. Subject to Section 1.1(e), the Asset Put shall be consummated (the "Closing") on the tenth business day following the Determination Date (as defined below), or such later date as the parties may agree, at the executive offices of Citadel at 10:00 a.m. local time (the "Closing Date"). At the Closing, Citadel shall deliver such

stock powers, assignments, bills of sale, deeds, consents, cash by wire transfer and other instruments of transfer and conveyance as shall be necessary, within the reasonable requirements of Reading Entertainment, to transfer the Citadel Assets to Reading Entertainment and, subject to Section 1.1(c), Reading Entertainment shall deliver to Citadel the Exchange Shares, together with such assumption agreements, acknowledgments and other documents as shall be necessary, within the reasonable requirements of Citadel, to transfer and assign the Citadel Assets to Reading Entertainment and for Reading Entertainment to assume any and all debt encumbering the Citadel Assets.

(b) Subject to Sections 1.1(c) and 1.3, the aggregate number of Exchange Shares to be delivered to Citadel at the Closing shall be determined by dividing the Citadel Asset Valuation by the Common Stock Value, rounded to the nearest whole number of shares.

(c) In the event the issuance to Citadel, upon Citadel's exercise of the Asset Put, of the number of shares of Common Stock determined pursuant to Section 1.1(b) would result in an "owner shift" (as defined in Section 382 of the Internal Revenue Code, as amended (the "Code")) of Reading Entertainment

which, when added to all other "owner shifts" that have occurred during the "testing period," would result in aggregate "owner shifts" that count against the 50 percentage point limit (under Section 382(g) of the Code) in excess of 45 percentage points (the "Owner Shift Threshold"), Reading Entertainment shall

issue to Citadel the maximum number of shares of Common Stock which would not result in the crossing of such Owner Shift Threshold. Reading Entertainment may elect not to issue the shares of Common Stock (the "Excess Shares") which would

exceed the number of shares determined by the preceding sentence. In such case, Reading Entertainment shall either: (i) issue to Citadel debt securities (the

"Debt Securities") in an aggregate principal amount equal to the number of

Excess Shares multiplied by the average of the closing sales prices of Common Stock on the Nasdaq National Market (or, if that shall not be the principal market on which the Common Stock shall be trading or quoted, then on such principal market) (the "Closing Price") for the thirty (30) consecutive trading

days in which trading of the Common Stock occurs immediately preceding the Closing Date (the "Excess Share Value") or (ii) pay to Citadel cash, in

immediately available funds, in an amount equal to the Excess Shares Value (the "Cash Portion"). The economic terms of the Debt Securities, if any, shall be determined by an investment banking firm which shall be independent of Citadel and Reading (the "Independent Investment Banker"), and which shall be chosen by

Reading Entertainment, subject to Citadel's consent (not to be unreasonably withheld). All fees and expenses of, and any other charges incurred by the Independent Investment Banker shall be borne by Reading Entertainment. The form and terms of the Debt Securities shall be as otherwise agreed by Reading Entertainment and Citadel in good faith.

(d) As promptly as practicable after receipt of the Exchange Notice, Reading Entertainment shall notify Citadel whether Reading Entertainment anticipates issuing to Citadel any Debt Securities and, if so, the aggregate principal amount of Debt Securities Reading Entertainment estimates it will issue (provided, that an inaccuracy in such estimate shall not limit Reading Entertainment's right to issue the full amount of Debt Securities permitted to be issued pursuant to Section 1.1(c)). If, within ninety (90) days from the

date of such notice, Citadel notifies Reading Entertainment of Citadel's bona fide intention to sell all, but not less than all, the Debt Securities, if requested by Citadel in such notice, Reading Entertainment shall take all reasonable actions to assist Citadel in the sale of all or any portion of the Debt Securities to a third party or parties and shall, upon consummation of such sale: (i) reimburse Citadel for all out-of-pocket expenses incurred by Citadel in connection with the issuance of the Debt Securities and the negotiation and consummation of such sale, including, without limitation, reasonable fees and expenses of legal counsel, accountants, financial advisors, brokers and investment bankers and

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(ii) pay to Citadel in cash by wire transfer in immediately available funds, the amount by which the net proceeds received by Citadel (without duplication of amounts reimbursed under clause (i) above) from the sale of the Debt Securities is less than the Excess Shares Value.

(e) In the event Citadel's legal counsel advises Citadel that the exercise of the Asset Put and consummation of the transactions contemplated thereby will require the approval of Citadel's stockholders:

(i) Within thirty (30) calendar days of the date of the Exchange Notice, Citadel shall prepare and file with the Securities and Exchange Commission (the "SEC") a proxy statement and related proxy material meeting

the requirements of Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to be mailed to stockholders in connection

with a meeting of the Citadel stockholders (the "Proxy Statement") or as

soon as practicable thereafter, and use its commercially reasonable efforts to clear such materials with the SEC and mail such materials to the Citadel stockholders within sixty (60) calendar days of originally filing such materials with the SEC, or as soon as practicable thereafter. In such event, Citadel covenants that the Proxy Statement at the time of mailing to the Citadel stockholders and at the time of the meeting of stockholders held to approve the consummation of the Asset Put (the "Meeting") will not contain

any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading (other than statements or omissions therein supplied by Reading Entertainment in writing for use therein) and the Proxy Statement will comply as to form in all material respects with the provisions of the Exchange Act.

(ii) Reading Entertainment shall furnish in writing for inclusion in the Proxy Statement such information as may be reasonably necessary to comply with the provisions of the Exchange Act and the rules and regulations thereunder and shall have been requested in writing by Citadel.

(iii) As an additional condition to Citadel's obligation to consummate the Asset Put, Citadel may elect to receive at Citadel's expense, on or prior to the mailing date of the Proxy Statement, an opinion, reasonably satisfactory to Citadel, from a financial advisor selected by Citadel that the consummation of the Asset Put is fair from a financial point of view to Citadel and such opinion shall not have been withdrawn or modified in a manner which is not reasonably satisfactory to Citadel.

(iv) Reading Entertainment and Craig Corporation, a Delaware corporation ("Craig"), agree that any Citadel voting securities which it, or

any of their respective subsidiaries or affiliates, may hold on the record date of any such meeting will be voted to approve the exercise and Closing of the Asset Put.

(v) The Closing shall take place on or before the fifth business day next following the Meeting. If, at any time prior to the Closing Date, it shall be necessary to amend or supplement the Proxy Statement to correct any statement or omission with respect to Citadel, CAC or Reading Entertainment in order to comply with any applicable legal requirements, the appropriate party shall supply in writing the necessary information to Citadel and Citadel shall amend or supplement the Proxy Statement to the extent necessary to comply with applicable legal requirements.

(f) The risk of loss or damage by fire or other casualty or cause to the Citadel Assets until the Closing shall be upon Citadel. In the event of loss or damage to a material amount of any

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Citadel Assets following Citadel's delivery of the Exchange Notice and prior to the Closing, Citadel shall promptly notify Reading Entertainment in writing of such event describing with such particularity as is possible the extent of such loss or damage and the extent to which such loss or damage may be covered by any insurance policy of Citadel. Within ten (10) days after receipt of written notice from Citadel of such loss or damage, Reading Entertainment shall, at its option, either (i) have Citadel assign to Reading Entertainment at the Closing all insurance proceeds to which Citadel would be entitled as a result of such loss or damage or (ii) exclude such assets from the Citadel Assets; provided that Reading Entertainment shall have no right to exclude such assets under this Section 1.1(f) if Citadel promptly repairs the damaged asset substantially to its previous condition. If any assets are substituted or excluded pursuant to this Section 1.1(f), the Citadel Asset Valuation shall be adjusted accordingly.

1.2 Citadel Asset Valuation.

(a) (i) The Exchange Notice shall set forth the name and address of a qualified Member of Appraisal Institute ("MAI") real estate appraiser to appraise the value of real estate assets which are part of the Citadel Assets (the "Real Estate Assets") and a qualified appraiser to appraise the

value of the non-real estate assets, if any, which are part of the Citadel Assets (the "Non-Real Estate Assets"), each appraiser chosen by Citadel

(the "Citadel Appraisers") (such aggregate value being referred to as the

"Citadel Asset Valuation"). Within fifteen (15) business days of the date

of the Exchange Notice, Reading Entertainment shall give Citadel notice of the names and addresses of a qualified MAI real estate appraiser to appraise the value of the Real Estate Assets and a qualified appraiser to appraise the value of the Non-Real Estate Assets, each chosen by Reading Entertainment (the "Reading Entertainment Appraisers"). Each of the Citadel

Appraisers and Reading Entertainment Appraisers (collectively, the "Appraisers") shall value the Citadel Assets to be appraised by them as of

the date the last of the Appraisers is retained (the "Valuation Date"). The

Appraisers shall be requested to separately appraise any After Acquired Assets. The Appraisers, in appraising any Citadel Assets, shall take into account any liabilities (including, without limitation, contingent or environmental liabilities) relating to or encumbering such Citadel Assets and the "value" thereof shall be determined net of any such liabilities which will encumber the Citadel Assets following the Closing. Any mortgage debt relating to any asset shall be deemed to be a liability equal to its outstanding principal amount as of the Valuation Date, which amount shall be deducted (without duplication) from the value otherwise attributable to such asset, unless such debt is repaid by Citadel at or prior to the Closing.

(ii) Within thirty (30) days of the date of the Exchange Notice, Citadel and Reading Entertainment shall cause the Citadel and the Reading Entertainment Appraisers, respectively, to deliver to both Reading Entertainment and Citadel their respective appraisal reports setting forth the value of the Citadel Assets appraised by them. Thereafter, Reading Entertainment and Citadel agree to use their best efforts to agree on the Citadel Asset Valuation and the value of the After Acquired Assets (such value of the After Acquired Assets being the "After Acquired Asset Valuation;" the excess of the Citadel Asset Valuation over the After

Acquired Asset Valuation is hereinafter referred to as the "Existing Asset Valuation"). If an agreement on both valuations can be reached within five

(5) business days of the latest to be delivered of the Appraisers' reports,

those valuations shall be the Citadel Asset Valuation and After Acquired Asset Valuation. If no agreement on either or both such matters can be reached within such five (5) business day period, the parties shall select and jointly engage, a third set of appraisers (the "Third Appraisers") who

shall be directed, as promptly as practicable, to value the Citadel Assets as of the Valuation Date and shall affirm the valuation of either the Reading Entertainment Appraisers or the Citadel Appraisers. Such determination by the Third Appraisers shall be binding upon Citadel and Reading Entertainment and the valuations affirmed by the Third Appraisers shall be the Citadel Asset Valuation and After Acquired Asset Valuation. The date when the Citadel Asset

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Valuation and After Acquired Asset Valuation are determined as provided above shall be the "Determination Date."

(iii) If required by either Citadel or Reading Entertainment, the parties shall request the Appraisers to update their procedures, as set forth above, to a date not later than forty-five (45) days prior to the anticipated Closing Date, which date shall thereupon become the Valuation Date. Upon delivery of such reports, Citadel and Reading Entertainment shall, to the extent necessary as a result of any difference in such reports from the original reports of the Appraisers, repeat the procedures set forth in Section 1.2(a)(ii), and the dates and valuations, determined by such repeated procedures, shall be substituted for the dates and valuations as originally determined.

(iv) With respect to the liabilities encumbering or relating to the Citadel Assets which require the consent of the other party for the assignment of such liabilities to Reading Entertainment, at or prior to the Closing, Citadel and Reading Entertainment shall cooperate with each other to obtain any such consent. In the event any such consent cannot be obtained, Reading Entertainment shall, at its own expense, refinance any or all of such debt to permit the transfer of such assets to Reading Entertainment.

(v) Citadel shall be entitled to all income earned or accrued and shall be responsible for all liabilities and obligations incurred or payable in connection with the Citadel Assets through the close of business on the Closing Date and Reading Entertainment shall be entitled to all income earned or accrued and shall be responsible for all assumed liabilities incurred or payable in connection with the Citadel Assets after the close of business on the Closing Date. At the Closing, all assumed liabilities, accrued but unpaid expenses (including accrued interest) and prepaid expenses relating to the Citadel Assets shall be apportioned between Reading Entertainment and Citadel in accordance with generally accepted accounting principles ("GAAP") as of the close of business on the

Closing Date and the Citadel Asset Valuation shall be adjusted accordingly. The Citadel Asset Valuation shall also be adjusted for changes in the principal amount of any indebtedness to be assumed by Reading Entertainment between the Valuation Date and the Closing Date; provided however, that in the event Reading Entertainment refinances any such debt at the Closing, the Citadel Asset Valuation shall be determined immediately prior to the repayment or refinance of such debt. At or prior to the Closing, the parties will prepare a preliminary closing statement which shall set forth the final Citadel Asset Valuation and specify on a preliminary basis all adjustments to the Citadel Asset Valuation between the Valuation Date and the Closing Date. Promptly following the Closing, the parties will finalize such closing statement, making such adjustments as may be appropriate.

(b) If the parties are unable to agree upon the Third Appraisers within the time periods set forth above, either Reading Entertainment or Citadel, by giving seven (7) days written notice to the other, may apply to the American Arbitration Association for the purpose of selecting the Third Appraisers and the parties agree that the decision of the American Arbitration Association selecting the Third Appraisers shall be final and binding.

(c) Citadel and Reading Entertainment shall each be responsible for the fees and expenses of its own Appraisers. The fees and expenses of the Third Appraisers, if required, shall be paid by the party whose valuation is rejected

and not affirmed by the Third Appraisers.

(d) The Citadel Assets shall be valued at their fair market value as the assets are then constituted, assuming a willing buyer and a willing seller dealing at arms-length and unaffiliated with the other.

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(e) All Real Estate Assets may be transferred to Reading Entertainment subject to all debt encumbering or related to such assets, which shall, in such event, be taken into consideration in connection with the valuation of the Real Estate Assets.

(f) Citadel shall pay and be responsible for any transfer taxes or fees or prepayment penalties payable as a result of the transfer of the Citadel Assets. Reading Entertainment shall reimburse Citadel at the Closing or credit Citadel in computing the Citadel Asset Valuation for the amount of any liability incurred by Citadel for assumption fees relating to the assumption of any debt encumbering the Citadel Assets.

1.3 Common Stock Valuation.

(a) Subject to Section 1.3(b), the "Common Stock Value" shall be calculated as follows:

(i) The Common Stock Value with respect to the first \$20,000,000 of Existing Assets Valuation shall be (A) \$11.75 per share if the Exchange Notice is given on or before October 31, 1997 or (B) \$12.25 per share if the Exchange Notice is after October 31, 1997.

(ii) The Common Stock Value with respect to the excess of the Existing Assets Valuation over \$20,000,000, and with respect to the After Acquired Asset Valuation up to \$5,000,000, shall be the average of the Closing Prices for the thirty (30) consecutive trading days in which trading of Common Stock occurs immediately preceding the Closing Date (the "FMV Value")

(iii) Unless Reading Entertainment shall consent, Citadel shall not be entitled to exchange After Acquired Assets to the extent the After Acquired Asset Valuation is in excess of \$5,000,000.

(iv) Unless Reading Entertainment shall consent, Citadel shall not be entitled to exchange Citadel Assets to the extent the Citadel Asset Valuation exceeds \$30,000,000.

(b) In the event the average of the Closing Price over any sixty (60) consecutive calendar days exceeds 130% of the Common Stock Value then in effect under Section 1.3(a)(i), Reading Entertainment may, at its option, give Citadel notice of such event. If Citadel does not deliver the Exchange Notice within 120 days of such notice, the Common Stock Value for all purposes shall then be the FMV Value.

1.4 Conditions to Asset Put Closing.

(a) The obligation of Citadel to convey the Citadel Assets to Reading Entertainment as provided in Section 1.1 of this Agreement is subject to the fulfillment, on or before the Closing Date, of each of the following conditions (unless waived by the written consent of Citadel):

(i) Reading Entertainment shall deliver to Citadel a stock certificate representing the Exchange Shares and such shares shall be validly issued, fully paid and non-assessable, not subject to any preemptive or similar right (other than as set forth in Reading Entertainment's Certificate of Incorporation), and free and clear of any adverse claims whatsoever;

(ii) Reading Entertainment shall deliver to Citadel certificates representing the Debt Securities, if any, and the Debt Securities, when delivered and paid for in accordance with

the Agreement, will be legal, valid and binding obligations of Reading Entertainment, enforceable in accordance with their terms, and free and clear of any liens, charges or other encumbrances;

(iii) Reading Entertainment shall deliver to Citadel the Cash Portion, if any;

(iv) Reading Entertainment shall deliver to Citadel such assumption agreements, acknowledgments and other documents as Citadel may reasonably request, in such form as shall be reasonably satisfactory to Citadel, to transfer the Citadel Assets to Reading Entertainment and for Reading Entertainment to assume the debt encumbering the Citadel Assets, including without limitation, any currently existing mortgages and then existing leases;

(v) The representations and warranties of Reading Entertainment contained in Article Three shall be true in all material respects at and as of the date hereof and as of the Closing Date as if made at and as of the Closing Date and as if made with respect to the issuance of the Exchange Shares and Debt Securities, if any, except for any changes therein which (x) have been disclosed by Reading Entertainment in reports or statements filed by it under the Exchange Act, prior to the date of the Exchange Notice or (y) have otherwise been disclosed by Reading Entertainment to Citadel and, in the case of this clause (y), are reasonably acceptable to Citadel; Reading Entertainment shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Article One to be performed or complied with prior to or at the Closing Date; and Reading Entertainment shall have delivered to Citadel a certificate dated the Closing Date and signed by its President or Chief Financial Officer to the effect set forth in this subparagraph;

(vi) There shall not be in effect (x) any order or decision of a court of competent jurisdiction or governmental agency or authority or (y) any action or proceeding commenced by or before any court, governmental agency or authority or threatened by any governmental agency or authority that enjoins, restrains or prohibits or seeks to enjoin, restrain or prohibit the consummation of the transactions provided in Section 1.1 of this Agreement;

(vii) All consents to the assignment of any contracts to be assigned to Reading Entertainment requiring the consent of the other party thereto shall have been obtained pursuant to written instruments satisfactory to Citadel or waived by Reading Entertainment; and

(viii) If required, the consummation of the Asset Put shall have been validly adopted at the Meeting by the affirmative vote of the holders of at least a majority of the votes cast by the Citadel stockholders entitled to vote on the matter, and the Meeting shall have been duly called with a quorum present.

(b) The obligation of Reading Entertainment to issue the Exchange Shares and Debt Securities, if any, to Citadel as provided in Section 1.1 of this Agreement is subject to the fulfillment, on or before the Closing Date, of each of the following conditions (unless waived by the written consent of Reading Entertainment):

(i) Citadel shall deliver to Reading Entertainment such stock powers, assignments, bills of sale, deeds, title insurance policies, consents, cash by wire transfer and other instruments of transfer and conveyance as Reading Entertainment may reasonably request, in such form as shall be reasonably satisfactory to Reading Entertainment;

(ii) The representations and warranties of Citadel contained in Article Three shall be true in all material respects at and as of the date hereof and as of the Closing Date as if

made at and as of the Closing Date; Citadel shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Article One to be performed or complied with by

Citadel prior to or on the Closing Date; and Citadel shall have delivered to Reading Entertainment a certificate dated the Closing Date and signed by its President or its Chief Financial Officer to the effect set forth in this subparagraph;

(iii) There shall not be in effect (x) any order or decision of a court of competent jurisdiction or governmental agency or authority or (y) any action or proceeding commenced by or before any court, governmental agency or authority or threatened by any governmental agency or authority that enjoins, restrains or prohibits or seeks to enjoin, restrain or prohibit the consummation of the transactions provided in Section 1.1 of this Agreement;

(iv) All consents to the assignment of any contracts to be assigned to Reading Entertainment requiring the consent of the other party thereto shall have been obtained pursuant to written instruments satisfactory to Reading Entertainment or waived by Citadel;

(v) Citadel shall have made such filing with, and obtained such consents of, such governmental agencies as shall be required to be made or obtained by Citadel to effect the transfer of the Citadel Assets to Reading Entertainment; and

(vi) All title insurance policies on the Real Estate Assets, as Reading Entertainment shall reasonably determine as necessary (and which shall be obtained at Reading Entertainment's expense), shall not be subject to any encumbrances other than encumbrances disclosed to and taken into account by the Appraisers in determining the Citadel Asset Valuation.

(c) (i) In the event Citadel's acquisition of the Exchange Shares and Debt Securities, if any, shall be in connection with a plan of distribution of such Exchange Shares and Debt Securities to Citadel's stockholders or the reorganization, restructuring, recapitalization, liquidation, dissolution or winding up of Citadel, Reading Entertainment shall, at its own expense, prepare a registration statement, information statement or other documents and take such actions covering or otherwise relating to the Exchange Shares and Debt Securities, if any, as may be required under the Act and any other applicable state or federal securities law for Citadel to consummate such plan of distribution, reorganization, restructuring, recapitalization, liquidation, dissolution or winding up.

(ii) In the event Citadel's acquisition of the Exchange Shares and Debt Securities, if any, are not in connection with such a plan, reorganization, restructuring, recapitalization, liquidation, dissolution or winding up, Citadel shall deliver an investment representation by Citadel with respect to the Exchange Shares and Debt Securities, if any, in form and substance equivalent to the investment representation made by CAC with respect to the Series A Preferred Stock set forth in Section 5.7 of the Exchange Agreement.

ARTICLE TWO

REGISTRATION RIGHTS

2.1 Definitions. For purposes of this Article Two only, the following definitions shall apply.

(a) The terms "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Act and the declaration or ordering of effectiveness of such registration statement by the SEC.

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(b) The term "Registrable Securities" refers to the Conversion Shares and the Exchange Shares owned by (or issuable upon conversion of shares of Series A Preferred Stock owned by) the Holders, except that the Conversion Shares and the Exchange Shares shall cease to be Registrable Securities at the earliest date when (i) a registration statement with respect to the sale of such shares has become effective under the Act and the shares have been disposed of in accordance with such registration statement; (ii) such shares may be sold to the public pursuant to paragraph (k) of Rule 144 under the Act ("Rule 144") or

any successor provision; (iii) such shares shall have been transferred (under Rule 144 or otherwise), new certificates for the shares not bearing a legend restricting further transfer (other than as provided in Reading Entertainment's Certificate of Incorporation) shall have been delivered by Reading Entertainment and subsequent disposition of the shares does not require registration or qualification under the Act or state law then in force in the opinion of legal counsel for Reading Entertainment; or (iv) such shares cease to be outstanding.

(c) The term "Holder" means a holder of record of Registrable

Securities on the books and records of Reading Entertainment which is either CAC, Citadel (if it exercises the Asset Put), or an assignee of a Holder who succeeds to the rights as a Holder in accordance with Section 2.9 hereof.

(d) The number of shares of "Registrable Securities then outstanding"

shall be determined by the number of shares of Common Stock which are Registrable Securities and the number of shares of Common Stock issuable pursuant to then convertible securities which are convertible into Registrable Securities.

2.2 Request for Registration.

(a) Subject to Sections 2.2(b) and 2.2(c), if Reading Entertainment shall receive a written request (specifying that it is being made pursuant to this Article Three), from Holders of a majority of the Registrable Securities then outstanding, that Reading Entertainment file a registration statement under the Act, or a similar document pursuant to any other statute then in effect corresponding to the Act, covering the registration of at least a majority of the Registrable Securities then outstanding, then Reading Entertainment shall, within ten (10) business days of the receipt thereof, give written notice of such request to all Holders at their respective addresses and shall file as soon as practicable, and in any event within sixty (60) days of the receipt of such request, a registration statement under the Act covering all Registrable Securities which the Holders request to be registered within 30 days of the mailing of such notice to all Holders.

(b) Notwithstanding the foregoing, (i) Reading Entertainment shall not be obligated to effect a registration pursuant to this Section 2.2 during the period starting with the date 60 days prior to Reading Entertainment's estimated date of filing of, and ending on a date six months following the effective date of, a registration statement pertaining to an underwritten public offering of securities for the account of Reading Entertainment, provided that Reading Entertainment is actively employing in good faith all reasonable efforts to cause such registration statement to become effective and that Reading Entertainment's estimate of the date of filing such registration statement is made in good faith; (ii) if Reading Entertainment shall furnish to the Holders initiating the registration request hereunder (the "Initiating Holders") a

certificate signed by the President of Reading Entertainment stating that in the good faith judgment of the Board of Directors it would be seriously detrimental to Reading Entertainment or its shareholders for a registration statement to be filed in the near future, then Reading Entertainment's obligation to file a registration statement shall be deferred for a period not to exceed six months; provided, however, that Reading Entertainment may furnish such a certificate to the Initiating Holders only once in any one-year time period, and (iii) if the managing underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders which would otherwise be underwritten pursuant hereto, and the

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number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Holders thereof in proportion to the amount of Registrable Securities owned by each Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

(c) Reading Entertainment shall be obligated to effect only two registrations pursuant to this Section 2.2, provided however, that if the

Holders who demand registration under this Section 2.2 are unable to register at least ninety percent (90%) of the Registrable Securities requested to be included in such registration, then the number of registrations which Reading Entertainment shall be obligated to effect under this Section 2.2 shall be increased by one.

2.3 "Piggyback" Registration.

(a) Subject to Section 2.3(b), if at any time Reading Entertainment determines to register (including for this purpose a registration effected by Reading Entertainment for stockholders other than the Holders) any shares of Common Stock under the Act in connection with the public offering of such securities solely for cash on an SEC Form that would also permit the registration of the Registrable Securities (other than Forms S-4 and S-8), Reading Entertainment shall, each such time while Registrable Securities are outstanding, promptly give each Holder written notice of such determination. Upon the written request of each Holder given within 20 days after mailing of any such notice by Reading Entertainment, Reading Entertainment shall, subject to the provisions of Section 2.7, cause to be registered under the Act all of the Registrable Securities that each such Holder has requested be registered; provided however, that Reading Entertainment shall not be required to proceed with such registration if the offering is abandoned in its entirety and no other securities are offered for sale.

(b) Reading Entertainment shall not be required under this Section 2.3 to include any Registrable Securities in such underwriting unless the Holders accept reasonable and customary terms of the underwriting as agreed upon between Reading Entertainment and the underwriters selected by it.

2.4 Obligations of Reading Entertainment. Notwithstanding any other

provision hereof, whenever required under this Article Two to effect the registration of any Registrable Securities, Reading Entertainment shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, to keep such registration statement effective for up to 90 days.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be necessary for the Holders to dispose of the Registrable Securities, provided that Reading Entertainment shall not be required in connection therewith or as a condition thereto to qualify to do

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business or to file a general consent to service of process or subject itself to taxation in any such states or jurisdictions.

(e) Enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter, if any, of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in

effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Article Two, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Article Two, (i) an opinion, dated such date, of the counsel representing Reading Entertainment for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters and to the Holders requesting registration of Registrable Securities and (ii) a letter dated such date, from the independent certified public accountants of Reading Entertainment, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters and to the Holders requesting registration of Registrable Securities.

(h) Make generally available to its stockholders an earnings statement satisfying the provisions of Section 11(a) of the Act (including by means of satisfying the provisions of Rule 158 under the Act) as soon as reasonably practical covering the 12-month period beginning with the first month of Reading Entertainment's first fiscal quarter commencing after the effective date of the registration statement.

(i) Whenever any notice is required to be given under this Article Two, such notice may be given personally or by mail. Any notice given to a Holder shall be sufficient if given to the Holder at the last address set forth for such Holder on the stock transfer records of Reading Entertainment. Any notice given by mail shall be deemed to have been given when deposited in the United States mail with postage thereon prepaid.

2.5 Furnish Information. The selling Holders shall furnish to

Reading Entertainment such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to effect the registration of the Registrable Securities.

2.6 Expenses of Registration. All expenses other than underwriting

discounts and commission incurred in connection with any registration, filing or qualification pursuant to Sections 2.2 and 2.3, including, without limitation, all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for Reading Entertainment, and the reasonable fees and disbursements of a single counsel for the selling Holders selected by the Holders of a majority of the Registrable Securities then outstanding shall be borne by Reading Entertainment; provided, however, that Reading Entertainment shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2.2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses), unless, at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of Reading Entertainment from that known to the Holders

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at the time of their request, in which case the Holders shall not be required to pay any such expenses and shall retain all rights pursuant to Section 2.2.

2.7 Underwriting Requirements. In connection with any offering

involving an underwriting of shares being issued by Reading Entertainment, Reading Entertainment shall not be required under Section 2.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between Reading Entertainment and the underwriters selected by it, and then only in such quantity as will not, in the reasonable opinion of the underwriters, jeopardize the success of the offering by Reading Entertainment. If the total amount of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the amount of securities to be sold other than by Reading Entertainment that the underwriters reasonably believe compatible with the success of the offering, then Reading Entertainment shall be required to include in the offering only

that number of such securities, including Registrable Securities, which the underwriters believe will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling stockholders according to the total amount of securities entitled to be included therein owned by each selling stockholder or in such other proportions as shall mutually be agreed to by such selling stockholders); provided, however, that in no event shall any securities of selling Holders be excluded until all securities of selling employees of, or consultants and advisors to, Reading Entertainment are excluded.

2.8 Indemnification and Contribution. In the event any Registrable

Securities are included in a registration statement under this Article Two:

(a) To the extent permitted by law, Reading Entertainment will indemnify and hold harmless each Holder, the officers and directors of each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the Exchange Act, against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively, a "Violation"): (i) any untrue statement or alleged untrue statement of a material

fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by Reading Entertainment of the Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Act, the Exchange Act or any state securities law; and Reading Entertainment will reimburse each such Holder, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that Reading Entertainment shall not be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon (x) a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, officer, director or controlling person of such Holder or underwriter or (y) any untrue statement or alleged untrue statement made in, or omission or alleged omission from, any preliminary prospectus or final prospectus, if the final prospectus or the final prospectus as amended or supplemented, respectively, which shall have been furnished, to the underwriter or Holder claiming indemnification, prior to the time such underwriter sent written confirmation of or the Holder made such sale to the person alleging such statement, alleged statement, omission or alleged omission, does not contain such statement, alleged statement, omission or alleged omission and a copy of such final prospectus or such prospectus as amended or supplemented, respectively, shall not have been sent or given to such person; and provided, further, that in no case shall Reading Entertainment be liable for amounts paid in settlement of any such loss, claim, damage, liability,

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or action if such settlement is effected without the written consent of Reading Entertainment, which consent shall not be unreasonably withheld.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless Reading Entertainment, each of its directors, each of its officers who have signed the registration statement and any underwriters, against any losses, claims, damages or liabilities (joint or several) to which Reading Entertainment or any such director, officer, controlling person or underwriter may become subject, under the Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by or on behalf of such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by Reading Entertainment or any such director, officer, controlling person or underwriter in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement

contained in this Section 2.8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided further that, in no event shall any indemnity under this Section 2.8(b) exceed the net proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually reasonably satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding.

(d) In order to provide for just and equitable contribution under the Act in any case in which (i) any indemnified party makes claim for indemnification pursuant to this Section 2.8, but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact the express provisions of this Section 2.8 provide for indemnification, or (ii) contribution under the Act may be required on the part of any indemnified party; then the indemnifying party in lieu of indemnifying such indemnified party hereunder shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities, in such proportion as is appropriate to reflect the relative fault of the indemnifying parties on the one hand and of the indemnified parties on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the indemnifying parties and of the indemnified parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party, or by the indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The parties further agree that it would not be just and equitable if contribution pursuant to this Section 2.8(d) were determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the immediately preceding paragraph.

The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities or actions in respect thereof referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 2.8(d), in no event shall any contribution under this Section 2.8(d) exceed the net proceeds from the offering received by such Holder. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The obligations of Reading Entertainment and Holders under this Section 2.8 shall survive the completion of any offering of Registrable Securities in a registration statement under this Article Two.

2.9 Assignment of Registration Rights. The rights to cause Reading

Entertainment to register Registrable Securities pursuant to this Article Two may be assigned by a Holder to any transferee or assignee of any amount of such securities; provided, in each case that (i) Reading Entertainment is, within a reasonable time after such transfer, furnished with written notice of the name

and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (ii) such assignment shall be effective only if, immediately following such transfer, the further disposition of such securities by the transferee or assignee is restricted under the Act and (iii) the transferee or assignee agrees in writing to assume all the obligations of the transferor under this Article Two.

2.10 Limitations on Subsequent Registration Rights. From and after

the date of this Agreement, Reading Entertainment shall not, without the prior written consent of the Holders of a majority of the outstanding Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of Reading Entertainment which would allow such holder or prospective holder (a) to include such securities in any registration filed under Section 2.2 hereof, unless, under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of its securities will not reduce the amount of the Registrable Securities of the Holders which is included or (b) to make a demand registration which could result in such registration statement being declared effective within 120 days of the effective date of any registration effected pursuant to Section 2.2.

2.11 Amendment of Registration Rights. Any provision of this Article

Two may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of Reading Entertainment and the holders of a majority of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this Section 2.11 shall be binding upon each Holder of Registrable Securities, each future holder of all such securities and Reading Entertainment.

ARTICLE THREE

REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of Reading Entertainment. Reading

Entertainment hereby represents and warrants to each of Citadel and CAC as follows:

(a) The representations and warranties of Reading Entertainment set forth in Section 3 of the Exchange Agreement are hereby incorporated by reference and are true and correct in all respects; and

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(b) The representations and warranties of Reading Entertainment set forth in Section 3 of the Exchange Agreement relating to the Exchange Agreement and the consummation of the transactions contemplated thereby are true and correct in all respects as if made with respect to this Agreement and the consummation of the transactions contemplated hereby, other than, with respect to Section 3.6 of the Exchange Agreement, as required by Article Two hereof and other than any consent, approval, order, authorization, registration, declaration, or filing with a governmental authority which may be required to consummate the transactions contemplated by Article One hereof.

3.2 Representations and Warranties of Citadel and CAC. Citadel and

CAC hereby jointly and severally represent and warrant to Reading Entertainment as follows:

(a) The representations and warranties of each of Citadel and CAC set forth in Section 5 of the Exchange Agreement (except Section 5.5) are hereby incorporated by reference and are true and correct in all respects; and

(b) The representations and warranties of Citadel and CAC set forth in Section 5 of the Exchange Agreement relating to the Exchange Agreement and the consummation of the transactions contemplated thereby are true and correct in all respects as if made with respect to this Agreement and the consummation of the transactions contemplated hereby, other than, with respect to Sections 5.1 and 5.3 of the Exchange Agreement, representations and warranties relating to or necessary in connection with approval of the stockholders of Citadel, which if required, will be obtained on or prior to the Closing Date.

ARTICLE FOUR

READING ENTERTAINMENT CHANGE OF CONTROL

4.1 Redemption By Reading Entertainment. In the event of any "Change

in Control" (as defined in Reading Entertainment's Certificate of Designation, Preferences and Rights of the Series A Preferred Stock and Reading Entertainment's Series B Voting Cumulative Convertible Preferred Stock (the "Certificate")), Reading Entertainment shall not be entitled to redeem any

Series A Preferred Stock held by Citadel, CAC or any of their respective affiliates pursuant to the first sentence of Section 5.1(a) of the Certificate unless, prior to or simultaneously with such redemption, Craig assumes, pursuant to an assumption agreement in form and substance satisfactory to Citadel in its reasonable discretion, all obligations of Reading Entertainment under Articles One, Two (as it relates to the Exchange Shares) and Five hereunder. Notwithstanding the foregoing, such assumption agreement by Craig shall provide:

(a) In lieu of Common Stock, Citadel will be entitled to exchange the Citadel Assets (to the extent it would otherwise have been entitled to exchange the Citadel Assets for Common Stock) for Craig's Class A Common Preference Stock, par value \$0.01 per share ("Craig Stock"),

(b) For purposes of Section 1.3(a)(i), the Common Stock Value shall be determined by multiplying: (i) the average of the Closing Prices of the Craig Stock for the twenty (20) consecutive trading days on which trading of the Craig Stock occurs immediately prior to the date of the event which results in such Change of Control (the "Change of Control Date") by (ii) a fraction, the

denominator of which shall be the Closing Price of the Common Stock on the Change of Control Date and the numerator of which shall be the applicable Common Stock Value of the Common Stock under Section 1.3(a)(i). For all other purposes, in determining the "Common Stock Value" with respect to the Craig Stock, Craig and the Craig Stock shall be deemed substituted for Reading Entertainment and the Common Stock.

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(c) Craig shall represent and warrant to Citadel and CAC as to the matters covered by the representations and warranties of Reading Entertainment set forth in Article Three as if made by Craig with respect to such assumption agreements, this Agreement and the consummation of the transactions covered thereby and hereby.

(d) References to the representations and warranties of Reading Entertainment in Section 1.4(a)(v) shall refer to representations and warranties of Craig as if made by Craig with respect to Craig.

ARTICLE FIVE

GENERAL PROVISIONS

5.1 General Provisions.

(a) Subject to Section 2.4(i), all notices, requests, demands or other communications required or authorized or contemplated to be given by this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt, upon receipt of a facsimile transmission, when deposited in the United States mails (first class postage prepaid) or when deposited with Federal Express, and addressed as provided in Section 10.2 of the Exchange Agreement or to such other address and fax number as any of the parties hereto may from time to time designate in writing, prior to the giving of such notice.

(b) Except as set forth in Article Two, no amendment or waiver of any provision of this Agreement shall in any event be effective, unless the same shall be in writing signed by the parties hereto, and then such amendment, waiver or consent shall be effective only in a specific instance and for the specific purpose for which given.

(c) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute

one and the same Agreement.

(d) Except as set forth in Article Two, this Agreement shall not be assigned by any party without the prior written consent of the other party hereto.

(e) This Agreement and the documents and agreements referred to herein contain the entire understanding among the parties with respect to the transactions contemplated hereby and supersede all prior and contemporaneous agreements and understandings whether oral or written, relating to the subject matter hereof.

(f) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, notwithstanding any Delaware or other conflict-of-law provisions to the contrary.

(g) Each party hereto shall execute and deliver such further agreements and instruments, and take such further actions, as the other party may reasonably request in order to carry out the purpose and intent of this Agreement.

(h) Except as provided in Section 1.2, should any party institute any arbitration, action, suit or other proceeding arising out of or relating to this Agreement, the prevailing party shall be entitled to receive from the losing party reasonable attorneys' fees and costs incurred in connection therewith.

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(i) Other than as specifically provided herein, each party shall bear its own costs and expenses (including fees and disbursements of legal counsel) incurred in connection with the consummation of the transactions provided for herein.

(j) No party, nor its respective counsel, shall be deemed the drafter of this Agreement for purposes of construing the provisions of this Agreement, and all language in all parts of this Agreement shall be construed in accordance with its fair meaning, and not strictly for or against any party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

READING ENTERTAINMENT, INC.

By: /s/ S. Craig Tompkins

Name: S. Craig Tompkins

Its: President

CITADEL ACQUISITION CORP., INC.

By: /s/ Steve Wesson

Name: Steve Wesson

Its: President

CITADEL HOLDING CORPORATION

By: /s/ Steve Wesson

Name: Steve Wesson

Its: President

Acknowledged and agreed, as to the matters set forth in Section 1.1(e) (iv) and Article Four:

CRAIG CORPORATION

By:/s/ Craig Tompkins

Name: Craig S. Tompkins

Its: President

CERTIFICATE OF DESIGNATIONS, PREFERENCES AND RIGHTS
 OF
 SERIES A VOTING CUMULATIVE CONVERTIBLE PREFERRED STOCK
 AND
 SERIES B VOTING CUMULATIVE CONVERTIBLE PREFERRED STOCK
 OF
 READING ENTERTAINMENT, INC.

Reading Entertainment, Inc., a Delaware corporation (the "Corporation"), hereby certifies that, pursuant to the authority contained in Article FOURTH of its Certificate of Incorporation, and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Corporation's Board of Directors has duly adopted the following resolution creating two series of its Preferred Stock, \$.001 par value per share, designated as Series A Voting Cumulative Convertible Preferred Stock and Series B Voting Cumulative Convertible Preferred Stock:

RESOLVED, that two series of the class of the authorized Preferred Stock of the Corporation be created hereby, and that the designations and amounts thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of each such series, and the qualifications, limitations or restrictions thereof, are as follows:

1. Designations and Numbers of Shares. Seventy thousand (70,000)

 shares of the Preferred Stock of the Corporation are hereby constituted as a series of Preferred Stock, \$.001 par value per share, and designated as "Series A Voting Cumulative Convertible Preferred Stock" (hereinafter called the "Series A Stock") and five hundred fifty thousand (550,000) shares of the Preferred Stock of the Corporation are hereby constituted as a series of Preferred Stock, \$.001 par value per share, and designated as "Series B Voting Cumulative Convertible Preferred Stock" (hereinafter called the "Series B Stock"; the Series A Stock and the Series B Stock are hereinafter collectively called the "Convertible Preferred Stock").

2. Liquidation. Upon any voluntary or involuntary dissolution,

 liquidation or winding up of the Corporation (a "Liquidation"), the holder of each share of each series of Convertible Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, before any distribution of assets shall be made to the holders of Common Stock of the Corporation or to the holders of other stock of the Corporation that ranks junior to such series of the Convertible Preferred Stock in respect to distributions upon a Liquidation of the Corporation ("Junior Stock"), an amount equal to \$100 per share (the "Stated Value"), plus an amount equal to all dividends (whether or not declared or due) accrued and unpaid on such share on the date fixed for distribution of assets of the Corporation to the holders of the Convertible Preferred Stock. The Series B Stock shall rank junior to the Series A Stock in right to distributions on Liquidation and shall be "Junior Stock" with respect to the Series A Stock. Neither a consolidation or merger of the Corporation with or into any other entity, nor a merger of any other entity with or into the Corporation, nor a sale or transfer of all or any part of the Corporation's assets for cash or securities or any other property, shall be

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considered a Liquidation. Written notice of any Liquidation shall be given to the holders of the Convertible Preferred Stock not less than thirty days prior to any payment date stated therein.

3. Dividends.

3.1 The holders of Convertible Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, but only out of surplus and capital legally available for the payment of dividends, cumulative dividends at the annual rate of \$6.50 per each share of Series A Stock, and at the annual rate of \$6.50 per each share of Series B Stock ("Regular Dividends"), in each case before any dividends or other distributions (other than dividends in Common Stock or any other stock which ranks junior in respect to such series of the Convertible Preferred Stock in respect to dividends) are paid to the holders of the Common Stock or any other stock which is Junior Stock with respect to such series. The Series B Stock shall rank junior to the Series A Stock in right to dividends and shall be "Junior Stock" with respect to the Series A Stock. Such dividends shall accumulate on each share of Convertible Preferred Stock from the date of its original issuance and from day to day and shall be payable (subject to declaration by the Board of Directors and the existence of surplus and capital legally available for the payment of such dividends) in equal quarterly installments on the last day of March, June, September and December of each year (except that, if such date is not a business day, the dividend shall be payable on the first immediately succeeding business day); provided, however, that the initial quarterly dividend

payment payable on any share of Convertible Preferred Stock shall be an amount equal to the product determined by multiplying the Regular Dividend for a quarter by a fraction, the numerator of which is the number of days from (but not including) the date of issuance of such share to the end of the dividend quarter during which such share of Convertible Preferred Stock is issued and the denominator of which is the total number of days in such dividend quarter.

3.2 Dividends at the rate specified in Section 3.1 hereof shall accumulate whether or not they have been declared and whether or not there is surplus and capital legally available for the payment of dividends.

3.3 To the extent any dividends on the Convertible Preferred Stock accumulate and are in arrears, such dividend shall not bear interest.

4. Conversion Rights.

4.1(a) Shares of Series A Stock may be converted, at the option of the holder thereof, in whole or in part, upon delivery of a certificate representing such shares to the Corporation, together with a notice specifying the number of shares to be converted (the date of such delivery, or of delivery of shares of Series B Stock on conversion thereof as hereinafter provided, is hereinafter referred to as the "Conversion Date"), (i) at any time after the date which is 18 months after the first issuance of the Convertible Preferred Stock (the date of such first issuance being the "Original Issue Date") or (ii) at any time prior to the later of (A) the 90th day after the earliest event constituting a Change in Control (as hereinafter defined) and (B) the 30th day after the consummation of the transaction the announcement of which constituted such Change in Control (the period from the date of such Change in Control to the later of such 90th or 30th day being the "Change in Control Period"). A "Change in Control" shall mean the occurrence of either of the following events: (x) any person, entity or "group" (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, and the rules thereunder) other than Craig Corporation and its successors and affiliates (collectively, "Craig"), shall publicly announce or disclose having entered into a transaction as a result of which such person, entity or group would acquire beneficial ownership of 50% or more of the outstanding Common Stock or securities entitling such person, entity or group to cast 50% or more of the votes entitled to be cast at any regular election of directors of the Corporation (where "affiliate" of a person means a person directly or indirectly controlling, controlled by or under common control with such person and "control" means the power to direct the affairs of such person by reason of ownership of voting securities, contract or otherwise) or (y) the directors of the Corporation as of the Original Issue Date (the "Current Directors") and any future directors (the

"Continuing Directors") elected or nominated by a majority of the Current Directors or Continuing Directors cease to constitute a majority of the Board of Directors of the Corporation.

(b) Shares of Series B Stock may be converted, at the option of the holder thereof, in whole or in part, upon delivery of a certificate representing

such shares to the Corporation, together with a notice specifying the number of shares to be converted, at any time after the date which is 18 months after the Original Issuance Date.

(c) Notwithstanding the foregoing, a holder of shares of Convertible Preferred Stock may not convert any shares of Convertible Preferred Stock that have been called for redemption after 5:00 p.m. Eastern Time on the date for such redemption.

4.2 Each share of Series A Stock shall be convertible into shares of the Corporation's Common Stock at a conversion price of \$11.50 per share (as adjusted, the "Series A Conversion Price"), subject to certain adjustments as described below; and each share of Series B Stock shall be convertible into shares of the Corporation's Common Stock at a conversion price of \$12.25 per share (as adjusted, the "Series B Conversion Price"; the Series A Conversion Price and the Series B Conversion Price are each hereinafter referred to as a "Conversion Price"), subject to certain adjustments as described below. The number of shares of Common Stock to be delivered on conversion of any shares of Convertible Preferred Stock shall equal the aggregate Stated Value thereof divided by the applicable Conversion Price then in effect, calculated to the nearest 1/100th of a share, subject to Section 4.5. Except as provided in Section 4.7, the Corporation shall make no payment or adjustment on the account of any unpaid cumulative dividends on the shares of Convertible Preferred Stock surrendered for conversion or on account of any dividends on the Common Stock.

4.3 If the Corporation shall (a) pay a dividend or make a distribution on its outstanding shares of Common Stock in shares of its Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of Common Stock into a smaller number of shares, then each Conversion Price in effect immediately prior to such action shall be adjusted so that the holder of any shares of Convertible Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of capital stock of the Corporation which he would have owned immediately following such action had such shares of Convertible Preferred Stock been converted immediately prior thereto. An adjustment made pursuant to this Section 4.3 shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. The Corporation shall give notice to the holders of the Convertible Preferred Stock of any adjustment pursuant to this Section 4.3 (stating the adjusted Conversion Prices and the reasons therefor) not less than 10 days prior to the record date for such dividend, distribution, subdivision, combination or reclassification.

4.4 If the Corporation shall consolidate or merge into or with another corporation, or if the Corporation shall sell or convey to any other person or persons all or substantially all of the assets of the Corporation, or shall issue by reclassification of its shares of Common Stock any shares of capital stock of the Corporation, each holder of Convertible Preferred Stock then outstanding shall have the right thereafter to convert each share of Convertible Preferred Stock held by him into the kind and amount of shares of stock, other securities, cash and property receivable upon such consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock into which such share might have been converted immediately prior to such consolidation, merger, sale or conveyance, and shall have no other conversion rights. In any such event, effective provision shall be made, in the certificate of incorporation of the resulting or surviving corporation or otherwise or in any contracts of sale and conveyance so that, so far as appropriate and as nearly as reasonably may be, the provisions set forth herein for the protection of the conversion rights of the shares of the Convertible Preferred Stock shall thereafter be made applicable.

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4.5 In connection with the conversion of any shares of the Convertible Preferred Stock hereunder, no fractions of shares of Common Stock shall be issued, but the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to a like fraction of an amount equal to the closing sales price (the "Closing Price") of a share of the Corporation's Common Stock on the National Association of Securities Dealers Automated Quotation National Market System (or, if that shall not be the principal market on which the Common Stock shall be trading or quoted, then on such principal market) on the business day next preceding the Conversion Date.

4.6 The Corporation shall at all times reserve and keep available out of its authorized Common Stock the full number of shares of Common Stock of the Corporation issuable upon the conversion of that number of shares of the Convertible Preferred Stock permitted to be converted into Common Stock hereunder.

4.7 (a) In the event that the average of the Closing Prices of the Common Stock, over any 180 consecutive trading day period ending within 15 days of the date of the notice provided for in Section 4.7(b) (each such Closing Price having been adjusted in proportion to any adjustment in the Conversion Prices made after the date of such Closing Price), exceeds 135% of the Series A Conversion Price then in effect, the Corporation may, at its option, require the holders of all, but not less than all, of the issued and outstanding shares of Series A Stock to convert such shares into Common Stock of the Corporation at the Series A Conversion Price.

(b) Not less than ten nor more than sixty days prior to the date fixed for mandatory conversion of the Series A Stock pursuant to Section 4.7(a) ("Mandatory Conversion"), notice by mail, postage prepaid, shall be given to each holder of shares of Convertible Preferred Stock required to be converted. On or after the date fixed for Mandatory Conversion, as stated in such notice, each holder of the shares required to be converted shall surrender his certificate(s) evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive the shares of Common Stock deliverable upon conversion plus any accrued and any unpaid dividends on such shares of Convertible Preferred Stock. If such notice of Mandatory Conversion shall have been duly given, and if, on the date fixed for Mandatory Conversion, funds necessary for the payment of dividends, if any, shall be available therefor, then, notwithstanding that the certificates evidencing any shares required to be converted shall not have been surrendered, from and after the date fixed for Mandatory Conversion, dividends with respect to the shares so converted shall cease to accrue, the shares shall no longer be deemed outstanding, the holders thereof shall cease to be holders of the shares of Convertible Preferred Stock, all rights whatsoever with respect to the shares so converted shall forthwith terminate except only the right of the holders to receive the previously accrued dividends without interest thereon and the shares of Common Stock deliverable on conversion, upon surrender of their certificates therefor, and such holders shall for all purposes be deemed holders of such shares of Common Stock.

4.8 The issuance of certificates for shares of Common Stock upon the conversion of shares of Convertible Preferred Stock shall be made without charge to the holders of shares of Convertible Preferred Stock for any issue or stamp tax in respect of the issuance of such certificates, and such certificates shall be issued in the respective names of, or in such names as may be directed by, the holders of shares of Convertible Preferred Stock converted; provided, however, that the Corporation shall not be required to pay any tax which may be payable in respect of transfer involved in the issuance and delivery of any such certificate in a name other than that of the holder of shares of Convertible Preferred Stock converted, and the Corporation shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid. If less than all of the shares of Convertible Preferred Stock represented by a certificate surrendered for conversion are converted, the Corporation shall deliver to the holder of such shares a new certificate for the shares not so converted.

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4.9 The Corporation from time to time may reduce either Conversion Price by any amount for any period of time in the discretion of the Board of Directors.

4.10 No adjustment in either Conversion Price shall be required unless such adjustment would result in an increase or decrease of at least 1% in such Conversion Price as then in effect; provided, however, that any adjustments that by reason of this Section 4.10 are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

5. Redemption.

5.1(a) The shares of Series A Stock may be redeemed at the option of the Corporation, in whole or in part, upon prior written notice of such redemption given by the Corporation in accordance with Section 5.2 hereof

at any time prior to the later of (i) the 120th day after the earliest event constituting a Change in Control and (ii) the 60th day after the consummation of the transaction the announcement of which constituted such Change in Control, at the Change in Control Redemption Price (as hereinafter defined); provided, that the Corporation may not, pursuant to this sentence, redeem shares of Series A Preferred Stock held by Citadel Holding Corporation ("Citadel") or any of its affiliates unless, prior to or simultaneously with such redemption, Craig assumes certain obligations of the Corporation as provided in Section 4.1 of the Asset Put and Registration Rights Agreement, dated the Original Issue Date, among the Corporation, Craig, Citadel, and Citadel Acquisition Corp., Inc. (the "Put Agreement"), and provided further that the Corporation may not redeem any shares of Series A Stock pursuant to this sentence after the fifth anniversary of the Original Issue Date. In addition, any or all of the shares of Series A Stock may be redeemed at the option of the Corporation, upon prior written notice of such redemption given by the Corporation in accordance with Section 5.2 hereof, at any time after the fifth anniversary of the Original Issue Date, at the Standard Redemption Price (as hereinafter defined). The "Change in Control Redemption Price" of each share of Series A Stock at any date shall mean an amount equal to the sum of (x) the Stated Value thereof, (y) an accrual on the Stated Value, from the date of issuance of such share to the date of redemption, at a percentage per annum (not compounded) equal to 8% if such redemption is on or before the fourth anniversary of the Original Issue Date or 7% if thereafter, and (z) all accrued and unpaid dividends thereon to the date fixed for redemption; and the "Standard Redemption Price" of each share of Convertible Preferred Stock at any date shall mean an amount equal to the percentage for such date, as set forth below, of the Stated Value thereof, plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption:

Anniversary of Original Issue Date -----	Percentage -----
On or after the fifth anniversary and until the sixth anniversary	108%
On or after the sixth anniversary and until the seventh anniversary	106%
On or after the seventh anniversary and until the eighth anniversary	104%
On or after the eighth anniversary and until the ninth anniversary	102%
On or after the ninth anniversary	100%

(b)(i) Subject to the provisions hereof, the holders of a majority of the outstanding shares of Series A Stock (the "Requesting Holders") may require that the Corporation purchase all, but (except as otherwise provided in this Section 5.1(b)) not less than all, of the outstanding shares of Series A Stock held by the Requesting Holders and those other holders (the "Nonrequesting Holders") who so request as provided below, by notice (the "Holders' Notice") given by the Requesting Holders to the Corporation at any time (A) after 18 months after the Original Issue Date, if at the time of giving such notice the quarterly dividends payable on the Series A Stock as provided in Section 3 hereof are in arrears in an aggregate amount equal to at least four full quarterly dividends (which need

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not be consecutive), or (B) within the 90-day period beginning on the fifth anniversary of the Original Issue Date (but not, in the case of this clause (B), after the exercise by Citadel of the Asset Put (as defined in the Put Agreement)), in either case at a redemption price equal to the Stated Value thereof plus all accrued and unpaid dividends thereon to the date fixed for redemption. As promptly as practicable, and in any case within ten days, after receipt of a Holders' Notice, the Corporation shall give a notice to each Nonrequesting Holder, offering to redeem the shares of Series A Stock held by such Nonrequesting Holder on the same terms, and subject to the same limitations, as the shares held by the Requesting Holders, provided such Nonrequesting Holder, within 10 days of the Corporation's notice (the "Response Period"), gives notice to the Corporation stating that such Nonrequesting Holder desires to have his shares redeemed. The Nonrequesting Holders who do not elect to have their shares redeemed shall have no subsequent right to require redemption pursuant to this Section 5.1(b)(i).

(ii) Citadel may require that the Corporation purchase all, but (except as otherwise provided in this Section 5.1(b)) not less than all, of the outstanding shares of Series A Stock owned by it and its affiliates, by notice given by it to the Corporation at any time during the Change in Control Period (but not after the fifth anniversary of the Original Issue Date) at the Change in Control Redemption Price.

(iii) As promptly as practicable, and in any case within ten days, after the expiration of the Response Period, in the case of a redemption pursuant to Section 5.1(b) (i), or the notice given by Citadel, in the case of a redemption pursuant to Section 5.1(b) (ii), the Corporation shall give a notice of redemption pursuant to Section 5.2 and thereafter proceed to effectuate such redemption as promptly as practicable.

(iv) Notwithstanding the foregoing, if, at the time the Corporation is required to redeem shares of the Series A Stock, the funds of the Corporation legally available for such redemption are insufficient to redeem in full the shares of the Series A Stock required to be redeemed, (A) the Corporation shall utilize the funds legally available to redeem the maximum number of such shares which can be legally redeemed and (B) the remaining such shares shall remain outstanding and not be redeemed.

(c) The shares of Series B Stock may be redeemed at the option of the Corporation, in whole or in part, at any time after the fifth anniversary of the Original Issue Date, upon prior written notice of such redemption by the Corporation in accordance with Section 5.2, at a per share redemption price equal to the Standard Redemption Price thereof.

(d) Notwithstanding the foregoing, the Corporation may not, pursuant to Section 5.1(a) or (c), redeem less than all of the outstanding shares of a series of Convertible Preferred Stock while any additional dividends are accumulated and unpaid on such series pursuant to Section 3 hereof without first declaring and paying all such additional dividends on such series.

(e) If fewer than all of the outstanding shares of a series of Convertible Preferred Stock are to be redeemed pursuant to this Section 5.1 (other than pursuant to Section 5.1(b) (ii)), such shares shall be redeemed pro rata from each holder of such series of Convertible Preferred Stock

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(with adjustments to avoid redemptions of fractional shares).

5.2 (a) Not less than thirty nor more than sixty days prior to the date fixed for redemption, notice by mail, postage prepaid, shall be given to each holder of shares of the Convertible Preferred Stock to be redeemed. The redemption notice shall specify the date of redemption, the certificates to be redeemed, and the applicable redemption price (the "Redemption Price"); but failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the proceeding for the redemption of any shares so to be redeemed. On or after the date fixed for redemption,

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as stated in the notice, each holder of the shares called for redemption shall surrender his certificate(s) evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Price thereof. In case less than all of the shares of Convertible Preferred Stock represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(b) Anything herein to the contrary notwithstanding, if notice of redemption shall be given as provided in Section 5.2(a) above and if, on or at any time prior to the date fixed for redemption therein, an amount equal to the Redemption Price times the number of shares of Convertible Preferred Stock called for redemption shall be deposited in trust for the benefit of the holders of the shares of Convertible Preferred Stock called for redemption with a bank or trust company having a combined capital and surplus of at least \$50 million according to its last published statement of condition, then, notwithstanding that any certificates for shares of Convertible Preferred Stock so called for redemption shall not have been surrendered for redemption, such shares shall be deemed to be redeemed upon the date fixed for redemption and shall cease to be outstanding for any purpose, the right to receive dividends thereon shall cease to accrue from and after the date fixed for

redemption and all rights of the holders of the shares of Convertible Preferred Stock called for redemption shall forthwith on the date fixed for redemption cease and terminate except for the right of the holders thereof, upon presentation and surrender of their respective certificates representing such shares, to receive from such bank or trust company on or after the date fixed for redemption the amount payable upon the redemption thereof, but without interest. The Corporation shall be entitled to any interest payable on the funds so deposited. Any funds so deposited and otherwise unclaimed at the end of three years shall be repaid to the Corporation, after which holders of the redeemed stock shall look only to the Corporation for payment of the amount payable upon redemption thereof, but without interest thereon.

6. Voting Rights.

6.1 The holders of the shares of Convertible Preferred Stock shall initially be entitled to cast 9.64 votes per share held on all matters submitted to a vote of the Corporation's stockholders. The number of votes entitled to be cast per share of Convertible Preferred Stock shall be adjusted in inverse proportion to any adjustment in the Conversion Prices.

6.2 Except as otherwise provided herein or by law, the holders of Convertible Preferred Stock and the holders of Common Stock shall vote together as one class on all matters submitted to a vote of the Corporation's stockholders.

6.3 (a) In the event that the quarterly dividends payable on a series of the Convertible Preferred Stock as provided in Section 3 hereof are in arrears in an aggregate amount equal to at least six full quarterly dividends (which need not be consecutive), the number of directors constituting the Board of Directors of the Corporation shall be increased by one for each such series so in default and the holders of each series of the Convertible Preferred Stock as to which dividends are so in default shall have, in addition to the rights set forth in Sections 6.1, 6.2 and 6.4 hereof, the special right, voting separately as a single class, to elect one director of the Corporation to fill such newly created directorship at the next succeeding annual meeting of stockholders thereafter or at a special meeting of the holders of such series of the Convertible Preferred Stock called as hereinafter provided, until such right shall terminate as hereinafter provided.

(b) At any time when the special voting rights provided in Section 6.3(a) shall have so vested in the holders of a series of the Convertible Preferred Stock, the Secretary of the Corporation may, and upon the written request of the holders of 25% or more of the number of shares of such series of Convertible Preferred Stock then outstanding shall, call a special meeting of the holders of such series of the Convertible Preferred Stock for the election of the directors, to be held at the place and upon the notice provided by law and in the Bylaws for the holding of meetings of stockholders; except that the Secretary shall not be required to call such a special meeting in the case of any such request received less than 90 days before the date fixed for the next annual or other special meeting of stockholders. No such

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special meeting and no adjournment thereof shall be held on a date less than 30 days before the annual meeting of the stockholders (or a special meeting held in place thereof) next succeeding the time when the holders of such series of the Convertible Preferred Stock become entitled to elect directors as provided in Section 6.3(a). The Corporation shall include, in any notice of such meeting, any nominee for director who has been proposed by the holders of twenty-five percent or more of the shares of such series of Convertible Preferred Stock then outstanding. The directors so elected shall serve until the next annual meeting or until their respective successors shall be elected and qualify.

(c) At each meeting of stockholders at which the holders of a series of the Convertible Preferred Stock shall have the right to vote as a class, as provided in this Section 6.3, the presence in person or by proxy of the holders of a majority of the total number of shares of such series of the Convertible Preferred Stock then outstanding shall be necessary and sufficient to constitute a quorum of such class for such election by such stockholders as a class. At any such meeting or adjournment thereof:

(i) the absence of a quorum of the holders of a series of the Convertible Preferred Stock shall not prevent the election of directors other than those to be elected by the holders of such series of the Convertible Preferred Stock and the absence of a quorum of the holders of any

other class of stock for the election of such other directors shall not prevent the election of the directors to be elected by the holders of a series of the Convertible Preferred Stock; and

(ii) in the absence of either or both such quorums, the holders of a majority of the shares present in person or by proxy of the respective class or classes which lack a quorum shall have the power to adjourn the meeting for the election of directors which they are entitled to elect from time to time for a period of up to 30 days without notice, other than announcement at the meeting, until a quorum shall be present.

(d) Each director elected by the holders of a series of the Convertible Preferred Stock as provided in this Section 6.3 shall hold office until the annual meeting of stockholders next succeeding his election or until his successor, if any, is elected by such holders and qualified.

(e) If any vacancy shall occur among the directors elected by the holders of a series of the Convertible Preferred Stock as provided in this Section 6.3, such vacancy shall be filled for the unexpired portion of the term by the vote of the stockholders of such series given at a special meeting of such stockholders called for that purpose.

(f) Whenever all dividends accrued and unpaid on a series of the Convertible Preferred Stock shall have been paid, the special right of the holders of such series of the Convertible Preferred Stock to elect directors as provided in this Section 6.3 shall terminate, but subject always to the same provisions for the vesting of such special right of the holders of such series of the Convertible Preferred Stock to elect directors in the case of future unpaid dividends as hereinabove provided.

(g) Any director elected by the holders of a series of Convertible Preferred Stock may be removed by, and shall not be removed otherwise than by, the vote of the holders of a majority of the outstanding shares of such series.

(h) Upon any termination of the right of the holders of a series of the Convertible Preferred Stock to vote for directors as herein provided, the term of office of all directors then in office elected by holders of such series shall terminate immediately.

6.4 The consent of the holders of at least a majority of the outstanding shares of a series of the Convertible Preferred Stock, voting separately as a single class, in person or by proxy, either

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in writing without a meeting or at a special or annual meeting of stockholders called for the purpose, shall be necessary to (i) create or issue any shares of a class of capital stock ranking, either as to payment of dividends or distribution of assets, on a parity with or senior to such series of the Convertible Preferred Stock, (ii) alter or change the preferences, rights, designations or powers of the shares of such series of Convertible Preferred Stock as a class, or the provisions of Article FOURTH of the Corporation's Certificate of Incorporation, in either case so as to affect such holders adversely, or (iii) increase the total number of authorized shares of Convertible Preferred Stock.

7. Holders; Notices. The term "holder" or "holders" wherever used

herein with respect to a holder or holders of shares of Convertible Preferred Stock shall mean the holder or holders of record of such shares as set forth on the stock transfer records of the Corporation. Whenever any notice is required to be given under this Certificate of Designation, such notice may be given personally or by mail. Any notice given to a holder of any share of Convertible Preferred Stock shall be sufficient if given to the holder of record of such share at the last address set forth for such holder on the stock transfer records of the Corporation. Any notice given by mail shall be deemed to have been given when deposited in the United States mail with postage thereon prepaid.

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IN WITNESS WHEREOF, said Reading Entertainment, Inc. has caused this

Certificate of Designation, Preferences and Rights of Series A Voting Cumulative Convertible Preferred Stock and Series B Voting Cumulative Convertible Preferred Stock to be executed by its duly authorized officers this twelfth day of September, 1996.

READING ENTERTAINMENT, INC.

Attest:

By: /s/ James A. Wunderle

Name: James A. Wunderle
Title: Chief Operating Officer

By: /s/ S. Craig Tompkins

Name: S. Craig Tompkins
Title: President

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CITADEL HOLDING CORPORATION

1996 NONEMPLOYEE DIRECTOR STOCK OPTION PLAN

SECTION 1. PURPOSE OF PLAN

The purpose of this 1996 Nonemployee Director Stock Option Plan ("Plan") of Citadel Holding Corporation, a Delaware corporation (the "Company"), is to enable the Company and its subsidiaries to attract, retain and motivate its nonemployee directors and further align their interests with those of the stockholders of the Company by providing for or increasing the proprietary interests of such directors in the Company.

SECTION 2. NONEMPLOYEE DIRECTOR OPTIONS

(a) Subject to terms and provisions hereof, on October 3, 1996 (the "Incumbent Date of Grant") each director of the Company who is not an employee or officer of the Company or any of its affiliates (for this purpose the Chairman of the Board and the Principal Accounting Officer shall be deemed officers of the Company) (a "Nonemployee Director") who is then incumbent at the effective date of the Plan (the "Incumbent Nonemployee Directors"), consisting of Ronald I. Simon and Alfred Villaseñor, shall receive immediately vested options (the "Incumbent Nonemployee Director Option") to purchase 10,000) shares of common stock, par value \$.01 per share, of the Company (the "Common Shares") at an exercise price of \$3.00 per share

(b) Subject to the other terms and provisions hereof, upon the date (each, a "New Date of Grant") as of which a Nonemployee Director not currently serving on the Board of Directors (a "New Nonemployee Director") becomes a new member of the Board of Directors, such New Nonemployee Director shall automatically be granted immediately vested options (a "New Nonemployee Director Option") to purchase 10,000 Common Shares at an exercise price that is greater or less than the Fair Market Value per Common Share on the New Date of Grant by an amount equal to the amount by which \$3.00 per share is greater or less than the Fair Market Value per Common Share on the Incumbent Date of Grant.

(c) If, on any date upon which New Nonemployee Director Options are to be automatically granted pursuant to Section 2(b), the number of Common Shares remaining available for option under this Plan is insufficient for the grant to each New Nonemployee Director of a New Nonemployee Director Option to purchase the entire number of Common Shares specified in this Section 2, then a New Nonemployee Director Option to purchase a proportionate amount of such available number of Common Shares (rounded to the nearest whole share) shall be granted to each New Nonemployee Director on such date.

(d) Each Nonemployee Director Option granted under this Plan shall expire upon the first to occur of the following:

(i) The first anniversary of the date upon which the optionee shall cease to be a Nonemployee Director as a result of death or total disability;

(ii) The 30th day after the date upon which the optionee shall cease to be a Nonemployee Director for any reason other than death or total disability;

(iii) The tenth anniversary of the New Date of Grant, or the Incumbent Date of Grant, as the case may be, of such Nonemployee Director Option.

(e) Payment of the exercise price of any Nonemployee Director Option granted under this Plan shall be made in full in cash concurrently with the exercise of such Nonemployee Director Option; provided, however, that, the payment of such exercise price may instead be made:

(i) in whole or in part, with Common Shares delivered concurrently with such exercise (such shares to be valued on the basis of the Fair Market Value of such shares on the date of such exercise),

provided that the Company is not then prohibited from purchasing or acquiring Common Shares; and/or

(ii) in whole or in part, by the delivery, concurrently with such exercise and in accordance with Section 220.3(e)(4) of Regulation T promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of a properly executed exercise notice for such Nonemployee Director Option and irrevocable instructions to a broker promptly to deliver to the Company a specified dollar amount of the proceeds of a sale of or a loan secured by the Common Shares issuable upon exercise of such Nonemployee Director Option.

(f) For purposes of this Section 2, the "Fair Market Value" of a Common Share or other security on any date (the "Determination Date") shall be equal to the average of the closing prices per Common Share or unit of such other security on the ten trading days immediately preceding the Determination Date on which trades in the Common Shares occurred, as reported in The Wall Street Journal, Western Edition, or, if no closing price was so reported for any of such days, the average of the high bid and low asked prices per Common Share or unit of such other security on the ten trading days immediately preceding the Determination Date in the over-the-counter market, as reported by a national quotation system then in use, or, if the Common Shares or such other security were not quoted by any such organization on such days, the average of the closing bid and asked prices on such days as furnished by a professional market maker making a market in the Common Shares or such other security selected by the Board.

(g) All outstanding Nonemployee Director Options theretofore granted under this Plan shall terminate upon the first to occur of the following:

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(i) the dissolution or liquidation of the Company;

(ii) a reorganization, merger or consolidation of the Company as a result of which the outstanding securities of the class then subject to such outstanding Nonemployee Director Options are exchanged for or converted into cash, property and/or securities not issued by the Company, unless the terms of such reorganization, merger or consolidation shall provide otherwise; or

(iii) the sale of substantially all of the property and assets of the Company.

(h) Each Nonemployee Director Option shall be nontransferable by the optionee other than by will or the laws of descent and distribution, and shall be exercisable during the optionee's lifetime only by the optionee or the optionee's guardian or legal representative.

(i) Nonemployee Director Options are not intended to qualify as Incentive Stock Options.

(j) Notwithstanding any other provision of this Plan, no person shall be granted a Nonemployee Director Option and no person shall be entitled to exercise any rights with respect to a Nonemployee Director Option previously granted if such grant or exercise would violate any provision of the certificate of incorporation of the Company, or would violate any additional restriction set forth in the agreement evidencing such Nonemployee Director Option. Any grant or exercise of a Nonemployee Director Option in violation of this paragraph (j) shall be void ab initio and shall not be effective to convey any rights to the

person purporting to receive such Nonemployee Director Option or exercise such rights. The Company may require recipients of Nonemployee Director Options to make such representations and enter into such covenants as are reasonably deemed necessary in order to ensure that the grant or exercise of rights with respect to Nonemployee Director Options will not result in a violation of this paragraph (j).

SECTION 3. STOCK SUBJECT TO PLAN

(a) The aggregate number of Common Shares that may be issued pursuant to all Nonemployee Director Options granted under this Plan shall not exceed 300,000, subject to adjustment as provided in Section 6 hereof.

(b) For purposes of Section 3(a) hereof, the aggregate number of Common Shares issued and issuable pursuant to all Nonemployee Director Options granted under this Plan shall at any time be deemed to be equal to the sum of the following:

(i) the number of Common Shares which were issued prior to such time pursuant to Nonemployee Director Options granted under this Plan, other than Common Shares which were subsequently reacquired by the Company pursuant to the

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terms and conditions of such Nonemployee Director Options and with respect to which the holder thereof received no benefits of ownership such as dividends; plus

(ii) the number of Common Shares which were otherwise issuable prior to such time pursuant to Nonemployee Director Options granted under this Plan, but which were withheld by the Company as payment of the purchase price of the Common Shares issued pursuant to such Nonemployee Director Options or as payment of the recipient's tax withholding obligation with respect to such issuance; plus

(iii) the maximum number of Common Shares which are or may be issuable at or after such time pursuant to Nonemployee Director Options granted under this Plan prior to such time.

SECTION 4. DURATION OF PLAN

No Nonemployee Director Options shall be granted under this Plan after October 3, 2006. Although Common Shares may be issued after October 3, 2006 pursuant to Nonemployee Director Options granted prior to such date, no Common Shares shall be issued under this Plan after October 3, 2016.

SECTION 5. ADMINISTRATION OF PLAN

(a) This Plan shall be administered by the Board.

(b) Subject to the provisions of this Plan, the Board shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan, including, without limitation, the following:

(i) adopt, amend and rescind rules and regulations relating to this Plan;

(ii) determine which persons are Nonemployee Directors;

(iii) determine the exercise price of Nonemployee Director Options in accordance with the terms of this Plan;

(iv) determine whether, and the extent to which, adjustments are required pursuant to Section 6 hereof; and

(v) interpret and construe this Plan and the terms and conditions of all Nonemployee Director Options granted hereunder.

SECTION 6. ADJUSTMENTS

If the outstanding securities of the class then subject to this Plan are increased, decreased or exchanged for or converted into cash, property or a different number or kind of securities, or if cash, property or securities are distributed in respect of such outstanding

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securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, restructuring, reclassification, partial or complete liquidation, stock split, reverse stock split or the like, or if substantially all of the property and assets of the Company are sold, then, unless the terms of such transaction shall provide otherwise, the Board shall make appropriate and proportionate adjustments in (a) the number and type of shares or other securities or cash or other property that may be acquired

pursuant to Nonemployee Director Options theretofore granted under this Plan and (b) the maximum number and type of shares or other securities that may be issued pursuant to Nonemployee Director Options thereafter granted under this Plan.

SECTION 7. AMENDMENT AND TERMINATION OF PLAN

The Board may amend or terminate this Plan at any time and in any manner, subject to the following limitations:

(a) no such amendment or termination shall deprive the recipient of any Nonemployee Director Option theretofore granted under this Plan, without the consent of such recipient, of any of his or her rights thereunder or with respect thereto; and

(b) Section 2 hereof shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder.

SECTION 8. EFFECTIVE DATE OF PLAN

This Plan shall be effective as of October 3, 1996, the date upon which it was approved by the Board.

SECTION 9. INTERPRETATION OF PLAN

With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Plan administrators fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Plan administrators. It is contemplated that should the Board decide to qualify a specific Nonemployee Director Option as exempt under Rule 16b-3 of the Exchange Act, the Board will approve the terms of such Nonemployee Director Option prior to the grant thereof.

LIST OF SUBSIDIARIES

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

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