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, 1997
OR
[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____ to _____

Commission File No. 1-8625

CITADEL HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	95-3885184
(State or other jurisdiction of incorporation or organization)	(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	Name 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 .
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K of any amendments to this Form 10-K. [__]

The aggregate market value of voting stock held by non-affiliates of the Registrant was $19,700,000 as of March 25, 1998.

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 25, 1998, there were 6,669,924 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, 1997
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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 real estate interests properties and in the offering of various real estate consulting services to its affiliates. During 1997, the Company purchased a 40% partnership interest (the "Agricultural Partnership Interests") in each of three general partnerships (the "Agricultural Partnerships") formed to acquire certain agricultural properties located in the Central Valley of California and commonly known as the Big 4 Ranch (the "Big 4 Properties"), and an 80% equity interest in Big 4 Farming, LLC (a newly formed farm operating company, created to provide farming services to the Agricultural Partnerships with respect to the Big 4 Properties and referred to herein as "Farming"). During 1996, the Company 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"). At December 31, 1997, the Company's assets had a book value of $28.9 million, consisting principally of two office buildings (located in Glendale, California and Phoenix, Arizona), the Agricultural Partnership Interests, the 80% equity interest in Farming, the $7 million investment in Reading and cash and cash equivalents, subject to long term liabilities of $9.4 million. Until April 1994, Citadel was engaged principally in the business of serving as the holding company for Fidelity Federal Bank, FSB ("Fidelity").

Citadel currently intends, at least for the near term, to continue to manage its commercial real estate and agricultural properties, to provide real estate consulting services to its affiliates, and to monitor the progress of Reading in its real estate based 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 its shareholder affiliates, Reading and/or Craig Corporation ("CC" and collectively with its wholly owned subsidiaries, "Craig") which would permit the Company's stockholders to further participate, directly or indirectly, in Reading's real estate based entertainment business. However, no such transaction is currently under consideration by the Company. The Company may, from time to time, also consider other real estate transactions.

COMMERCIAL REAL PROPERTY OWNERSHIP AND MANAGEMENT ACTIVITIES

Since April 1994, the Company has been principally involved in the ownership and management of its real estate interests, and in the provision of real estate consulting services to Reading. The Company has, over the past four years, disposed of three multi-family residential properties, one office building and certain open land. During the same period, it has acquired two properties, the office buildings located in Phoenix, Arizona and Glendale, California. Due in large part to the competition presented by substantially larger and tax benefited real estate investment trusts ("REITs"), the Company believes it doubtful that it will be able to effectively compete in the market for the ownership of commercial properties. Nor does the Company believe it likely that it would be able to effectively compete in the market to provide property management services with respect to properties owned by others, given the significant and well established competition in this area. Accordingly, the Company has been open to other opportunities to invest in varieties of real estate that may offer the Company greater returns than competing with REITs for commercial properties or competing with

well established management companies for property management business. The investments in the Reading Series A Preferred Stock and the Agricultural Partnerships, discussed in greater detail below, were in the view of the Company two such opportunities.

Since 1995, a substantial portion of the executive time of the Company has been spent providing real estate consulting services to Reading in connection with the development by Reading of multiplex cinemas in Puerto Rico, Australia and the United States, and the development of entertainment centers in Australia. 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. During Fiscal 1997, 1996 and 1995, Reading paid to Citadel $240,000, $169,000 and $120,000 respectively, with respect to such consulting services.

AGRICULTURAL ACTIVITIES

Background of Acquisition
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During 1997, the Company formed three subsidiaries, Citadel Agricultural, Inc., a wholly owned subsidiary, "CAI"), Farming, (80% owned by the Company and 20% by Visalia LLC ("Visalia"), a limited liability company controlled by Mr. James J. Cotter, the Chairman of the Board of the Company, and owned by Mr. Cotter and certain members of his family) and Big 4 Ranch, Inc. ("BRI"). Such subsidiaries were formed in anticipation of effecting a purchase of the Big 4 Properties and in order to address certain restrictions on access of federal water. The Company capitalized BRI with a cash contribution of $1.2 million which was used primarily to acquire a 40% interest in each of the Agricultural Partnerships. The remaining interests in the Agricultural Partnerships are held 40% by CAI and 20% by Visalia. On December 29, 1997, the Company distributed 100% of the shares of BRI to the shareholders of record of the Company's common stock as of the close of business on December 23, 1997, as a spin-off dividend (the "Spin-off").

On December 31, 1997, the Agricultural Partnerships acquired the Big 4 Properties consisting of approximately 1,580 acres of agricultural land and related improvements, located in Kern County, California. The assets acquired included (i) approximately 560 acres of Navel oranges, 205 acres of Valencia oranges, 145 acres of lemons, 32 acres of minneolas and 600 acres of open land currently leased on a short term basis to a third party for the cultivation of annual crops (the "Open Land"), (ii) irrigation systems, (iii) water rights, (iv) frost prevention systems and (v) the fruit currently on the trees and slated for harvest in 1998. The Big 4 Properties were acquired by the Partnerships (the "Ranch Acquisition") from Prudential Insurance Company of America ("Prudential") on an arms length basis for a purchase price of $6.75 million, plus reimbursement of certain cultural costs approximating $831,000.

Prior to the Spin-off, Farming entered into a two-year farming services agreement (the "Farming Contract") with each of the Agricultural Partnerships, pursuant to which Farming is obligated to provide all of the day to day farming services necessary to cultivate the citrus orchards located on the Big 4 Properties and, over time, to develop the empty land as may be determined by the Agricultural Partnerships. Under the Farming Contract, Farming will be reimbursed for its out of pocket costs and will be paid a management fee equal to 5% of gross receipts, such gross receipts to be calculated, less costs of picking, packing and hauling. In turn, Farming has entered into a management services contract agreement (the "Cecelia Contract") with Cecelia Packing Corporation ("Cecelia") pursuant to which Cecelia has agreed to provide management consulting, purchasing and bookkeeping services to Farming for an initial term of two years at a monthly fee of $6,000, along with reimbursement of certain out of pocket expenses, the cost and benefit which will be passed through to the Agricultural Partnerships. It is anticipated that this arrangement will enable Farming and the Agricultural Partnerships to enjoy certain economics of scale that would not otherwise be available to them. Cecelia will also pack a portion of the fruit produced by the Agricultural Partnerships. While the Company has no

experience in citrus farming, Cecelia has been engaged in farm management and citrus packing and marketing for more than the past 20 years. Cecelia is wholly-owned by James J. Cotter.

BRI is owned by the shareholders of record of Citadel on December 23, 1997, including Craig Corporation ("CC", and collectively with its wholly owned subsidiaries, "Craig") and Reading, which together own approximately 33.4% of such outstanding shares. Concurrent with the Spin-off, Citadel provided BRI with a working capital line of credit in the amount of $200,000. Pursuant to the Line of Credit Agreement dated December 29, 1997, entered into between the Company and BRI, the Company has agreed to lend up to $200,000 to BRI over a three-year period. Any drawdowns under the line accrue interest at prime plus 200 basis points, payable quarterly. All principal amounts borrowed are due and payable on December 29, 2002. As of March 20, 1998, no borrowings have occurred. The future of BRI and the collectibility of any Citadel loans due from BRI will be dependent on the future operations of the Agricultural Partnerships.

The Ranch Acquisition was financed by prorata capital contributions of the partners (Citadel's 40% portion amounting to approximately $1.08 million), by a $4.05 million purchase money loan from Prudential, and by a crop finance loan by Citadel to the Agricultural Partnerships of approximately $.831 million. The loan by Citadel was advanced pursuant to a $1.2 million Line of Credit Agreement (the "Crop Financing") extended by the Company to the Agricultural Partnerships. Drawdowns under the Crop Financing will accrue interest at prime plus 100 basis points, payable quarterly, and are due and payable in August 1998. Thereafter, Citadel may, but will be under no obligation to, provide future crop financing on terms to be negotiated at arms length. At December 31, 1997 Citadel had advanced approximately $.831 million under the Crop Financing Line of Credit. For financial statement purposes, the note receivable is included in the Balance Sheet as Note Receivable from Agriculture Partnerships, inclusive of the 40% or $.332 million advanced upon Citadel's behalf. While under no obligation, it appears likely that Citadel will, as a practical matter, need to renew the Crop Financing in August 1998.

The Prudential Purchase Money Loan in the amount of $4.05 million is secured by, among other things, a first priority mortgage lien on the property, has a ten-year maturity and accrues interest, payable quarterly, at a fixed rate of 7.7%. Principal is payable in annual installments of $200,000 each, beginning January 1, 2002; provided, however, that the Partnerships are obligated to make certain mandatory prepayments unless the Partnerships make capital improvements to the real property totaling $500,000 by December 31, 2000 and an additional $200,000 by December 31, 2001; the amount of such prepayments in each case being the difference between the amount specified and the amount actually spent on such improvements as of the relevant date. The purchase money mortgage also imposes a prepayment penalty equal to the greater of (a) one-half of one percent of each prepayment of principal and (b) a present value calculation of the anticipated loss that the note holder will suffer as a result of such prepayment.

In addition, it is not currently anticipated that the Agricultural Partnerships will realize free cash flow in 1998. This is due to several factors, including the need to address in 1998 certain deferred maintenance (including greater than typical expenditures for pruning and hedging, road maintenance and the repair and upgrade of certain pumping and irrigation facilities) and lower than anticipated fruit prices resulting, in part, from decreased demand for citrus in Asia.

The acquisition occurred on December 31, 1997, and accordingly, the results of operations for Fiscal 1997 do not include operating results of the Company's 40% equity investment in the Partnerships and the cash flow impact of any future borrowings which may be requested by BRI or the Agricultural Partnerships. It is currently anticipated that the Agricultural Partnerships will incur a net loss in Fiscal 1998.

Industry Overview

Citrus is produced in the United States and other countries where night time temperatures typically do not fall below 24 degrees Fahrenheit for more than a few hours at a time. Currently citrus is produced in 80 countries. The major producing countries, in addition to the United States, are Brazil, Mexico, Argentina and Spain. The majority of international trade is in juice form, less than 15% of world production is shipped fresh to non-domestic markets.

In the United States, citrus is produced in Florida, California, Arizona and Texas. The Florida industry is oriented to juice production with less than 10% of the orange crop being sold as fresh fruit. In addition to oranges, Florida is the number one producer of grapefruit. Of Florida's grapefruit production, approximately 50% is shipped as fresh fruit. Production in Arizona and Texas is limited and these areas are not considered major producing regions.

Production in California is oriented to oranges and lemons for the fresh market. Approximately 85% of all orange production is sold as fresh fruit. Lemon production is concentrated in California, where approximately 75% of the U.S. crop is produced.

California citrus is sold year round. Major markets are the United States, Canada, Japan and Hong Kong. As with most commodities, citrus pricing is sensitive to supply and demand changes. Production is dependent on the number of acres planted to citrus, the environmental conditions and cultural inputs. Environmental conditions is the single largest contributor to supply changes within a season. Acres in production change in response to growers income and the historical cycle time from expansion to contraction has historically been in the range of 10 to 12 years. Currently, the industry is undergoing contraction and is projected to continue in that direction for the next 3 to 5 years.

Currently, marketing and sales of California citrus is dominated by Sunkist Growers, Inc., a cooperative of growers from California and Arizona. Sunkist market share ranges from 60% for oranges to 75% for lemons. Membership in Sunkist is not restricted and some of the Property's fruit has been historically and will likely be marketed in the future through Sunkist.

Business Strategy and Description of Business

General

The business plan currently being implemented by the Agricultural Partnerships is to focus on the cultivation of citrus crops utilizing the Big 4 Properties' existing orchards and, over time, to improve the Open Land with additional citrus orchards. It is anticipated that these new orchards will consist principally of Navel and Valencia oranges.

At the present time, approximately 942 acres of the Big 4 Properties is improved with orchards, consisting of approximately 560 acres of Navel oranges, 205 acres of Valencia oranges, 145 acres of lemons and 32 acres of minneolas. Approximately 600 acres is open land, currently leased to third parties on a short term basis for the cultivation of annual crops. The remaining acreage is used for agricultural support facilities. During the 1997 season, the Big 4 Properties produced approximately 429,000 cartons of Navel oranges, approximately 140,000 cartons of Valencia oranges, approximately 163,000 cartons of lemons and approximately 14,000 cartons of minneolas, for a total of approximately 746,000 cartons of citrus.

The assets acquired also included wind machines used for frost protection, irrigation systems, and access to a forty acre reservoir owned by the local irrigation district for the short-term storage of water from

wells located on the Big 4 Properties as well as from other sources. While the business plan is to make use of federal water rights to provide water to the Big 4 Properties, these wells and access rights provide a safeguard in the event that such federal water should from time to time prove prohibitively expensive or insufficient to meet the needs of the Big 4 Properties.

It is anticipated that the improvement of the Open Land will likely be completed over a period of 5 to 7 years, and be funded, over time, principally out of the free cash flow generated from the Big 4 Properties. Such improvement will include the installation of additional irrigation systems, the planting of trees and the installation of frost control systems (principally wind machines). The period to maturity varies from variety to variety, but generally speaking it is anticipated that the first commercial crops will be harvested 5 years after the trees are planted.

The business of the Agricultural Partnerships is subject to risks associated with its agricultural operations. Numerous factors can affect the price, yield and marketability of the crops grown on the Big 4 Properties. Crop prices may vary greatly from year to year as a result of the relationship between production and market demand. For example, the production of a particular crop in excess of demand in any particular year will depress market prices, and inflationary factors and other unforeseeable economic changes may also, at the same time, increase operating costs with respect to such crops. In addition, the agricultural industry in the United States is highly competitive, and domestic growers and produce marketers are facing increased competition from foreign sources. There are also a number of factors outside of the control of the Company and the Agricultural Partnerships that could, alone or in combination, materially adversely affect the agricultural operations of the Agricultural Partnerships, such as adverse weather conditions, the availability of water, insects, blight or other diseases, labor problems such as boycotts or strikes, and shortages of competent laborers. At the present time, the Company believes that citrus prices are being adversely effected by poor economic conditions in Asia. Generally, the Agricultural Partnerships will not carry causality insurance with respect to their trees or crops. The business operations of the Agricultural Partnerships may also be adversely affected by changes in governmental policies, social and economic conditions, and industry production.

Seasonality

The agricultural operations of the Agricultural Partnerships will be impacted by the general seasonal trends that are characteristic of the citrus industry. The Agricultural Partnerships anticipate receiving a majority of their net income during the second and third calendar quarters following the harvest and sale of there citrus crops. Due to this concentrated activity, the Agricultural Partnerships anticipate that they will typically show losses in the first and fourth calendar quarters.

Competition

The agricultural business is highly competitive. The Agricultural Partnerships' competitors include a large number of both large and small independent growers and grower cooperatives, many of which have considerably greater financial resources and experience than the Company. No single grower has a dominant market share in this industry due, among other things, to the regionalized nature of these businesses and limited on access to federal water.

Employees

The Company anticipates that a total of five full-time employees will be needed to work the Big 4 Properties. These employees will be provided and supervised by Farming. Certain management consulting, purchasing and bookkeeping will be contracted out to Cecelia. Packing and harvesting will also be contracted

out to independent contractor third parties in accordance with industry practices. Accordingly, it is not anticipated that the Agricultural Partnerships will have any employees, full time or otherwise.

The success of the Agricultural Partnerships is highly dependent upon Mr. James J. Cotter, who has more than 25 years experience in citrus farming and upon the senior management of Cecelia, which is wholly owned by Mr. Cotter, and which, through its employees, will provide senior management, purchasing and bookkeeping services to Farming and through Farming to the Partnerships.

Regulation

Certain areas of the operations of the Agricultural Partnerships are subject to varying degrees of federal, state and local laws and regulations. Such operations are, for example, subject to a broad range of evolving environmental laws and regulations. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Insecticide, Fungicide and Rodenticide Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Compliance with these foreign and domestic laws and related regulations is an ongoing process which is not currently expected to have a material effect on the capital expenditures, earnings or competitive position of the Agricultural Partnerships. Environmental concerns are, however, inherent in most major agricultural operations, including those expected to be conducted by the Agricultural Partnerships, and there can be no assurance that the cost of compliance with environmental laws and regulations in the future will not be material. In the normal course of its agricultural operations, Farming, on behalf of the Agricultural Partnerships, will handle, store, transport and cleanup of such hazardous substances or wastes or may adversely affect the value of the Big 4 Properties. Such matters could, in the future, have a material adverse effect on the Company and the Agricultural Partnerships. The operations of the Agricultural Partnerships are also subject to regulations enforced by, among others, the U.S. Food and Drug Administration and state, local and foreign equivalents and to inspection by the U.S. Department of Agriculture and other federal, state, local and foreign environmental and health authorities. Certain areas of the operations of the Agricultural Partnerships are subject to varying degrees of federal, state and local laws and regulations. Farm operations such as those conducted on the Big 4 Properties are subject to federal, state and local laws and regulations controlling, among other things, the discharge of materials into the environment or otherwise relating to the protection of the environment. Environmental regulations may have a materially adverse effect upon operations.

The purpose of the Spin-Off was principally to comply with applicable federal laws and regulations ("Water Laws") as administered by the Bureau of Reclamation (the "Bureau") in order to have access to and use of federal water (the "Water Rights") for the operation of the Agriculture Partnerships. Under the Water Laws, no entity with more than 25 stockholders can acquire federal water for more than 640 acres of owned land. Although Citadel has received assurances that the partnership structure being used to own and farm the Big 4 Properties will comply with the Water Laws and not infringe on the Agricultural Partnership's access to the federal water, there can be no assurance that the Bureau and the federal government will not at some future date object to this structure or that the Water Laws will not change, either of which event could have material adverse consequence to the value of the Big 4 Properties and viability of the business of the Agricultural Partnerships.

Weather, availability of labor, changes in state or local law or regulation, and similar localized events could also have an adverse impact on the performance or value of the Big 4 Properties.

INVESTMENT IN READING ENTERTAINMENT, INC. ("READING")

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, 1997. Reading is currently controlled by Craig, which owns common and preferred stock in Reading representing approximately 78% of the voting power of that company. Craig directly owns 666,000 shares of Citadel Common stock, and through its ownership of Reading indirectly owns an additional 1,564,473 shares of Citadel Common Stock.

The acquisition of the Series A Preferred Stock and the Asset Put Option 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 $12.25 per share. The closing price of Reading Common Stock was $12.75 per share at December 31, 1997. 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.

HISTORIC THRIFT ACTIVITIES

Prior to August 4, 1994, Citadel was engaged primarily in providing holding company services for its wholly owned thrift subsidiary, Fidelity. 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.

MANAGEMENT

Steve Wesson is the President and Chief Executive Officer of the Company. From 1989 until he joined the Company in 1993, Mr. Wesson served as CEO of Burton Property Trust Inc., the U.S. real estate subsidiary of The Burton Group PLC. In this position he was responsible for the restructuring and eventual disposal of the Company's assets in the U.S.

S. Craig Tompkins became the Secretary/Treasurer and Principal Accounting Officer of Citadel in September, 1994. Mr. Tompkins is also the Vice Chairman and a director of Citadel; President and director of CAI; a member of the management committee of Farming and of each of the Agricultural Partnerships; the President and a director of Craig; the Vice Chairman and a director of Reading and serves, as an administrative convenience, as an assistant secretary to BRI and Visalia. 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 Property 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, 1997.

ADDRESS	TYPE	SQUARE FEET	% LEASED AT 12/31/97	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

*% 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. The Company is currently negotiating with American Express regarding the possible extension of their current lease for an additional five years with escalating rents, which lease currently expires in February 1999. The Company can make no assurance that such negotiations will result in an extension of this Lease.

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, 1997 is $27,350 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 of which the Company has expected approximately $400,000 as of December 31, 1997. In addition, the Company incurred 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).

FINANCING OF REAL ESTATE INTERESTS

The Company's 1994 acquisition of the Arboleda 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 financed through drawdowns on an $8.2 million line of credit from Craig, which has subsequently been paid in full. The mortgage 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. The interest rate on this loan is currently 10.22%. At December 31, 1997, the loan had a balance of approximately $4.3 million.

With regard to the purchase of the Glendale Building, Fidelity extended a five year loan, amortizing over twenty years, at an adjustable interest rate of tied to the 30-day LIBOR rate plus 4.5% per annum, adjustable monthly. The interest rate on this loan is currently 10.22%. At December 31, 1997, the loan had a balance of approximately $5.1 million.

EXECUTIVE OFFICES
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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 1997 and 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 if the Company were to maintain comparable facilities separate and apart from Craig.

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"). 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, which was upheld on appeal in August 1, 1997.

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. 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, which appeal was upheld in favor of Citadel in January 1998. Roven petitioned the California Supreme Court for review of that appellate court decision and such petition was denied in March 1998.

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 settled in November 1997, without liability to the Company.

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

At the Company's 1997 Annual Meeting of Shareholders held on December 15, 1997, shareholders elected for directors. The results of the votes were as follows:

ELECTION OF DIRECTORS	FOR	WITHHELD
James J. Cotter	6,140,521	75,733
S. Craig Tompkins	6,126,561	89,693
Ronald Simon	6,140.521	75,733
Alfred Villasenor	6,140,521	75,733

PART II

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

MARKET INFORMATION

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

	HIGH	LOW
	(In Dollars)	
1997:		
Fourth Quarter	4 11/16	3 11/16
Third Quarter	4 7/16	2 3/4
Second Quarter	3 7/16	2 15/16
First Quarter	3 1/8	2 5/8
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

HOLDERS OF RECORD

The number of holders of record of the Company's common stock at March 25, 1998 was 250.

DIVIDENDS ON COMMON STOCK

On December 29, 1997, the Company distributed 6,669,924 shares of its wholly owned subsidiary. Big 4 Ranch, Inc. to all common stockholders (representing 6,669,924 shares) of record on December 23, 1997. Prior to such distribution, the Company capitalized Big 4 Ranch, Inc. with a cash contribution of $1.2 million or approximately $0.18 per share.

While the Company has never declared a cash 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.

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.

(In thousands, except per share data)	AT OR FOR THE YEAR ENDED DECEMBER 31, 1997	1996	1995	1994	1993
Income from real estate operations	$ 5,110	$ 4,932	$ 5,402	$ 2,070	$ --
Dividend and interest income	906	939	710	45	--
Gain (loss) on property sales	(16)	1,493	1,541	--	--
Net interest income after provision for estimated loan losses	--	--	--	--	36,101
Gain on sale of loans, net	--	--	--	--	194
Gain on sale of mortgage-back securities	--	--	--	--	1,342
(Losses) on sales of investment securities	--	--	--	--	(54)
Consulting income from shareholder	240	169	120	--	--
Other income (expense)	--	--	--	--	(35,870)
Administrative charge from Fidelity	--	--	--	(916)	--
Gain (Loss) of and Write-down of investment in Fidelity (6)	--	4,000	(41)	(171,964)	--
Operating expenses	(4,665)	(5,107)	(6,334)	(4,060)	(105,341)
Earnings (loss) before income taxes	1,575	6,426	1,398	(174,825)	(103,628)
Income tax expense (benefit)	45	--	--	--	(36,467)
Net earnings (loss)	$ 1,530	$ 6,426	$ 1,398	$ (174,825)	$ (67,161)
Net earnings (loss) available to common stockholders	$ 1,530	$ 6,268	$ 1,240	$ (174,842)	$ (67,161)
Basic earnings (loss) per share	$ 0.24	$ 1.04	$ 0.20	$ (26.45)	$ (11.56)
Diluted earnings (loss) per share	$ 0.24	$ 0.80	$ 0.16	$ (26.45)	$ (11.56)
Basic Average common shares(1)(2)	6,487,458	6,003,924	6,191,864	6,610,280	5,809,570
Diluted Average common shares(5)	6,496,142	8,050,708	8,616,613	6,610,280	5,809,570
Balance Sheet Data:					
Total assets	$ 28,860	$ 30,292	$ 39,815	$ 39,912	$4,389,519
Cash	4,364	6,356	16,291	4,805	238,220
Total loans, net	--	--	--	--	3,713,383
Deposits	--	--	--	--	3,368,643
Borrowings	9,395	10,303	16,186	14,846	734,230
Subordinated notes	--	--	--	--	60,000
Stockholders' equity	18,054	17,724	17,720	17,838	187,403
Cash dividends declared on Preferred Stock	--	232	101	--	--
Stock Dividend	1,200	--	--	--	--

	YEAR ENDED DECEMBER 31, 1993
Other Data	
Real estate loans funded	$422,355
Average interest rate on new loans	6.75%
Loans sold	$137,870
Nonperforming assets to total assets	5.37%
Number of deposit accounts	$241,093
Interest rate margin at end of period (3)	2.19%
Interest rate margin for the period (3)	2.28%
Retail branch offices (4)	42

(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 and 2,430,323 common shares, respectively.
(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.

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 in the ownership and management of its real estate interests and in the offering of various real estate consulting services to its affiliates. 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"), the Company has gained familiarity with the cinema exhibition industry and the operations and prospects of Reading and in October 1996 invested $7 million to acquire 70,000 shares of Series A Cumulative Convertible Preferred Stock and the Asset Put Option described below.

On December 31, 1997, the Company acquired, through its interest in three general partnerships (the "Agricultural Partnerships"), a 40% interest in approximately 1,580 acres of agricultural land and related improvements, located in Kern County, California, commonly known as the Big 4 Ranch (the "Property"). The other two partners in the Partnerships are Visalia LLC (a limited liability company controlled by Mr. James J. Cotter, the Chairman of the Board of the Company, and owned by Mr. Cotter and certain members of his family) which has a 20% interest and Big 4 Ranch, Inc., a publicly held corporation, which has the remaining 40% interest. Prior to the acquisition, Big 4 Ranch, Inc., was a wholly owned subsidiary of the Company. Immediately prior to the acquisition, the Company capitalized Big 4 Ranch, Inc., with a cash capital contribution of $1.2 million and then distributed 100% of the share of Big 4 Ranch, Inc., to the shareholders of record of the Company's common stock as of the close of business on December 23, 1997, as a spin-off dividend. The Company accounts for its 40% investment in the Agricultural Partnerships utilizing the equity method of accounting. As the acquisition did not occur until December 31, 1997; there was no impact in the results of operations for the year ended December 31, 1997. See Note 5.

On October 15, 1996, 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 (such securities together with all successor Securities being referred to as the "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 of Reading 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.

On December 20, 1996, Citadel redeemed the Preferred Stock from Reading pursuant to the exercise of certain redemption rights, at a redemption price amounting to approximately $6.19 million. As a consequence of the Preferred Stock redemption, Reading's ownership of Citadel decreased to an approximately 26% common stock holding.

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 $12.25 per share. The closing price of Reading Stock at December 31, 1997, was $12.75 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 provided 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. Through its majority owned subsidiaries, REI is in the business of developing and operating multi-plex cinemas in the United States, Puerto Rico and Australia and of developing, and eventually operating, entertainment centers in Australia. The Company operates its cinemas through various subsidiaries under the Angelika Film Centers and Reading Cinemas names in the United States (the "US Circuit"); through Reading Cinemas of Puerto Rico, Inc., a wholly owned subsidiary, under the CineVista name of Puerto Rico ("CineVista" or the "Puerto Rico Circuit"); and through Reading Australia Pty, Limited (collectively with its subsidiaries referred to herein as "Reading Australia") under the Reading Cinemas name in Australia (the "Australia Circuit"). The Company's entertainment center development activities in Australia are also conducted through Reading Australia, under the Reading Station name.

RESULTS OF OPERATIONS
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Due to the nature of the Company's business activities the Company's historical revenues have and future revenues will vary significantly reflecting the results of real estate sales and the acquisition of the Preferred Stock and Agriculture Partnership, 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, 1997 ("FISCAL 1997") AND 1996 ("FISCAL 1996) VERSUS YEAR ENDED DECEMBER 31, 1995 ("FISCAL 1995")

The Company's net earnings amounted to approximately $1,530,000, $6,426,000 and a $1,398,000 for Fiscal 1997, 1996 and 1995, respectively. Net earnings available to common stockholders reflects net earnings, less any preferred stock dividends earned prior to the preferred stock redemption in December 1996, and amounted to $1,530,000, $6,268,000 and $1,240,000 for Fiscal 1997, 1996 and 1995, respectively. Included in the net earnings for Fiscal 1997 is approximately $820,000 of income from shareholder affiliates including the receipt of interest income, dividends earned on its Investment in Reading and consulting fees as compared to $264,000 and $120,000 in Fiscal 1996 and 1995. Fiscal 1996 earnings includes approximately $1,493,000 from the sale of an apartment property and an undeveloped parcel of land and 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.

Rental income amounted to approximately $5,110,000 in Fiscal 1997, $4,932,000 in Fiscal 1996 and $5,402,000 in Fiscal 1995. The fluctuations between the years are principally due to a reduction in the number of rental properties owned by the Company between the periods offset by increased revenues from the properties remaining. The Company has disposed of three multi-family residential properties, (one in each of 1995, 1996 and January 1997), one office building (1995) and certain open land (1996) during the last 3 years.

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 56% 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 the Glendale property (purchased in May 1995). As of December 31, 1997, rental properties consisted of two office buildings located in Glendale, California and Phoenix, Arizona (purchased in August 1994). The Glendale property is leased to Disney Enterprises, Inc. and Fidelity Federal Bank, and American Express leases approximately 56% of the Phoenix Building. Rental income from these lessees amounted to approximately $3,845,000 in Fiscal 1997 or approximately 76% of rental revenue.

In Fiscal 1996, the Company entered into a ten year lease with Disney for all six floors of the Glendale Building, excluding the ground floor, which is leased to Fidelity. The rental rate for the first five years of the Disney lease term began February 1, 1997 and is approximately $148,000 per month for the first five years and approximately $164,000 per month 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 of which the Company has expended approximately $400,000. In addition, the Company incurred 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, 1997 as "Capitalized leasing costs" and are being amortized over the 10 year term of the lease.

Real estate operating costs decreased to $2,090,000 in Fiscal 1997 as compared to $2,481,000 in Fiscal 1996 and $2,660,000 in Fiscal 1995. The Fiscal 1997 decrease is principally a result of the sale of two apartment buildings which the Company owned during the most of which Fiscal 1996, offset by an increase of the two remaining commercial properties of approximately $190,000. The Fiscal 1996 decrease was principally a result of the sale of an apartment building, partially offset by costs associated with operating the Glendale Building purchased in May 1995.

Interest income amounted to $326,000 in Fiscal 1997, $939,000 in Fiscal 1996 and $710,000 in Fiscal 1995. The decrease in Fiscal 1997 as compared to 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.

Dividends from investment in Reading in Fiscal 1997 amounted to $455,000 as compared to $95,000 in Fiscal 1996, reflecting a full years dividend earned pursuant to the terms of the REI Preferred Stock. The REI Preferred Stock was issued in October 1996 and bears a cumulative dividend of 6.5%, payable quarterly. The REI Preferred Stock is convertible any time after April 15, 1998 into common shares of REI as a conversion price of $11.50 per share.

On April 11, 1997, Craig exercised its warrant to purchase 666,000 shares of the Company's common stock at an exercise price of $3.00 per share or $1.998 million. Such exercise was consummated pursuant to delivery by Craig of its secured promissory note (the "Craig Secured Note") in the amount of $1.998 million, secured by 500,000 shares of REI Common Stock owned by Craig. The Craig Secured Note, in the amount of $1.998 million, is included in the Balance Sheet as a contra equity account under the caption "Note receivable from shareholder". Interest is payable quarterly in arrears at the prime rate (amounting to 8.5%) computed on a 360 day-year. Principal and accrued but unpaid interest is due upon the earlier of April 11, 2002 or 120 days following the Company's written demand for payment. The Craig Secured Note may be prepaid, in whole or in part, at any time by Craig without penalty or premium. Included in the Statement of Operations for the year ended December 31, 1997 as "Interest income from shareholder" is approximately $125,000 earned pursuant to the Craig Secured Note.

Interest expense amounted to $1,009,000 in Fiscal 1997, $1,317,000 in Fiscal 1996 as compared to $1,327,000 in Fiscal 1995. The $308,000 decrease in Fiscal 1997 as compared to Fiscal 1996 was principally a result of the payoff of a mortgage amounting to approximately $755,000 upon the sale of a property in January 1997. The comparability Fiscal 1996 and 1995 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. The interest rate on the remaining outstanding loans approximated 10.22% at December 31, 1997.

General and administrative expenses amounted to $1,175,000 in Fiscal 1997, $914,000 in Fiscal 1996 and $1,927,000 in Fiscal 1995. The increase in Fiscal 1997 as compared to Fiscal 1996 is a result of accounting, printing, and consulting expenses relating to the stock distribution of Big 4 Ranch, Inc. and the acquisition of the Agricultural Partnerships and increased salaries and bonuses. The $880,000 decrease reflected in Fiscal 1996 as compared to Fiscal 1995 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.

BUSINESS PLAN, CAPITAL RESOURCES AND LIQUIDITY OF THE COMPANY

Fiscal 1997

Fiscal 1997 cash and cash equivalent decreased by approximately $1,992,000 from $6,356,000 at December 31, 1996 to $4,364,000 at December 31, 1997. Net cash provided by operating activities amount to $1,688,000, net cash used in investing activities amount to $741,000 and net cash used in financing activities amounted to $2,939,000. The principal uses of funds included (i) the Company's 40% equity investment in the Big 4 Agricultural Properties (ii) the Company loan of $831,000 to the Agricultural Partnerships (iii) the $1,200,000 capitalization of Big 4 Ranch, Inc., prior to the Company's dividend of Big 4 Ranch, Inc. to its common shareholders, (iv) leasehold improvements amounting to $708,000 and (v) repayments of mortgage loans amounting to $908,000. Principal sources of funds included approximately $1,128,000 received upon the sale of a rental property.

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 two real estate properties, (iii) consulting fee income from Reading and (v) a quarterly preferred stock dividend from Reading amounting to approximately $455,000 annually. The Company does not expect to receive cash flow from its investments in the Agricultural Partnerships in the near term.

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 $1.9 million, (ii) operating expenses, and (iii) debt service pursuant to the property mortgages. As part of the Big 4 Ranch Inc. spin off, the Company agreed to provide a $200,000 line of credit to that Company. In addition, the Company has provided an agricultural line of credit to the Agricultural Partnerships of $1,200,000. As of March 20, 1998 no additional monies other than the initial $831,000 drawdown have been borrowed, however, the Company expects to receive additional requests for borrowings of the total committed credit lines.

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 1996

Fiscal 1996 cash and cash equivalents decreased by approximately $9,935,000 from $16,291,000 at December 31, 1995 to $6,356,000 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 of its 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.

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.

The Company has determined that it will not need to modify or replace significant portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and beyond. The Company also does not believe that the failure of any third party suppliers or other parties to remediate year 2000 issues could have a material impact upon the Company's operations.

FORWARD-LOOKING STATEMENTS

From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing, including those contained herein. Such forward-looking statements may be included in, without limitation, reports to stockholders, press releases, oral statements made with the approval of an authorized executive officer of the Company and filings with the Securities and Exchange Commission. The words or phrases "anticipates," "expects, "will continue," "estimates," "projects," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The results contemplated by the Company's forward-looking statements are

subject to certain risks, trends, and uncertainties that could cause actual results to vary materially from anticipated results, including without limitation, delays in obtaining leases and permits for new multiplex locations, construction risks and delays, the lack of strong film product, the impact of competition, market and other risks associated with the Company's investment activities and other factors described herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INDEPENDENT AUDITORS REPORT

The Board of Directors
Citadel Holding Corporation

We have audited the accompanying consolidated balance sheets of Citadel Holding Corporation and subsidiaries (the "Corporation") as of December 31, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, 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, 1998

CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31, 1997	1996
ASSETS		
Cash and cash equivalents	$ 4,364	$ 6,356
Properties held for sale	--	1,145
Rental properties, less accumulated depreciation	13,652	13,288
Investment in shareholder affiliate	7,000	7,000
Equity investment in Agriculture Partnerships	1,129	--
Note Receivable from Agriculture Partnerships	831	--
Capitalized leasing costs	1,384	1,576
Other receivables	94	311
Other assets	406	616
Total assets	$ 28,860	$ 30,292
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Security deposits payable	$ 90	$ 76
Accounts payable and accrued liabilities	1,009	2,025
Deferred rental revenue	312	164
Mortgage notes payable	9,395	10,303
Total liabilities	10,806	12,568
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Serial preferred stock, par value $.01, 5,000,000 shares authorized, 3% Cumulative Voting Convertible, none outstanding	--	--
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	67	67
Additional paid-in capital	59,603	59,020
(Accumulated deficit)	(39,618)	(39,948)
Note receivable from shareholder upon common stock issuance	(1,998)	--
Cost of treasury shares, 666,000 shares as of 1996	--	(1,415)
Total stockholders' equity	18,054	17,724
Total liabilities and stockholders' equity	$ 28,860	$ 30,292

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Revenues:			
Rental income	$5,110	$4,932	$5,402
Interest income	326	844	710
	5,436	5,776	6,112
Real estate operating expenses	2,090	2,481	2,660
Depreciation and amortization	391	395	420
Interest expense	1,009	1,317	1,327
General and administrative expenses	1,175	914	1,927
Total expenses	4,665	5,107	6,334
Gain (loss) on sale of properties	(16)	1,493	1,541
Dividends from investment in Reading	455	95	--
Consulting fees from shareholder	240	169	120
Interest income from shareholder	125	--	--
Gain (loss) of and Write-down of Investment in Fidelity	--	4,000	(41)
Earnings before taxes	1,575	6,426	1,398
Income tax expense	45	--	--
Net earnings	$1,530	$6,426	$1,398
Less: Preferred stock dividends	--	(158)	(158)
Net earnings available to common stockholder	$1,530	$6,268	$1,240
Basic earnings per share	$ 0.24	$ 1.04	$ 0.20
Diluted earnings per share	$ 0.24	$ 0.80	$ 0.16

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE YEARS ENDED DECEMBER 31, 1997
(IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	NOTE RECEIVABLE FROM STOCK-HOLDER	TREASURY STOCK, AT COST	TOTAL STOCK-HOLDERS' EQUITY
	SHARES	PAR VALUE	SHARES	PAR VALUE					
Balance at January 1, 1995	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)
Preferred stock dividends					(101)				(101)
Net earnings						1,398			1,398
Balance at December 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)
Balance at December 31, 1996	--	--	6,670	67	59,020	(39,948)	--	(1,415)	17,724
Net earnings						1,530			1,530
Dividend of Big 4 Ranch, Inc.						(1,200)			(1,200)
Issuance of treasury stock for note					583		(1,998)	1,415	--
Balance at December 31, 1997	--	$ --	6,670	$67	$59,603	$(39,618)	$(1,998)	$ --	$18,054

See accompanying notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
OPERATING ACTIVITIES			
Net earnings	$ 1,530	$ 6,426	$ 1,398
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
(Gain) loss from investment in Fidelity	--	(4,000)	41
Depreciation and amortization	345	395	420
Loss (Gain) on sale of rental property	16	(1,493)	(1,541)
Amortization of lease costs	224	24	15
Amortization of capitalized deferred loan costs	46	88	58
Decrease (increase) in other receivables	217	137	382
Decrease (increase) in other assets	164	(153)	(231)
Increase (decrease) in security deposits payable	14	(177)	26
Increase in deferred rent	148	164	--
Decrease in accrued liabilities	(1,016)	(501)	(1,345)
Net cash provided by (used in) operating activities	1,688	910	(777)
INVESTING ACTIVITIES			
Proceeds from sale of Fidelity stock	--	--	11,938
Purchase of Reading Entertainment, Inc. securities	--	(7,000)	--
Purchase of Big 4 Partnerships	(1,129)	--	--
Proceeds from sale of properties	1,128	9,361	8,837
Payment of capitalized leasing costs	(32)	(397)	--
Purchase of and additions to real estate	(708)	(504)	(9,610)
Net cash (used in) provided by investing activities	(741)	1,460	11,165
FINANCING ACTIVITIES			
Redemption of Preferred Stock from shareholder affiliate	--	(6,190)	--
Proceeds from long-term mortgage borrowings	--	--	6,104
Repayments of mortgage notes payable	(908)	(5,883)	(3,814)
Short-term borrowing of Big 4	(831)	--	--
Dividend of Big 4 Ranch, Inc.	(1,200)	--	--
Repayment of borrowings from affiliates		--	(950)
Preferred stock dividends paid	--	(232)	(101)
Capitalized financing costs	--	--	(141)
Net cash (used in) provided by financing activities	(2,939)	(12,305)	1,098
Net (decrease) increase in cash and cash equivalents	(1,992)	(9,935)	11,486
Cash and cash equivalents at beginning of year	6,356	16,291	4,805
Cash and cash equivalents at end of year	$ 4,364	$ 6,356	$16,291
SUPPLEMENTAL DISCLOSURES:			
Cash paid during the period for:			
Interest on mortgages and line of credit	$ --	$ 1,269	$ 1,292
Noncash transactions:			
Common stock issued in exchange for secured note payable	1,998	--	--
Common stock received in exchange for Fidelity stock	--	--	1,415
Additions to real estate owned (other assets) through foreclosure	--	--	400

See accompanying 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 consolidated subsidiaries (collectively the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

On December 31, 1997, the Company acquired, through its interest in three general partnerships (the Agricultural "Partnerships"), a 40% interest in approximately 1,580 acres of agricultural land and related improvements, located in Kern County, California, commonly known as the Big 4 Ranch (the "Property"). The other two partners in the Partnerships are Visalia LLC (a limited liability company controlled by Mr. James J. Cotter, the Chairman of the Board of the Company, and owned by Mr. Cotter and certain members of his family) which has a 20% interest and Big 4 Ranch, Inc., a publicly held corporation, which has the remaining 40% interest. Prior to the acquisition, Big 4 Ranch, Inc., was a wholly owned subsidiary of the Company. Immediately prior to the acquisition, the Company capitalized Big 4 Ranch, Inc., with a cash capital contribution of $1.2 million and then distributed 100% of the share of Big 4 Ranch, Inc., to the shareholders of record of the Company's common stock as of the close of business on December 23, 1997, as a spin-off dividend. The Company accounts for its 40% investment in the Partnership utilizing the equity method of accounting. As the acquisition did not occur until December 31, 1997, there was no impact on the results of operations for the year ended December 31, 1997. See Note 5.

On October 15, 1996, the Company consummated an exchange transaction with its shareholder affiliates, Craig Corporation ("Craig") and Reading Entertainment, Inc. ("REI" and collectively with its consolidated subsidiaries "Reading"). Pursuant to the terms of the exchange, 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.

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, 1997 and 1996 is approximately $3.75 million and $5.75 million, respectively, 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 10 to 39 years. Leasehold improvements are amortized over the lives of respective leases or the useful lives of the improvements, whichever is shorter.

Deferred Financing Costs

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

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.

Basic Earnings per Share Data

The Company retroactively adopted Statement of Financial Accounting Standards Earnings ("SFAS") No. 128, "Earnings Per Share" is 1997. SFAS No. 128 requires companies to present basic earnings per share ("EPS") and Diluted earnings per share rather than primary and fully diluted EPS which was previously required. Basic earnings per share is based on 6,487,458, 6,003,924 and 6,191,864, the weighted average number of shares outstanding during 1997, 1996 and 1995, respectively. Diluted earnings per share is based on 6,496,142, 8,050,708, and 8,616,613, the weighted average number of shares of common stock and potential common shares outstanding during the years ended December 31, 1997, 1996, and 1995, 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 for diluted earnings per share 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. Stock options to purchase 53,000 shares of Common Stock were outstanding during 1997 at a weighted average exercise price of $2.81 per share. The 1997 Diluted weighted average number of shares outstanding includes the effect of such stock options amounting to 8,684 shares. The Warrants and Stock options were anti-dilutive in 1996 and 1995. The number of shares assumed converted as of the beginning of the 1995 and 1996 periods being reported amounted to 2,046,784 and 2,430,223, respectively and was calculated in accordance with the Preferred Stock conversion terms described in Note 9.

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

The Company accounts for its long-lived assets consistent with the Statement of Accounting Standard No. 121 "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed Of" which requires other provisions, the evaluation of the impairment of long lived assets, certain intangible assets and costs in excess of net assets related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of.

Reclassifications

Certain amounts have been reclassified in the 1996 and 1995 financial statements to conform to the 1997 financial statement presentation.

NOTE 3 - RENTAL PROPERTIES AND PROPERTIES HELD FOR SALE

The Company's rental properties and properties held for sale at December 31, 1997 and 1996 consisted of the following:

	1997	1996
	(IN THOUSANDS)	
RENTAL PROPERTIES:		
Land	$ 4,439	$ 4,439
Building and improvements	10,096	9,388
Total	14,535	13,827
Less accumulated depreciation	(883)	(539)
Rental properties, net	$13,652	$13,288
PROPERTIES HELD FOR SALE:		
Apartment building		$ 1,230
Accumulated depreciation		(85)
Net		$ 1,145

At December 31, 1997 and 1996 rental properties consisted of two office buildings located in Glendale, California and Phoenix, Arizona. The Phoenix Building was purchased from Fidelity in August 1994 for $6.4 million. The Company purchased the Glendale Building for $7.12 million in May 1995 from Fidelity. In connection with the Glendale Building the Company obtained a $5.34 million five year mortgage from Fidelity Federal Bank ("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. In January 1997, the property held for sale at December 31, 1996 was sold resulting in a loss of approximately $16,000.

In May 1996, the Company sold an apartment rental property, for approximately $8.94 million, net of expenses resulting 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 an undeveloped parcel of land 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 resulting in a gain of approximately $981,000 and sold a commercial building for a gain of approximately $560,000.

NOTE 4 - INVESTMENT IN SHAREHOLDER AFFILIATE
- ---

On October 15, 1996, 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 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 9).

As of December 31, 1997, Craig and the Company hold in the aggregate approximately 83% of the voting power of Reading, with Craig's holdings representing approximately 78% of the voting power of Reading and the Company's holdings representing approximately 5% of such voting power. At December 31, 1997, Reading holds 1,564,973 shares or approximately 23% of the Company's outstanding common stock and Craig also holds 666,000 shares (10%) of the Company's Common Stock.

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 after April 15, 1998 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 the Statements of Operations for the years ended December 31, 1997 and 1996 as

"Dividends from Investment in Reading" is approximately $455,000 and $95,000, respectively, 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 prior to that 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 $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. For financial reporting purposes the Company did not allocate any value to the Asset Put Option at the exchange date.

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 of approximately $265,000.

Reading is a publicly traded company whose shares are listed on the NASDAQ. Through its majority owned subsidiaries, REI is in the business of developing and operating multi-plex cinemas in the United States, Puerto Rico and Australia and of developing, and eventually operating, entertainment centers in Australia. The Company operates its cinemas through various subsidiaries under the Angelika Film Centers and Reading Cinemas names in the United States (the "US Circuit"); through Reading Cinemas of Puerto Rico, Inc., a wholly owned subsidiary under the Cinevista name of Puerto Rico ("CineVista" or the "Puerto Rico Circuit"); and through Reading Australia Pty, Limited (collectively with its subsidiaries referred to herein as "Reading Australia") under the Reading Cinemas name in Australia (the "Australia Circuit"). The Company's entertainment center development activities in Australia are also conducted through Reading Australia, under the Reading Station name.

Summarized financial information of Reading as of December 31, 1997 and 1996 and the results of operations for each of the years ended December 31, 1997 and December 31, 1996 follows:

CONDENSED BALANCE SHEET:

	YEARS ENDED DECEMBER 31, 1997	1996
	(In thousands)	
Cash and cash equivalents	$ 92,870	$ 48,680
Other current assets	7,433	7,765
Equity investment in Citadel	4,903	4,850
Preferred stock of Stater	--	67,978
Property and equipment, net	40,312	21,130
Intangible assets	24,957	26,229
Other assets	7,537	5,122
Total Assets	$178,012	$181,754

Current liabilities	$ 13,177	$ 13,109
Other liabilities	5,344	3,595
Minority interests	2,006	2,096
Preferred Stock held by Citadel	7,000	7,000
Shareholders' equity	150,485	155,954
Total Liabilities and Equity	$178,012	$181,754

CONDENSED STATEMENTS OF OPERATIONS:

	For the Years Ended December 31,	
	1997	1996
	(In thousands)	
Revenue:		
Theater	$ 26,984	$ 18,236
Real estate	180	543
Total revenue	27,164	18,779
Theater costs	(21,377)	(14,452)
Depreciation and amortization	(2,785)	(1,793)
General and administrative	(9,737)	(7,106)
Loss from operations	(6,735)	(4,572)
Equity in earnings of Citadel	298	1,526
Gain from Stater Stock Redemption	2,002	--
Interest and dividend income, net	7,737	4,165
Other income, net	916	4,327
Earnings before income taxes	4,218	5,446
Income tax benefit (expense)	(1,067)	1,236
Minority interest	(196)	321
Net income	2,955	7,003
Less preferred stock dividends	(4,309)	(911)
Net (loss) income applicable to common stock shareholders	$ (1,354)	$ 6,092
Basic earnings (loss) per share	$ (0.18)	$ 1.11
Fully diluted earnings (loss) per share	$ (0.18)	$ 1.02

Included in preferred stock dividends is approximately $455,000 and $95,000 paid to the Company for the years December 31, 1997 and 1996, respectively. In addition, net income for the year ended December 31, 1997 includes a non-recurring gain from the Stater Preferred Stock redemption and dividend income received prior to such redemption of approximately $6.5 million.

Included in income tax benefit for the 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 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 - EQUITY INVESTMENT AND NOTE RECEIVABLE FROM AGRICULTURAL PARTNERSHIPS

As described in Note 1, the Company acquired a 40% equity interest in the Agricultural Partnerships. Also, on December 31, 1997, the Agricultural Partnerships acquired the Big 4 Properties consisting of approximately 1,580 acres of agricultural land and related improvements, located in Kern County, California. The assets acquired included (i) approximately 560 acres of Navel oranges, 205 acres of Valencia oranges, 145 acres of lemons, 32 acres of minneolas and 600 acres of open land currently leased on a short term basis to a third party for the cultivation of annual crops (the "Open Land"), (ii) irrigation systems, (iii) water rights, (iv) frost prevention systems and (v) the fruit currently on the trees and slated for harvest in 1998. The Big 4 Properties were acquired by the Agricultural Partnerships (the "Ranch Acquisition") from Prudential Insurance Company of America ("Prudential") on an arms length basis for a purchase price of $6.75 million, plus reimbursement of certain cultural costs approximating $831,000.

The Ranch Acquisition was financed by prorata capital contributions of the partners (Citadel's 40% portion amounting to approximately $1.08 million), by a $4.05 million purchase money loan from Prudential, and by a crop finance loan by Citadel to the Agricultural Partnerships of approximately $.831 million. The loan by Citadel was advanced pursuant of a $1.2 million Line of Credit Agreement (the "Crop Financing") extended by the Company to the Agricultural Partnerships. Drawdowns under the Crop Financing will accrue interest at prime plus 100 basis points, payable quarterly, and are due and payable in August 1998. Thereafter, Citadel may, but will be under no obligation to, provide future crop financing

on terms to be negotiated at arms length. At December 31, 1997 Citadel had advanced approximately $.831 million under the Crop Financing Line of Credit. For financial statement purposes, the note receivable is included in the Balance Sheet as Note Receivable from Agriculture Partnerships, inclusive of the 40% or $.332 million advanced upon Citadel's behalf. While under no obligation, it appears likely that Citadel will, as a practical matter, need to renew the Crop Financing in August 1998.

Prior to the Spin-off, Farming entered into a two-year farming services agreement (the "Farming Contract") with each of the Partnerships, pursuant to which it provides farm operation services for an initial term of two

years. In consideration of the services provided under the Farming Contract, Farming is to be paid an amount equal to 100% of its costs plus a profit factor equal to 5% of the gross agricultural receipts from the Big 4 Properties, calculated after the costs of picking, packing and hauling. Farming has entered into a contract with Cecelia Packing Corporation ("Ceceila") for certain management consulting, purchasing and bookkeeping services for an initial terms of two years at a fee of $6,000 per month plus reimbursement of certain out-of-pocket expenses. Cecelia will also pack a portion of the fruit produced by the Agricultural Partnerships. While the Company has no experience in citrus farming, Cecelia has been engaged in farm management and citrus packing and marketing for more than the past 20 years.

The Prudential Purchase Money Loan in the amount of $4.05 million is secured by, among other things, a first priority mortgage lien on the property, has a ten-year maturity and accrues interest, payable quarterly, at a fixed rate of 7.7%. In order to defer principal payments until January 1, 2002, the Partnerships must make capital improvements to the real property totaling $500,000 by December 31, 2000 and an additional 200,000 by December 31, 2001. If the required capital expenditures are not made, then the Partnerships will be required to make a mandatory prepayment of principal on January 31, 2001 equal to difference between $500,000 and the amount of capital improvements made through December 31, 2000. The purchase money mortgage also imposes a prepayment penalty equal to the greater of (a) one-half of one percent of each prepayment of principal and (b) a present value calculation of the anticipated loss that the note holder will suffer as a result of such prepayment.

The following table reflects unaudited pro forma combined results of operations of the Company on the basis that the acquisition had taken place on January 1, 1995.

(THOUSANDS EXCEPT PER SHARE AMOUNT)	1997	1996	1995
Earnings (losses) from equity investment	$ (200)	$ (140)	$ (160)
Net Earnings	$1,320	$6,276	$1,228
Net Earnings Available to common shareholders	$1,320	$6,118	$1,070
Basic earnings per share	$ 0.20	$ 1.02	$ 0.17
Dilutive earnings per share	$ 0.20	$ 0.78	$ 0.14

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as additional depreciation and amortization expense based upon an estimated allocation of the purchase price, interest income from partnership loans, offset by expenses of Citadel to manage the properties. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on January 1, 1995, or of future results of operations of the consolidated entities.

NOTE 6 - 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 sold principally all of its holdings in Fidelity.

In addition to the reduction of Citadel's interest in Fidelity, several other significant events occurred in the August 1994 Restructuring, including 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 indemnity clause negotiated with Fidelity, the Company included $4 million on its Balance Sheet at December 31, 1995 as "Deferred proceeds from bulk sales agreement". During 1996, Fidelity reached a settlement with the purchaser regarding the bulk sales claims which 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 7 - OTHER ASSETS

Other assets are summarized as follows:

	DECEMBER 31, 1997	1996
	(IN THOUSANDS)	
Deferred financing costs	$ 191	$ 204
Accumulated amortization	(98)	(64)
Deferred financing costs, net	93	140
Impounds	110	354
Prepaid expenses	109	110
Unbilled rent receivable	88	
Other	6	12
	$ 406	$ 616

NOTE 8 - MORTGAGE NOTES PAYABLE

Mortgage notes payable at December 31, 1997 and 1996 is as follows:

	DECEMBER 31, 1997	1996
	(IN THOUSANDS)	
Notes payable to Fidelity--principal and interest paid monthly at rates equal to LIBOR plus 4.5%, maturing through 2001	$9,395	$ 9,548
Note payable to American Savings Bank -- principal and interest paid monthly at a rate equal to the eleventh District cost of funds plus 2.95%, maturing June 1, 2025	--	755
	$9,395	$10,303

As of December 31, 1997, the 30-day LIBOR interest rate was 5.71825%.

Aggregate future principal payments as of December 31, 1997 are as follows:

YEAR ENDING DECEMBER 31,	(IN THOUSANDS)
1998	$ 168
1999	186
2000	4,937
2001	4,104
	$9,395

NOTE 9 - 3% CUMULATIVE VOTING CONVERTIBLE PREFERRED STOCK

On November 10, 1994, the Company issued 1,329,114 shares of 3% Cumulative Voting Convertible Preferred Stock ("Preferred Stock") at a stated value of $3.95 per share to Craig. The Preferred Stock was subsequently transferred from Craig to Reading. The price of the 1,329,114 shares issued 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 conversion rights and Citadel redeemed the Series B Preferred from Reading for approximately $6.19 million.

Included as a reduction of stockholders' equity for the year ended December 31, 1996 and 1995 are $232,000 and $101,000, 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 10 - FUTURE MINIMUM RENT

Rental income amounted to $5,110,000, $4,932,000 and $5,402,000 for each of the three years ended December 31, 1997, 1996 and 1995. Rental income for the year ended December 1997 was derived from leases on the two commercial properties held by the Company. Three leases, Disney Enterprises, Inc., Fidelity Federal Bank and American Express amounted to $3,845,000 or 76% of total rental income.

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") for a rental rate for the first five years of the lease term of approximately $101,000 per month (including parking). 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 contribute towards tenant improvements and common area upgrades approximately $2.3 million which the Company has expanded approximately .400 million at December 31, 1997. Commissions, legal fees and the $450,000 payment due Fidelity, totaling approximately $1.326 million are included in the Balance Sheet at December 31, 1997 and 1996 as "Capitalized leasing costs" and are being amortized over the term of the lease.

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. Generally accepted accounting principles requires that rents due under operating leases with fixed increases be averaged over the life of the lease. This practice, known as "straight-line rents" creates an unbilled rent receivable in any period during which the amount of straight-line rent exceeds the actual rent billed (this occurs primarily at the inception of the lease period). As the lease approaches its expiration date, billed rent will eventually calculated assumes no new or re-negotiated rents or extension periods during the life of the lease and excludes operating costs reimbursements. Future minimum rents under operating leases are summarized as follows:

Year Ending December 31,	(in thousands)
1998	$ 4,772
1999	3,013
2000	2,416
2001	2,228
2002	2,326
Thereafter	8,805
	$23,560

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 in each of the years ended December 31, 1997 and 1996 is $96,000 and $45,000 for the year ended December 31, 1995 paid to Craig for such rent and services. In addition, the Company provided real estate consulting services to Reading during the years ended December 31, 1997, 1996 and 1995 for which the Company was paid approximately $240,000, $169,000 and $120,000, respectively. Such amounts are included in the Statement of Operations as "Consulting income from shareholders."

NOTE 11 - COMMITMENTS AND CONTINGENCIES
- --

Several legal actions and claims against the Company in the prior year were settled in 1997 with no liability to 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 $2.2 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 12 - COMMON STOCK
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On April 11, 1997, Craig exercised its warrant to purchase 666,000 shares of the Company's common stock at an exercise price of $3.00 per share or $1.998 million. Such exercise was consummated pursuant to delivery by Craig of its secured promissory note (the "Craig Secured Note") in the amount of $1.998 million, secured by 500,000 shares of REI Common Stock owned by Craig. The Craig Secured Note, in the amount of $1.998 million, is included in the Balance Sheet as a contra equity account under the caption "Note receivable from shareholder". Interest is payable quarterly in arrears at the prime rate (amounting to 8.5%) computed on a 360 day-year. Principal and accrued but unpaid interest is due upon the earlier of April 11, 2002 or 120 days following the Company's written demand for payment. The Craig Secured Note may be prepaid, in whole or in part, at any time by Craig without penalty or premium. Included in the Statement of Operations for the year ended December 31, 1997 as "Interest income from shareholder" is approximately $125,000 earned purusant to the Craig Secured Note.

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 in 1995. As of December 31, 1997, 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, 1997 and 1996, vested options to purchase 20,000 shares of Common Stock at an exercise price of $3.00 per share are outstanding.

NOTE 13 - INCOME TAXES
- ----------------------

As of December 31, 1997, the Company has for income tax purposes net operating loss carryforwards and capital loss carryforwards of approximately $2.5 million and $7.4 million, respectively. These carryforwards will expire in the years 1999 through 2004 and are subject to certain limitations. Since realization of such tax benefits is dependent on the Company's future earnings and, in part, the finalization of the Internal Revenue Service audits for the year 1992 through 1994, a full valuation reserve has been provided.

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. The components of the deferred tax liabilities and assets are as follows:

	DECEMBER 31, 1997	1996
	(in thousands)	
FEDERAL:		
Deferred assets:		
Acquired and option properties	$ 2,070	$ 2,110
Capital losses from sale of Fidelity	2,600	2,600
Net operating loss carryforward	860	600
Other	--	385
Gross deferred tax assets	5,530	5,695
Valuation allowance	(5,530)	(5,695)
Net Deferred tax liability	$ --	$ --
STATE:		
Deferred tax assets:		
Acquired and option properties	560	570
Capital losses from sale of Fidelity	690	690
Net operating loss carryforward	--	120
Gross deferred tax assets	1,250	1,380
Valuation reserve	(1,250)	(1,380)
Net deferred tax liability	$ --	$ --

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, 1997	1996	1995
	(In thousands)		
Expected tax provision	$ 536	$ 2,185	$ 475
(Increase) reduction in taxes resulting from:			
Realization of deferred tax asset from book and tax basis of acquired properties sold	--	(520)	(530)
Dividend exclusion of preferred stock investment	(109)	(23)	--
Bulk sale indemnification not taxable	--	(1,400)	--
Utilization of net operating losses	(430)	(310)	--
Losses for which no tax benefit was recorded	--	--	55
Other	48	68	--
Actual tax provision	$ 45	$ --	$

NOTE 14 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share amounts)			
1997				
Real estate income	$1,124	$1,271	$1,318	$1,397
Interest income	$ 94	$ 116	$ 108	$ 133
Loss on sale of properties	$ (16)	--	--	--
Dividends from Reading	$ 114	$ 114	$ 114	$ 114
Net earnings	$ 246	$ 413	$ 407	$ 464
Basic net earnings per share	$ 0.04	$ 0.06	$ 0.06	$ 0.07
Diluted earnings per share	$ 0.04	$ 0.06	$ 0.06	$ 0.07
1996				
Real estate income	$1,530	$1,353	$1,029	$1,020
Interest income	$ 210	$ 219	$ 249	$ 166
Gain on sale of properties	--	$1,473	$ 20	$ --
Gain on Fidelity	--	$4,000	--	--
Dividends from Reading	--	--	--	$ 95
Net earnings	$ 243	$5,541	$ 197	$ 445
Net earnings available to common stockholders	$ 204	$5,502	$ 158	$ 404
Basic earnings per share	$ 0.03	$ 0.92	$ 0.03	$ 0.07
Diluted earnings per share	$ 0.03	$ 0.67	$ 0.02	$ 0.06

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. Diluted earnings per share reflect the number of shares contingently issuable upon the conversion of the Preferred Stock to Common Stock based upon the values calculated as of December 19, 1996 and December 31, 1995, respectively. Such shares were redeemed on December 19, 1996.

FINANCIAL STATEMENT SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 1997
(IN THOUSANDS)

		INITIAL COST		COSTS CAPITALIZED
	ENCUMBRANCES	LAND	BUILDING AND IMPROVEMENTS	SUBSEQUENT TO ACQUISITION
Commercial Office Building	$4,292	$1,488	$4,507	$ 377
Commercial Office Building	5,103	2,951	4,212	1,000
	$9,395	$4,439	$8,719	$1,377

	DECEMBER 31, 1997					
	LAND	BUILDING	TOTAL	ACCUMULATED DEPRECIATION	DATE ACQUIRED	LIFE ON WHICH DEPRECIATION IS COMPUTED
Commercial	$1,488	$ 4,884	$ 6,372	$ 513	8/4/94	40
Commercial	2,951	5,212	8,163	370	5/8/95	40
	$4,439	$10,096	$14,535	$ 883		

(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, 1997 for federal income tax purposes approximated $19,700,000.

(2) The following reconciliation reflects the aggregate rollforward activity of property held and accumulated depreciation for the three years ended December 31, 1997.

	GROSS Amount	ACCUMULATED DEPRECIATION
Balance at January 1, 1995	$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)
Depreciation expense	--	(345)
Acquisitions	708	--
Cost of real estate sold	(1,230)	86
Balance at December 31, 1997	$14,535	$(883)

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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)	47	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)(4)	59	Vice President/Chief Financial Officer of Western Water Company; Chairman of Softnet Systems, Inc. and Director of Westcorp Investments.	1995
Alfred Villasenor, Jr. (1)(2)(4)	68	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.
(4) Member of the Conflicts 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 is the Chairman and a director of Citadel Agricultural Inc., a wholly owned subsidiary of Citadel ("CAI"); the Chairman and a member of the Management Committee of each of the agricultural partnerships which constitute the principal assets of CAI (the "Agricultural Partnerships"); and the Chairman and a member of the Management Committee of Big 4 Farming, LLC, a 80% owned subsidiary of Citadel. From 1988 through January 1993, Mr. Cotter also served as the President and a director of Cecelia packing Corporation (a citrus grower and packer), a company wholly owned by Mr. Cotter, and is the Managing Director of Visalia LLC, which holds a 20% interest in each of the Agricultural Partnerships. 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 common and convertible preferred stock representing approximately 78% of the voting power of the outstanding securities of REI and the Company owns approximately 5% of the voting power of REI. Craig owns approximately 10% of the Company's outstanding common stock and Reading owns approximately 23% of such Company securities. 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 was a Director of Stater Bros. Holdings, Inc. (retail grocery) between 1987 and September 1997.

Mr. Simon has been a director of the Company since June 1995. Mr. Simon is the Vice President, Chief Financial Officer of Western Water Company. In addition he is Chairman of the Board of Directors of Softnet Systems, Inc., and a director of Westcorp Investments, a wholly owned subsidiary of Westcorp Inc. Formerly, Mr. Simon was the Managing Director of the Henley Group, Inc., through March 1990, 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. In February 1997, Mr. Tompkins resigned as President of REI and was made Vice Chairman of REI. 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 1995 and also serves as the Secretary/Treasurer and Principal Accounting Officer for Citadel. Mr. Tompkins is also President and a Director of CAI, a member of the Management Committee of each of the Agricultural Partnerships and of Big 4 Farming LLC, and serves for administrative convenience as an Assistant Secretary of Visalia, LLC, and Big 4 Ranch, Inc. (a partner with CAI and Visalia, LLC in each of the Agricultural Partnerships).

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, 1997, 1996 and 1995 by each of the most highly compensated executive officers of the company whose compensation exceeded $100,000 in all capacities in which they served.

		ANNUAL COMPENSATION			LONG TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION(1)	SECURITIES UNDERLYING STOCK OPTIONS GRANTED	ALL OTHER COMPENSATION
Steve Wesson	1997	$185,000	$ 80,000	(1)	--	--
President and Chief	1996	$175,000	$ 50,000	(1)	--	--
Executive Officer	1995	$175,000	$100,000	(1)	--	--
Brett Marsh	1997	$150,000	$ 30,000	(1)	--	--
Director of Real Estate	1996	$130,000	--	(1)	--	--
	1995	$130,000	$ 10,000	(1)	--	--

(1) Excludes perquisites if the aggregate amount thereof is less than $50,000, or 10% of salary plus bonus, if less.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

No options were granted in 1997.

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

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END (#)	VALUE OF UNEXERCISED IN-THE-MONEY OPTION/SARS AT 12/31/97
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	EXERCISABLE/UNEXERCISABLE	EXERCISABLE/UNEXERCISABLE
Steve Wesson	N/A	N/A	33,000/0	$59,730
Alfred Villasenor	N/A	N/A	10,000/0	$15,000 (1)
Ronald I. Simon	N/A	N/A	10,000/0	$15,000 (1)

(1) Based upon $4.50 per share.

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

The Compensation Committee was 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 $40,000 with respect to 1997.

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.

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

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. During 1997 the Company filed a Registration Statement on Form 8-K in order to register 300,000 shares of Common Stock that have been reserved for issuance under the 1996 Stock Option Plan.

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 requires 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, 1997, all filing requirements applicable to its reporting persons were complied with.

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, 1998 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	
	AMOUNT AND NATURE	
NAME AND ADDRESS OF BENEFICIAL OWNER	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(3)	*
Craig Corporation(1)(4)	2,230,473	33.2%

	COMMON STOCK	
NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Reading Holdings, Inc., an indirect wholly owned subsidiary of REI (1) 30 South Fifteenth Street, Suite 1300 Philadelphia, PA 19102-4813	1,564,473	23.3%
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%
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	941,700	14%
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 666,000 shares of the Company's Common Stock and Reading owns 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. 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) According to filings made with the Securities and Exchange Commissions, 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 partnerships. Andrew E. Shapiro is the sole manager of LCM.

(7) Based on ownership assuming conversion of the stock options (53,000 shares).

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

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. Citadel redeemed the Series B Preferred Stock in December 1996 for a price of approximately $16.19 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 1997, $96,000 was paid to Craig for such rent and services. In additional, Citadel provided real estate consulting services to Reading Company during Fiscal 1997, for which Citadel was paid $240,000.

Issuance of Common Stock to Craig Corporation for a Note Receivable

On April 11, 1997, Craig exercised its warrant to purchase 666,000 shares of the Company's common stock at an exercised price of $3.00 per share or $1.998 million. Such exercise was consummated pursuant to delivery by Craig of its secured promissory note (the "Craig Secured Note") in the amount of $1.998 million, secured by 500,000 shares of REI Common Stock owned by Craig. The Craig Secured Note, in the amount of $1.998 million, is included in the Balance Sheet as a contra equity account under the caption "Note receivable from shareholder". Interest is payable quarterly in arrears at the prime rate (amounting to 8.5%) computed on a 360 day-year. Principal and accrued but unpaid interest is due upon the earlier of April 11, 2002 or 120 days following the

Company's written demand for payment. The Craig Secured Note may be prepaid, in whole or in part, at any time by Craig without penalty or premium.

Agricultural Activities

In 1997, the Company entered into a series of transactions which resulted in the acquisition by the Company of 1) a 40% equity interest in each of three general partnerships (the "Agricultural Partnerships") formed to acquire from the Prudential Insurance Company of America ("Prudential") approximately 1,580 acres of agricultural land located in the Central Valley of California (the "Big 4 Properties"), and 2) an 80% equity interest in a newly formed farm operating company, Big 4 Farming, LLC ("Farming"), created to farm the Big 4 Properties for the Agricultural Partnerships. The Big 4 Properties were acquired for a total purchase price of $6.75 million plus reimbursement of certain cultural costs through the closing (which cultural costs amounted to approximately $831,000). The acquisition was financed by a ten year purchase money mortgage loan from Prudential in the amount of $4.05 million (the "Prudential Loan") and by drawdowns in the amount of $831,000 under a $1.2 million crop finance line of credit from the Company to the partnerships (the "Crop Financing"). The Prudential Loan bears interest at 7.70%, provides for quarterly payment of interest, and provided certain levels of capital investment are achieved, calls for principal amortization payments of $200,000 per year commencing January 2002. The Crop Financing accrues interest, payable quarterly, at the rate of prime plus 100 basis points, and is all due any payable in August 1998. The balance of the funds required were provided by the partners of the Agricultural Partnerships.

Each of the Agricultural Partnerships has three partners: Citadel Agriculture, Inc., a wholly owned subsidiary of Citadel ("CAI"), which has a 40% interest in each of the partnerships; Big 4 Ranch, Inc. ("BRI"), which although formed as a wholly owned subsidiary of Citadel, was spun-off to the shareholders of Citadel following the formation of the partnerships and prior to the acquisition of the Big 4 Properties; and Visalia LLC ("Visalia"), a limited liability company controlled by James J. Cotter and owned by Mr. Cotter and certain members of his family. Farming is owned 80% by the Company and 20% by Visalia. BRI was initially capitalized with $1.2 million from Citadel and, in addition, has a three year $200,000 line of credit from Citadel, providing for interest at prime plus 200 basis points. No drawdowns have been made to date under this line of credit.

Craig and Reading, as shareholders of Citadel, received BRI shares in the spin-off in proportion to their interests in Citadel. Certain officers and directors of Craig and Reading are officers, directors or management committee members of CAI, BRI, Farming and/or the Agricultural Partnerships. Mr. James J. Cotter is the Chairman and a Director of each of Citadel, CAI, CC and REI, and is also Chairman of the management committees of Farming and of each of the Agricultural Partnerships. Mr. S. Craig Tompkins is the Vice Chairman and a Director of each of Citadel and REI, the President and a Director of CC, the Principal Accounting Officer of Citadel, the President of CAI and a member of the management committees of Farming and of each of the Agricultural Partnerships. Mr. Edward L. Kane, a Director of REI, is the Chairman and President of BRI, and a member of the management committee of each of the Agricultural Partnerships. Mr. William Gould, a Director of CC, is also a Director of BRI. Ms. Margaret Cotter, a Director of CC and the daughter of James J. Cotter, is also the Secretary, Treasurer and Principal Accounting Officer and a Director of BRI, an owner of Visalia and the Vice President of Ceceila. As an administrative convenience, Mr. Tompkins also serves as an assistant secretary of BRI and Visalia, for which he receives no compensation.

PART IV

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

(a)(1) FINANCIAL STATEMENTS

(a)(2) FINANCIAL STATEMENT SCHEDULE

(b) REPORTS ON FORM 8-K

(i) The Company filed a Report on Form 8-K on December 31, 1997, reporting on Item 2, "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 10-K for the year ended December 31, 1988, and incorporated herein by reference)
3.3	Amendment to By-laws of Citadel Holding Corporation (filed 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 as Exhibit 4.2 to the Company's Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference)
10.1	Form of Investor Purchase Agreement between Fidelity Federal Bank and the investors (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1004, 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., Tinicum Partners, L.P., and Essex Management Corporation (filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
10.14	Deposit Escrow Agreement, dated as of July 21, 1994, between Fidelity Federal Bank and Internationale Nederlanden (US) Capital Corporation, Farallon Capital Partners, L.P., Tinicum Partners, L.P., Essex Management Corporation, and Morgan Guaranty Trust Company of New York (filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
10.15	Purchase of Assets and Liability Assumption Agreement by and between Home Savings of America, FSB and Fidelity Federal Bank, FSB, dated as of July 19, 1994 (filed as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
10.16	Credit Agreement among Citadel Realty, Inc., Citadel Holding Corporation and Craig Corporation, dated as of August 2, 1994 (filed as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
10.17	Promissory Note, dated as of August 2, 1994, by Citadel Realty Inc. in favor of Craig Corporation (filed as Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
10.18	Guaranty, dated as of August 2, 1994, by Citadel Holding Corporation in favor of Craig Corporation (filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)

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.	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 as Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference)
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 as Exhibit 10.52 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference)
10.53	Certificate of Designation of the Series A Voting Cumulative Convertible Preferred Stock of Reading Entertainment, Inc., (filed as Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference)

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 Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated herein by reference)
10.55	Second Amendment to Standard Office Lease between Citadel Realty, Inc. and Fidelity Federal Bank dated October 1, 1996 (filed as Exhibit 10.55 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated herein by reference)
10.56	Modification Agreement to Loan No. 3038879 between Fidelity Federal Bank and Citadel Realty, Inc. dated October 1, 1996 (filed as Exhibit 10.56 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated herein by reference)
10.57	Citadel 1996 Nonemployee Director Stock Option Plan (filed as Exhibit 10.57 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference)
10.58	Reading Entertainment, Inc., Annual Report on Form 10-K for the year ended December 31, 1997 (filed herewith)
10.59	Stock Purchase Agreement dated as of April 11, 1997 by and between Citadel Holding Corporation and Craig Corporation (filed as Exhibit 10.56 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997)
10.60	Secured Promissory Note dated as of April 11, 1997 issued by Craig Corporation to Citadel Holding Corporation in the principal amount of $1,998,000 (filed as Exhibit 10.60 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997)
10.61	Agreement for Purchase and Sale of Real Property between Prudential Insurance Company of America and Big 4 Farming LLC dated August 29, 1997 (filed as Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997)
10.62	Second Amendment to Agreement of Purchase and Sale between Prudential Insurance Company of America and Big 4 Farming LLC dated November 5, 1997 (filed as Exhibit 10.62 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997)
10.63	Partnership Agreement of Citadel Agricultural Partners No. 1 dated December 19, 1997 (filed herewith)
10.64	Partnership Agreement of Citadel Agricultural Partners No. 2 dated December 19, 1997 (filed herewith)
10.65	Partnership Agreement of Citadel Agricultural Partners No. 3 dated December 19, 1997 (filed herewith)
10.67	Farm Management Agreement dated December 26, 1997 between Citadel Agricultural Partner No. 1 and Big 4 Farming LLC (filed herewith)
10.68	Farm Management Agreement dated December 26, 1997 between Citadel Agricultural Partner No. 2 and Big 4 Farming LLC (filed herewith)
10.69	Farm Management Agreement dated December 26, 1997 between Citadel Agricultural Partner No. 3 and Big 4 Farming LLC (filed herewith)
10.70	Line of Credit Agreement dated December 29, 1997 between Citadel Holding Corporation and Big 4 Ranch, Inc. (filed herewith)
10.71	Management Services Agreement dated December 26, 1997 between Big 4 Farming LLC and Cecelia Packing (filed herewith)

10.72 Agricultural Loan Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partner No. 1 (filed herewith)
10.73 Agricultural Loan Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partner No. 2 (filed herewith)
10.74 Agricultural Loan Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partner No. 3 (filed herewith)
10.75 Promissory Note dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partners No. 1 (filed herewith)
10.76 Promissory Note dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partners No. 2 (filed herewith)
10.77 Promissory Note dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partners No. 3 (filed herewith)
10.78 Security Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partnership No. 1 (filed herewith)
10.79 Security Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partnership No. 2 (filed herewith)
10.80 Security Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partnership No. 2 (filed herewith)
10.81 Administrative Services Agreement between Citadel Holding Corporation and Big 4 Ranch Inc. dated December 29th, 1997 (filed herewith)
21 Subsidiaries of the Company (filed herewith)
23 Consent of Independent Auditors (filed herewith)
27 Financial Data Schedule (filed herewith)

SIGNATURE

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

CITADEL HOLDING CORPORATION

(Registrant)

Date: March 31, 1998

/s/ Steve Wesson

Steve Wesson
President and Chief Executive Officer

Date: March 31, 1998

/s/ S. Craig Tompkins

S. Craig Tompkins
Principal Accounting Officer

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

SIGNATURE	TITLES(S)	DATE
/s/ James J. Cotter --- James J. Cotter	Chairman of the Board and Director	March 31, 1998
/s/ S. Craig Tompkins --- S. Craig Tompkins	Director, Secretary	March 31, 1998
/s/ Ronald I. Simon --- Ronald I. Simon	Director	March 31, 1998
/s/ Alfred Villasenor Jr. --- Alfred Villasenor, Jr.	Director	March 31, 1998

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

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

For the fiscal year ended December 31, 1997

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 333-13413

READING ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

Delaware	23-2859312
(State of incorporation)	(I.R.S. Employer Identification No.)
30 South Fifteenth Street Suite 1300 Philadelphia, Pennsylvania	19102
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: 215-569-3344

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

Title of each class	Name of each exchange on which registered
Common Stock, $.001 Par Value	Philadelphia Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.001 Par Value
Title of class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

As of March 26, 1998, 7,449,364 shares of Common Stock were outstanding and the aggregate market value of voting stock held by nonaffiliates of the Registrant was approximately $27,204,733.38.

PART I

Item 1. Business

General

Reading Entertainment, Inc., a Delaware corporation ("REI" and collectively with its various subsidiaries and predecessors, the "Company" or "Reading"), was formed in 1996 to effect a reorganization of Reading Company under a Delaware holding company. Initially organized in 1833, the Company's predecessors have been doing business in the United States for approximately 165 years.

Prior to the creation of the Consolidated Rail Corporation ("Conrail"), the Company was principally in the transportation business, owning and operating the Reading Railroad. Following the transfer of substantially all of its rolling stock and active rail lines to Conrail in 1976, the Company pursued a number of endeavors including the development of One Reading Center (a 600,000 square foot office complex located in Philadelphia) and initiated the activities which led to the development of the Pennsylvania Convention Center on land originally utilized by the Company for railroad operating purposes. Since 1976, the Company has reduced its railroad real estate holdings from approximately 700 parcels and rights-of-way to 25.

In 1993, following the sale of its last major railroad real estate asset -- the Reading Terminal Headhouse -- and a thorough review of the opportunities available to it, the Company determined to refocus its activities on the "Beyond-the-Home" or real estate based segment of the entertainment industry. Since that date, the Company has acquired and expanded a chain of multiplex cinemas in Puerto Rico ("CineVista") featuring conventional film product; begun through the acquisition of two existing multiplex cinemas and the construction of a third multiplex cinema, the development of a chain of cinemas in the United States featuring principally art, specialty and sophisticated or upper-end conventional film product (the "Domestic Cinemas"); and begun through the acquisition of one existing multiplex cinema and the construction of two new multiplex cinemas, the development of a chain of cinemas in Australia featuring conventional film product ("Reading Cinemas"). In addition, the Company has entered into various agreements which are expected to add a material number of new screens to each of its Puerto Rico, Domestic and Australian operations in future periods.

In Australia, the Company is also in the real estate development business, focusing upon the development of entertainment centers, typically consisting of a multiplex cinema, complementary restaurant and retail uses, and convenient parking, all located on land owned or controlled by the Company.

In recognition of the significant amounts of capital required to compete in the cinema exhibition and real estate development businesses, and in furtherance of its plan to focus on the development of cinemas and cinema based entertainment centers, on October 15, 1996, the Company reorganized as REI (the "Reorganization") and completed a private placement of common and preferred stock which increased shareholders' equity from approximately $69 million to approximately $156 million (the "Stock Transactions").

The Company, where feasible, prefers to own the land on which it constructs its cinemas. In the United States and Puerto Rico, a variety of factors (including land acquisition costs and competition from well established and well financed developers) have caused the Company to focus on leasehold sites. However, an ownership oriented approach is being pursued in urban centers in Australia. This will necessarily mean that many of the Company's projects will be much more capital intensive, have longer lead times and entail greater development risks than would the development of cinemas in leased facilities in established malls. To date, the Company has acquired, or has contracts giving it the right to acquire, four potential entertainment center sites, consisting of over one million square feet of land area. The Company has also acquired a 50% joint venture interest in an existing 150,000 square foot shopping center in the Melbourne area of Victoria, which it intends studying as a candidate for redevelopment as an entertainment center. Accordingly, the Company's business plan involves a material amount of development risk. Due principally to the scope and extent of its development activities in Australia, the Company views itself as being involved in essentially two lines of business, the development and operation of cinemas in Puerto Rico, the United States and Australia and the development and operation of entertainment centers in Australia.

Most of these entertainment center projects are in the early stage of development. While one of the entertainment center projects involves the redirection of an existing and cash flowing shopping center, none of these entertainment projects have reached the construction phase. Three of the Company's existing entertainment center projects, representing approximately 880,000 square feet of land area, have completed or substantially completed the zoning and entitlement process. The zoning on the fourth is currently subject to litigation. No approvals have yet been sought with respect to the redevelopment site. It is not anticipated that construction of any entertainment center projects will commence in Australia until the later half of 1998. Further, the Company continues to encounter significant opposition to its projects from established Australian cinemas operators and shopping center landlords.

In addition to its principal activities, the Company continues to wind up its historic railroad related activities, including the sale or other exploitation of its residual real estate interests, and through a subsidiary, FA, Inc., to lease equipment to third parties. The Company also owns a 50 acre property assemblage located in the greater Melbourne area. Originally acquired in 1996 as a potential entertainment site, the property is currently held for non-cinema development. The Company is reviewing its alternatives with respect to the site.

At December 31, 1997, the Company had assets valued for balance sheet purposes at approximately $178 million and no long term indebtedness. A significant portion of these assets is represented by cash and cash equivalents (totaling approximately $93 million at December 31, 1997), Property and equipment with a net book value of $40,312,000 million at December 31, 1997), and 1,564,473 shares of the common stock, representing approximately 23.5% of the voting power, of Citadel Holding Corporation ("CHC" and collectively with its subsidiaries, "Citadel"). The Company intends to use its assets to continue to build its Beyond-the-Home entertainment business, and not to engage in the business of acquiring, selling, holding, trading or investing in securities.

Citadel is principally in the business of owning and operating commercial and agricultural real estate and providing real estate consulting services to Reading. Citadel also owns 70,000 shares representing all of the outstanding shares of the Company's Series A Voting Cumulative Convertible Redeemable Preferred Stock (the "Series A Preferred Stock") and holds certain option rights to exchange all or substantially all of its assets for the Company's common stock. Citadel is a publicly reporting and trading company, whose common stock is traded on the American Stock Exchange. Citadel's net earnings during 1997 were $1,575,000. The Company's share of such earnings was $298,000 which amount is included in the Consolidated Statement of Operations for the year ended December 31, 1997 as "Equity in earnings of affiliate."

Shares of REI's common stock, par value $.001 per share (the "Common Stock"), are quoted on the Nasdaq National Market ("NNM") and trade on the Philadelphia Stock Exchange under the symbols RDGE and RDG, respectively.

Description of Business
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The Company is primarily engaged in the real estate development business in Australia (focusing on the development in Australia of cinema based entertainment centers) and in the multiplex cinema exhibition business (focusing on the market for multiplex complexes featuring principally commercial film in Puerto Rico and Australia, and featuring principally art, specialty and more sophisticated upper-end film product in the United States). While exceptions may be made from time to time with respect to certain well-situated cinemas with proven or projected draw as art and specialty houses, it is the Company's general intention to develop or acquire state-of-the art multiplex venues. With respect to new construction, it is the Company's intention to concentrate primarily upon a stadium seating format, and to feature wall-to-wall screens with state-of-the-art projection and sound. The Company's entertainment centers will typically be centered around a multiplex cinema, and feature complimentary retail and restaurant facilities and convenient on-site parking.

Puerto Rico (CineVista)
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Acquired effective July 1, 1994, for a cash purchase price of $22.7 million (inclusive of acquisition expenses in the amount of $323,000), CineVista at the date of its acquisition by the Company operated motion picture exhibition facilities consisting of 36 screens in six leased locations in Puerto Rico. Since that date, CineVista has added fourteen screens in two new complexes. In addition, an eight screen complex is under development to replace an out-of-date six screen facility (currently expected to open in June 1998). The Company has entered into a lease to develop and operate twelve screens in a regional shopping center (currently anticipated to open in 1999) and is negotiating the expansion, from an original ten to eighteen screens, of a complex located in the largest shopping center in Puerto Rico. The Company is also negotiating with respect to additional multiplex sites on the island. No assurances can be given that such negotiations will result in operating facilities.

In Puerto Rico, the Company has determined to concentrate on multiplex cinemas located on leasehold properties, and the exhibition of conventional film product. Generally speaking, the Company's current and future developments

are being constructed either in existing regional malls with proven foot traffic and self contained parking or in new centers being developed by experienced and well financed developers. All of CineVista's theaters are modern multi-screen facilities.

The Company's CineVista chain is managed by the Company, principally through management and administrative staff located in San Juan, Puerto Rico.

Puerto Rico is a self-governing Commonwealth of the United States with a population of approximately 3.8 million people. Puerto Rico exercises control over internal affairs similar to states of the U.S.; however, the relationship with the United States Federal Government is different than that of a state. Residents of Puerto Rico are citizens of the United States, but do not vote in national elections and, with certain exceptions, do not pay federal income taxes. Income taxes are paid instead under a system established by the Commonwealth. In recent years, there have been two major views concerning the future relationship with the United States Government; one favoring statehood and the other favoring continuation of commonwealth status. In 1993, Puerto Rico voters were asked in a plebiscite to express their preference for statehood (48.4%), commonwealth status (46.2%) or independence (4.4%). The U.S. House of Representatives has passed and there is before the Senate a bill which, if passed by the Senate and signed by the President, would permit Puerto Rico to vote to i) continue its status as a commonwealth, ii) convert to statehood or iii) elect independence. The Company cannot now determine what effect, if any, any vote which would change the status of Puerto Rico might have upon its investment in CineVista. The United States mainland is Puerto Rico's largest trading partner.

During the last four years, Puerto Rico has undergone significant retail shopping center development. During this period, the number of multiplex theaters has increased substantially. The Company's principal competitor, Caribbean Cinemas, a privately-owned company, has opened three complexes representing approximately 33 screens in the San Juan metropolitan area since the beginning of 1996. All of these complexes were under development at the time the Company purchased its interest in CineVista. These new screens have adversely affected the Company's current operations, reducing in the near term the Company's market share from approximately 42% in 1995 to approximately 26% percent in 1997. The Company believes that, while CineVista has an opportunity to expand its operations through the development of new multiplex theaters and improvement of its existing operations, the Puerto Rico market will be substantially built out by the year 2000. It is unlikely that the Company will develop more than an additional 20 to 30 screens in Puerto Rico over the next three years (excluding the 30 screens currently under development).

CineVista derives approximately 70% of its revenues from box office receipts. Ticket prices vary by location, and provide for reduced rates for senior citizens and children. Box office receipts are reported net of a 10% excise tax imposed by Puerto Rico. Show times and features are placed in advertisements in local newspapers with the costs of such advertisements paid by CineVista. Film distributors may supplementally advertise certain feature films with the costs generally paid by distributors.

Concession sales account for approximately 25% of total revenues. Concession products primarily include popcorn, candy and soda. CineVista has implemented training programs and incentive programs and experiments with product mix changes with the objective of increasing the amount and frequency of concession purchases by theater patrons.

Screen advertising revenues contribute approximately 4% of total revenues. CineVista has agreements with a major soft-drink bottler and an independent advertising production company to show advertisements on theater screens prior to feature film showings. Other sources of revenue include revenues from theater rentals for meetings, conferences, special film exhibitions and vending machine receipts or rentals.

Licensing/Pricing: Films are licensed under agreements with major film distributors and several local distributors specializing in films of special interest to residents of Puerto Rico. Puerto Rico regulations generally require that film exhibitors be provided with an opportunity to view films prior to submitting bids, that film distributors provide advance notice of films which will be provided to the market, and are generally designed to preclude anti-competitive practices. Films are licensed on a film-by-film, theater-by-theater basis. Generally, film payment terms provide for payment to film distributors under various formulas which provide for payments based upon a percentage of gross box office receipts.

CineVista licenses film from substantially all of the major United States studios and is not dependent upon any one film distributor for all of its product. However, in the event the Company was unable to license film from a major studio, such lack of supply could have a material effect upon CineVista's business. CineVista believes that the popularity of the Puerto Rico exhibition market and Puerto Rico rules governing film licensing make such a situation unlikely. In 1997, films licensed from CineVista's four largest film suppliers accounted for approximately 65% of CineVista's box office revenues.

Competition: The Company believes there are approximately 29 first-run movie theaters in daily operation with approximately 179 screens in Puerto Rico. Based upon number of screens, box office revenues and number of theaters, CineVista is the second largest exhibitor in Puerto Rico, with the two largest exhibitors accounting for over 99% of the box office revenues recorded in 1997, measured by theaters in daily operation. Competition among the theater exhibitors exists not only for theater patrons within certain geographic areas, but also for the licensing of films and the development of new theater sites. The number of sites suitable for multiplex cinemas is limited. Competitors of CineVista are expected to continue to open theaters competitive with those of CineVista. Since the beginning of 1996, the Company's principal competitor has opened three complexes in the San Juan metropolitan area, adding 33 screens, all of which are competitive with the Company's theaters, and which have attracted business that would otherwise have gone to theaters owned by CineVista. This competitor has at least 2 additional competitive theaters and an expansion of an existing theater under development, which are expected to add 30 screens to the San Juan market.

In Puerto Rico, the Company's strategy has been to build generally higher quality cinemas, with larger seats, more leg room and better sound than those constructed by its principal competitor, and to seek out and build in either well established retail centers with adequate parking on-site or in connection with the development of new retail centers being developed by experienced and well financed developers. All of the screens currently under construction are stadium design and the Company currently intends to make this stadium design structure a consistent element of its cinemas. The Company's principal competitor has historically constructed conventional auditoriums, with fewer amenities.

Seasonality: Most major films are released to coincide with the summer months, when schools are closed or the winter holiday seasons. Accordingly, CineVista has historically recorded greater revenues and earnings during the second half of the calendar year.

Employees: CineVista has approximately 200 employees in Puerto Rico, approximately 15 of whom are employed under the terms of a collective bargaining agreement. The collective bargaining agreement expires in May 2000. The Company believes its relations with its employees in Puerto Rico to be good.

Domestic Cinemas (Angelika Film Centers)

On August 27, 1996, the Company and Sutton Hill Associates ("Sutton Hill"), a New York cinema exhibitor, acquired, for approximately $12,570,000 (inclusive of $529,000 in acquisition costs), the Angelika Film Center (the "NY Angelika"), a multiplex theater located in the Soho district of New York City. The Company and Sutton Hill formed a limited liability company, Angelika Film Centers LLC ("AFC"), to hold their interest in the NY Angelika. The theater is held under a long term lease, with a remaining term of approximately 28 years.

The Company contributed 83.3% of the capital of AFC and Sutton Hill contributed the remaining 16.7%. The operating agreement of AFC provides that all depreciation and amortization (the "Special Deductions") will first be allocated to Sutton Hill until the aggregate amount of such Special Deductions equals Sutton Hill's initial investment. Thereafter, the Company will receive all Special Deductions until the relative ownership interests are

equal to the initial ownership interests of the parties. Sutton Hill has agreed to subordinate its interest in AFC to the Company's interest in order to permit the Company to pledge AFC and its assets as collateral to secure borrowings by the Company. In addition, Sutton Hill has agreed that the Company will be entitled to receive up to 100% of the proceeds of borrowings by AFC, up to the amount of the Company's initial capital contribution of AFC.

The Company is currently working to develop additional Angelika Film Centers in major urban areas located throughout the United States. It is not currently anticipated that City Cinemas would participate in centers located outside of New York City. In accordance with the Company's business plan, in February 1997, the Company entered into an agreement for the construction and lease of and in December 1997 opened a 1,480-seat, eight screen, 31,700 square foot art and specialty cinema and cafe facility at the Bayou Place entertainment center in Houston, Texas. The complex sits over a 3,500-car parking garage and is located in the middle of the City's theater district. In December 1997, the Company acquired from United Artists an existing 1,066 seat, five screen, 18,100 square foot facility located in Minneapolis, at which the Company intends to exhibit a combination of conventional and art and specialty film under the Reading Cinemas name. The Company has signed a lease with respect to the development of an additional 12 screen Reading Cinemas complex, has leases under negotiation with respect to an additional 25 screens in three new Angelika complexes, has projects representing an additional 10 screens in two additional complexes under various letters of intent, and is currently in discussions with owners and developers with respect to a number of additional potential locations. No assurances can be given, however, that any of these negotiations will result in operational theaters.

AFC is managed by City Cinemas Corp. ("City Cinemas"), a cinema management company owned by Sutton Hill, pursuant to the terms of a management agreement (the "New York Management Agreement"). The New York Management Agreement provides for City Cinemas to manage the NY Angelika for a minimum annual fee of $125,000 plus an incentive fee equal to 50% of annual cash flow (as defined in the NY Management Agreement) over prespecified levels, provided, however, that the maximum annual fee (minimum fee plus incentive fee) may not exceed 5% of the NY Angelika's annual revenues. In addition, the Company has out-sourced certain theater level management services with respect to the remainder of its Domestic Cinemas by entering into a second management agreement with City Cinemas. Under the terms of the second agreement, City Cinemas has agreed to provide cinema management, human resources and accounting services for the Company's remaining Domestic Cinemas for a fee equal to 2.5% of the gross revenues generated by such theaters. This arrangement has allowed the Company to defer the cost of identifying and retaining full-time employees to perform such functions until such time as it has acquired a critical mass of screens domestically.

While major chains specializing in conventional wide release film product also may exhibit art and specialty product from time to time, these chains have typically limited themselves to the exhibition of such crossover art films as "The English Patient," "Pulp Fiction," "Emma," "Shine" and "Chasing Amy". This may change as more megaplex complexes with sixteen or more screens are constructed, particularly if the number of films released by the distributors of conventional wide release film product decreases or if art and specialty film develops in popularity to the point where it enjoys a wider release than is currently typically the case with such films. Current levels of film production continue to provide megaplex exhibitors with sufficient film products to make such exhibitors inconsistent sources of screens for the distributors of art and specialty film. Art cinemas complexes, which typically do not exhibit conventional wide release films, are, accordingly, currently a more consistent source of screens to the distributors of art and art specialty film.

Licensing/Pricing: Art and specialty films are available from many sources ranging from the divisions of the larger film distributors specializing in the distribution of specialty films to individuals that have acquired domestic rights to one film. Generally, film payment terms are based upon an agreed upon percentage of box office receipts.

Competition: In most markets, art and specialty film is currently exhibited at older independently owned one and two screen theater complexes. Few such independent exhibitors operate cinemas in more than one metropolitan area. The Company believes that the exhibition of first run art and specialty films is a niche business, in some ways distinct from the business of exhibiting bigger budget wide release films. At the present time, the only national chain specializing in art and specialty film is Landmark Theatres which operates approximately 140 screens in approximately 50 locations, principally in California and Washington. Many larger cities have smaller

chains which operate one to five locations. In addition, General Cinemas has announced a joint venture with the Sundance Institute to develop cinemas specializing in the exhibition of independent film. No specific projects have, however, been announced by this joint venture.

The Company believes that there is currently a window of opportunity to construct, in a number of under-serviced urban markets, a nationwide chain of state-of-the-art multiplex cinemas specializing in art and specialty and in more sophisticated higher end film product. The Company further believes that the distributors of such films may favor distribution of art and specialty film to such a specialized chain as opposed to distribution to conventional megaplex operators, since megaplex operators will typically prefer to exhibit mainstream bigger budget film rather than art product and, accordingly, may not be as consistent and as dependable a source of screens as exhibitors who show only art and specialty film product. The Company also believes that patrons of art and specialty film may prefer a cinema experience that is different from that offered by a megaplex complex and that the familiarity and goodwill associated with the Angelika name and the strength of the Company's balance sheet may give the Company a competitive advantage over other independent exhibitors of art and specialty films.

The Company also believes that it may be better positioned than its principal competitors in the market for art and specialty films due to its financial condition and strategic presence in the Manhattan market. However, the cinema industry is currently in a state of significant change, as illustrated by the significant number of multiplex and megaplex theaters which have been constructed or announced in recent periods, and no assurances can be given that the Company's plans can be successfully implemented. Due to the relatively small scale of the Company's current Domestic operations and the geographical dispersion of its US cinemas, the Company may have difficulty securing certain film product due to competitive pressures of larger domestic cinema chains or more regionally concentrated exhibitors, and faces competition for sites from much larger and better known competitors.

Seasonality: The exhibition of art and specialty film, while still somewhat seasonal in nature, is less so than the film exhibition business generally. Art and specialty films tend to be released more evenly over the course of the year and, if successful, to enjoy a longer run than wide release films. The popularity of art and specialty film has increased significantly in recent years, grossing domestically approximately $112,000,000, $244,000,000, $372,000,000, $355,000,000, $500,000,000, and $525,000,000 in 1992 through 1997, respectively (based upon management estimates).

Employees: City Cinemas employs approximately fifty employees pursuant to management agreements with the Company in the operations of the Company's Domestic Cinemas, three of whom are employed under the terms of a collective bargaining agreement which expires in October 1998. The Company has approximately fifteen executive and administrative staff which, while located in the Unites States, provide service with respect to all of the Company's operations.

Reading Australia

The Company commenced activities in Australia in mid-1995, and currently conducts business in Australia through its wholly-owned subsidiary, Reading Australia Pty. Limited ("RAPL" and, collectively with its various subsidiaries, "Reading Australia"). Reading Australia is currently engaged in the development and operation of multiplex cinemas featuring conventional film product and the development of entertainment centers. Presently, Reading Australia operates 16 screens at two leased and one owned location. Reading Australia has signed agreements to lease, leases or management agreements for an additional forty-three screens in four locations, three of which presently have all necessary land use approvals, and is currently in discussions with respect to a number of additional potential sites.

Reading Australia is also currently engaged in the development of entertainment centers which will typically consist of a multiplex cinema, complementary restaurant and retail facilities, and convenient parking, all on land owned or controlled by Reading Australia. At the present time, Reading Australia owns two locations (representing over 300,000 square foot of developable land), and has contractual rights to acquire two other locations (representing over 750,000 square foot of developable land) for entertainment center purposes. None of these properties currently produce any cash flow. Reading Australia also owns a 50% joint venture interest in an existing and cash flowing

150,000 square foot shopping center located on leased land in the Melbourne area of Victoria, which it is currently studying as a possible candidate for redevelopment as an entertainment center.

The five potential entertainment center sites described above (calculated inclusive of the one existing shopping center) include the potential for the development of in the range of an additional 55 screens. Land use permits have been granted or approved with respect to the two owned entertainment center sites, one of which grant is currently being challenged by the owner of a competing shopping center, and the two entertainment center sites under contract. No applications have yet been made with respect to the shopping center site, where cinema use should be "as of right" under existing Australian land use policies. However, historically, the Company's attempts to get necessary land use approvals have been strenuously opposed by competing cinema operators and shopping center landlords, and no assurances can be given that needed land use approvals will be obtained, or if obtained, that they will be upheld on appeal.

Summarized below are the entertainment center projects currently under development by Reading Australia:

Site	Land Size in Square Footage	Approximate Purchase Price	Approximate Cinema Size in Square Feet	Estimated Development Size in Square Footage of Improvements
Auburn, NSW	522,720	$6,800,000	60,000	210,000
Frankston, Victoria	227,750	N/A(1)	64,000	94,000
Moonee Ponds, Victoria(2)	129,949	$4,200,000	54,000	103,000
Newmarket, Queensland(3)	172,160	$4,500,000	49,000	161,000
Whitehorse, Victoria (3)&(4)	171,365	$1,600,000	60,000	230,000

In addition to the above, the Company has accumulated, as the consequence of three separate acquisitions, a 50 acre site in Burwood, Victoria. This site was originally acquired for approximately $7.3 million for development of a mega-plex cinema. However, such use is currently prohibited as a consequence of an adverse land use determination, which negated certain permits for the constructions of cinemas on the site. These permits were in place at the time the land was acquired. Due to the size of the accumulation and its location at the demographic center of the greater Melbourne metropolitan area, the Company believed that the accumulation has value over and above its original purchase price and is currently reviewing its options as to potential development alternatives for the site.

One of the currently operating cinemas, located in Townsville, Queensland, is owned by Australia Country Cinemas Pty. Limited ("ACC"), a company owned 75% by a subsidiary of Reading Australia and 25% by a company owned by an Australian national familiar with the market for cinemas in country towns. ACC has a limited right of first refusal to develop cinema sites identified by Reading Australia or such individual in country towns.

At the present time the Company's activities in Australia are principally in the nature of speculative real estate development. While, in each case, the Company is its own anchor tenant, the success of the real estate aspects

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(1) Under the applicable development agreement, Reading Australia is required to make certain infrastructure improvements which are estimated to cost approximately $4,000,000 in consideration of a grant to the underlying land.

(2) Property acquired in March 1998

(3) Property acquired prior to December 31, 1997.

(4) The Company holds a 50% interest in this shopping center. Purchase price does not include $1,400,000 loan to the Company's joint venture partner in this development. The center currently consists of approximately 150,000 square feet of net leasable area which amount is not included in the capitalized Estimated Developments Size column, above.

of the Company's business will depend upon a number of variables and are subject to a number of risk, some of which are outside of the Company's control. These variables and risks include, without limitation:

- construction risks, such as weather, unknown and unknowable site conditions, and the availability and cost of materials and labor;

- leasing risk with respect to ancillary space being constructed in connection with the entertainment centers -- in certain cases such ancillary space constitutes a substantial portion of the net leasable area of a particular entertainment center and there is not presently any established Australian market for entertainment center space;

- political risk, such as the possible change in mid-stream of existing zoning or development laws to accommodate competitive interests (such as occurred at Burwood); and

- financing risks, such as the risk of investing U.S. dollars in Australia during times of currency exchange rate instability, and the difficulties of acquiring construction finance while the great majority of a company's projects are developmental in nature.

In light of the opposition encountered to date, no assurances can be given that the Company will be able to accomplish its business objectives in Australia. Furthermore, even if those objectives are eventually achieved, the realization of these objectives will likely require a longer period of time and a greater level of developmental costs than originally anticipated by the Company. While the Company remains committed to its plans with respect to Australia, no assurances can be given that the Company will be able to obtain all of the governmental approvals needed to develop its entertainment center sites or that such sites will attract its ancillary tenancies required for a profitable project. The Company does not anticipate that it will have any of its entertainment center locations open before late 1999, at the earliest.

Reading Australia's cinemas are managed by employees of the Company. However, at the present time, Reading Australia does make use of an independent booking firm for the booking of film product. This will likely continue until the Company has sufficient screens operating in Australia to justify the cost of a full time film buyer.

Australia is a self-governing and fully independent member of the Commonwealth of Nations. The constitution resembles that of the United States in that it creates a federal form of government, under which the powers of the central government are specified and all residual powers are left to the states. The country is organized into five mainland states (New South Wales, Queensland, South Australia, Victoria and Western Australia), one island state (Tasmania) and two territories (Australian Capital Territory and the Northern Territory).

The ceremonial supreme executive is the British monarch, represented by the governor-general and in each of the six states by a governor. These officials are appointed by the British monarch, but appointments are nearly always recommended by the Australian governments. True executive power rests with the prime minister, the leader of the majority party in the House of Representatives. The legislature is bicameral, with a Senate and a House of Representatives, and the ministers are appointed by the prime minister from the membership of the House and the Senate. The organization of the state government is similar to that of the central government. Each state has an appointed governor, an elected premier and a legislature.

Although Australia is the sixth largest country in the world in land mass, it only has a population of approximately 19.2 million people. This population is concentrated in a few coastal urban areas, with approximately 4 million in the greater Sydney area, 3.4 million in the greater Melbourne area, 1.7 million in the Brisbane area, 1.1 million in Adelaide and 1.4 million in Perth. Australia is one of the richest countries in the world in terms of natural resources per capita and one of the most economically developed countries in the world, although vast areas of the interior, known as "the Outback," remain all but uninhabited. The principal language is English, and the largest part of the population traces its origin to Britain and Europe, although an increasing portion of the population has immigrated from the Far East. Australian taste in film has historically been similar to that of American audiences.

Internal trade is dominated by the two most populous states, New South Wales (mainly Sydney) and Victoria (mainly Melbourne). Together these two states account for a majority of all wholesale trade and approximately 75% of all retail sales. At the present time, Australia's principal trading partners are the United States and Japan.

Australia does not restrict the flow of currency into the country from the U.S. or out of Australia to the United States. Also, subject to certain review procedures, U.S. companies are typically permitted to operate businesses and to own real estate.

Licensing/Pricing: Films are licensed under agreements with major film distributors and several local distributors who distribute specialized films. Film exhibitors are provided with an opportunity to view films prior to negotiating with the film distributor the commercial terms applicable to its release. Films are licensed on a film-by-film, theater-by-theater basis. Reading Australia licenses films from all film distributors as appropriate to each location. Generally, film payment terms are based upon various formulas which provide for payments based upon a specified percentage of box office receipts.

Competition: The film exhibition business in Australia is concentrated and, to a certain extent, vertically integrated. The principal exhibitors in Australia include Village Roadshow Limited ("Village") with approximately 156 screens, Greater Union and affiliates with approximately 308 screens and Hoyts Cinemas ("Hoyts") with approximately 166 screens. Independents as a group operate approximately 560 screens.

Greater Union is the owner of Birch Carroll & Coyle and a part owner of Village. All new multiplex cinema projects announced by Village are being jointly developed by Greater Union, Village, and Warner Bros. Hoyts has announced plans to add approximately 140 new multiplex screens.

These companies have substantial capital resources. Village had a publicly reported consolidated net worth of approximately A$830 million at June 30, 1997. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamented Holdings, had a publicly reported consolidated net worth of approximately A$288 million at June 30, 1997. Hoyts Cinemas had a net worth of approximately A$237 million at March 1997.

The industry is somewhat vertically integrated in that Village also serves as a distributor of film in Australia for Warner Bros. and Disney/Touchstone/Buena Vista. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow Film Distributors. Roadshow Film Distributors is owned equally by Village and Greater Union. The practical impact of this vertical integration is mitigated to some extent, however, by the Australian legal requirement that all films be made reasonably available to all exhibitors.

In the view of the Company, the principal competitive restraint on the development of its business in Australia is the availability of sites. The Company's principal competitors and certain major commercial landlords are currently attempting to use the historical course of land use development in Australia to prevent the construction of freestanding cinemas in new entertainment oriented complexes, particularly where those complexes are located outside of an established Central Business District or shopping center development. Competitors or shopping center landlords typically contest the suitability of the Company's projects, resulting in appeals to applicable land tribunals and delays in development. In the case of the Company's 50-acre site at Burwood, the Minister for Planning and Local Government preempted local zoning authorities to prohibit the Company's intended development of a 25-screen cinema complex, which would have competed with complexes owned by the principal theater operators in Australia and located in shopping centers owned by some of the principal retail landlords in Australia.

Seasonality: Major films are generally released to coincide with the school holiday trading periods, particularly the summer holidays. Accordingly, Reading Australia would expect to record greater revenues and earnings during the first half of the calendar year.

Employees: Reading Australia has 15 full time executive and administrative employees and approximately 80 theater employees. The Company believes its relations with its employees to be good

Financial Information Relating to Industry Segments and Foreign and Domestic Operations

See Note 14 to the Consolidated Financial Statements contained elsewhere herein.

The Reorganization and Stock Transactions

In October 1996, two transactions were approved by shareholders, the Reorganization and the Stock Transactions. Both transactions were completed on October 15, 1996. The Reorganization was effected pursuant to an Agreement and Plan of Merger (the "Merger Agreement") among Reading Company, REI, which was a newly formed, wholly-owned subsidiary of Reading Company, and Reading Merger Co. ("Merger Co.") which was a newly formed, wholly-owned subsidiary of REI. In the Reorganization, Reading Company merged with Merger Co. and each outstanding share of Reading Company's Common Stock and Class A Common Stock was converted into the right to receive one share of REI's Common Stock. As a result of the Reorganization, Reading Company became a wholly-owned subsidiary of REI and the shareholders of Reading Company became shareholders of REI.

The Stock Transactions were carried out pursuant to an Exchange Agreement, dated September 4, 1996 (the "Exchange Agreement") between REI, Citadel, Reading Company and Craig. In the Stock Transactions, REI issued (i) 70,000 shares of the Series A Preferred Stock to Citadel, and granted certain contractual rights to Citadel in return for $7 million in cash and (ii) 550,000 shares of Series B Voting Cumulative Convertible Preferred Stock (the "Series B Preferred Stock") and 2,476,190 shares of Common Stock to Craig in exchange for certain assets owned by Craig. The assets acquired by REI from Craig consisted of the 693,650 shares of Stater Preferred Stock, Craig's 50% membership interest in Reading International, of which an indirect wholly owned subsidiary of REI was the sole other member, and 1,329,114 shares of Citadel's 3% Cumulative Voting Convertible Preferred Stock, stated value $3.95 per share (the "Citadel Preferred Stock").

The contractual rights granted to Citadel in the Stock Transactions are set forth in an Asset Put and Registration Rights Agreement pursuant to which Citadel has the right (the "Asset Put Option"), exercisable at any time until 30 days after REI files its Annual Report on Form 10-K for the year ending December 31, 1999, to require REI to acquire substantially all of Citadel's assets, and assume related liabilities (such as mortgages), for shares of Common Stock. In exchange for up to $20 million in aggregate appraised value of Citadel assets on exercise of the Asset Put Option, REI is obligated to deliver to Citadel a number of shares of REI Common Stock determined by dividing the value of the Citadel assets by $12.25. If the appraised value of the Citadel assets is in excess of $20 million, REI is obligated to pay for the excess by issuing Common Stock at the then fair market value. REI is not obligated to acquire more than $30 million of assets.

The Series A and Series B Preferred Stock (collectively, the "Convertible Preferred Stock") have stated values of $7 million and $55 million, respectively. Holders of each series of the Convertible Preferred Stock are entitled to cast 9.64 votes per share, voting together with the holders of the Common Stock and the other series of Convertible Preferred Stock, on any matters presented to shareholders of REI. Each share of Series A Preferred Stock is convertible into shares of Common Stock at a conversion price of $11.50, and each share of Series B Preferred Stock is convertible into shares of Common Stock at a conversion price of $12.25, each subject to adjustment on certain events, at any time after April 15, 1998. The shares of Series A Preferred Stock may also be converted after a change in control. REI has the right to require conversion of the Series A Preferred Stock if the average market price of the Common Stock over a 180-calendar day period exceeds $15.525. REI granted certain registration rights to Citadel with respect to the shares of Common Stock, issuable on conversion of the Series A Preferred Stock and the Asset Put Option.

Citadel has the right during the 90 day period beginning October 15, 2001, or in the event of a change of control of the Company, to require the Company to repurchase the Series A Preferred Stock at its stated value plus accrued and unpaid dividends plus, in the case of a change of control, a premium. In addition, if REI fails to pay dividends on the Series A Preferred Stock for four quarters, Citadel may (after April 15, 1998) require REI to repurchase the Series A Preferred Stock. Also, REI has certain rights to redeem the Convertible Preferred Stock at its option. Due to the redemption provisions, the Series A Preferred Stock has not been included as a component of Shareholders' Equity in the Consolidated Balance Sheet and is separately categorized as "Preferred Stock."

REI and Citadel also agreed that, immediately following REI's receipt of the Citadel Preferred Stock from Craig, the Company would deliver the Citadel Preferred Stock to Citadel in exchange for an equal number of shares of a new series of Citadel preferred stock (the "Citadel Series B Preferred Stock"). The Citadel Preferred Stock and the Citadel Series B Preferred Stock were substantially identical, except that the Citadel Series B Preferred Stock reduced the accrual rate on the redemption premium from 9% per annum to 3% per annum subsequent to the closing of the Stock Transactions and also provided that the Citadel Series B Preferred Stock could not be presented for conversion to Citadel common stock for a period of one year beginning 15 days after Citadel filed its 1996 Annual Report on Form 10-K with the SEC.

On December 18, 1996, REI elected to convert the Citadel Series B Preferred Stock into Citadel common stock whereupon Citadel exercised its right to redeem the Citadel Series B Preferred Stock. REI received gross proceeds of approximately $6.2 million on such redemptions.

Item 2. Properties

REI Executive and Administrative Offices

REI leases approximately 6,600 square feet of office space in center city Philadelphia. A subsidiary of the Company shares office space in New York City with City Cinemas. This space approximates 2,600 square feet, and the cost is shared equally by City Cinemas and REI.

Center City Philadelphia Properties

The Company's properties in center city Philadelphia, all of which are owned in fee, consist of several parcels of land aggregating approximately .67 acres located near or adjacent to the site of the Convention Center which are currently leased to a parking lot operator; the Viaduct north of Vine Street to Fairmount Avenue and adjacent parcels, comprising approximately 6.75 acres; and properties owned by partnerships in which the Company has interests.

Domestic Partnership Properties

S.R. Developers: A subsidiary of the Company is a general partner in S.R. Developers, a partnership which owns one property in center city Philadelphia.

Parametric Garage Associates: A subsidiary of the Company is a general partner in Parametric Garage Associates, a partnership which owns the 750-car Gallery II Parking Garage (the "Garage"). The Garage is adjacent to the Pennsylvania Convention Center Complex. The Company has primary responsibility for the leasing and management of 19,000 gross rentable square feet of retail space on the ground level of the Garage pursuant to a management agreement and provides certain other management services to the partnership.

Other Domestic Non-Entertainment Real Estate

When the Company's railroad assets were conveyed to Conrail, the Company retained fee ownership of approximately 700 parcels and rights-of-way located throughout Pennsylvania, Delaware, and New Jersey. Approximately 11 parcels and rights-of-way located outside of center city Philadelphia are still owned by the Company. The parcels consist primarily of vacant land and buildings, some of which are leased.

Reading Australia Properties

Reading Australia maintains leased offices in Melbourne and Sydney, Australia. The total leased space is approximately 9,500 square feet, of which 3,500 square feet is occupied pursuant to a short term lease and 6,200 square feet, of which are occupied under a lease with a minimum term of four years with renewal options. In December 1995, Reading Australia acquired a 50 acre site in a suburban area outside of Melbourne. Reading Australia had intended to build a multiplex theater on this site but the Minister for Planning and Local Government has intervened to negate certain permits which were in place at the time the land was acquired. Reading Australia believes that the site has value as an assemblage for other uses, even if it is unable to develop the site as a theater.

Entertainment Properties

The Company currently leases approximately 262,175 square feet of completed theater space in the mainland United States, Puerto Rico and Australia, as follows:

	Aggregate Square Footage	Approximate Range of Terms (including renewals)
United States	72,650	10-40
Puerto Rico	135,490	15-40 years
Australia	54,035	29-40

In addition, the Company has signed leases or agreements to lease with respect to additional to-be-built theater space of 46,000 square feet in the U.S., 50,000 square feet in Puerto Rico, and approximately 130,000 square feet in Australia. These leases have average terms (including renewals) of forty to fifty years including renewal options and average base rents totalling $760,000. Reading Australia has also entered into an agreement to lease a site on which it intends to build a 48,000 square foot cinema. The lease provides for a one-time payment of approximately $850,000 for its two hundred year term.

The Company currently owns 300,000 square feet of land comprised of two sites and has contracted to purchase or otherwise acquire over 750,000 square feet of land comprised of two sites for the construction of cinemas and entertainment complexes in Australia.

Reading Australia also owns a 50% joint venture interest in a shopping center located on leased land in the Melbourne area of Victoria, and is currently studying the redevelopment of such facility as an entertainment center.

Item 3. Legal Proceedings

Environmental

Reading Company has been advised by the Environmental Protection Agency ("EPA") that it is a potentially responsible party ("PRP") under environmental laws including Federal Superfund legislation ("Superfund") for a site located in Douglassville, Pennsylvania. In 1995, the federal district court judge who presided over Reading Company's bankruptcy reorganization ruled that all liability asserted against Reading Company had been discharged in bankruptcy. This decision was upheld on appeal, and the time to file further appeals has now lapsed.

Certain Shareholder Litigation

In September 1996, the holder of 50 shares of Common Stock commenced a purported class action on behalf of the Company's minority shareholders owning Reading Company Class A Common Stock in the Philadelphia County Court of Common Pleas relating to the Reorganization and Stock Transactions. (See Note 9 to the Consolidated Financial Statements contained elsewhere herein.) The complaint in the action (the "Complaint") named the Company, Craig, two former directors of the Company and all of the current directors of the Company (other than Gregory R. Brundage) as defendants. The Complaint alleged, among other things, that the Independent Committee (set up to review the transactions), and the current and former directors of the Company breached their fiduciary duty to the minority shareholders in the review and negotiation of the Reorganization and Stock Transactions and that none of the directors of the Company were independent and that they all were controlled by James J. Cotter, Craig or those controlled by them. The Complaint also alleged, in part, that the defendants failed to disclose the full future earnings potential of the Company and that Craig would benefit

unjustly by having its credit rating upgraded and its balance sheet bolstered and that the value of the minority shareholders' interest in the Company was diluted by the transactions. The Complaint sought injunctive relief to prevent the consummation of the Stock Transactions and recision of the Stock Transactions, if they were consummated, and divestiture by the defendants of the assets or shares of the Company that they obtained as a result of the Stock Transactions, and unspecified damages and other relief.

In October 1996, all of the defendants filed preliminary objections to the Complaint and thereafter, by agreement of the parties and Order of the Court, the Company was dismissed as a defendant without prejudice. Plaintiff dismissed with prejudice his request for preliminary and permanent injunctive relief to prevent the consummation of the Stock Transactions and his request to rescind and set aside the Stock Transactions.

In November 1996, plaintiffs filed an Amended Complaint against all of the Company's present directors, its two former directors and Craig. The Amended Complaint does not name the Company as a defendant. The Amended Complaint essentially restates all of the allegations contained in the Complaint and contends that the named defendant directors and Craig breached their fiduciary duties to the alleged class. The Amended Complaint seeks unspecified damages on behalf of the alleged class and attorneys' and experts' fees. On December 9, 1997, the Court certified the case as a Class Action and approved the plaintiff as Class Representative.

On April 24, 1997, plaintiff filed a purported derivative action against the same defendants. This action included claims substantially similar to those asserted in the class action and also alleged waste of tax benefits relating to the Company's historic railroad operating losses. The Company moved to dismiss this case for failure by the plaintiff to comply with the mandated procedures for bringing such an action. On January 23, 1998, the Court dismissed the derivative action. The Company intends to pursue recovery of counsel fees expended in the defense of the case. The dismissal of the derivative action does not affect the class action case, nor does it preclude reassertion to the claims contained in the derivative action.

Management believes that the allegations contained in the Amended Complaint are without merit and intends to vigorously defend the directors in the matter. The Company has Directors and Officers liability insurance and believes that the claim is covered by such insurance.

Redevelopment Authority of the City of Philadelphia v. Reading

On December 12, 1997, the Redevelopment Authority filed an action in the Philadelphia Court of Common Pleas which relates to the 1993 sale of the Headhouse property by Reading to the Authority. Plaintiff has alleged discovery of various contaminants -- asbestos, PCB's lead paint -- and alleges past and future clean-up costs in excess of $1,000,000. The action is based upon theories of contract and state environmental law. The Company has denied liability and intends to vigorously defend. It is the Company's opinion that the Authority's claim is meritless in that the Company adequately disclosed the condition of the property and expressly limited its representations made in connection with the sale.

Other Claims

The Company is not a party to any other pending legal proceedings or environmental action which management believes could have a material adverse effect on its financial position.

Item 4. Submission of Matters to a Vote of Security Holders.

Not Applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
James J. Cotter	59	Chairman of the Board of Directors
S. Craig Tompkins	47	Vice Chairman and Director
Robert F. Smerling	63	President and Director
John Rochester	54	Chief Executive Officer, Australian Cinemas Operations and Reading Australia Pty Ltd.
James A. Wunderle	45	Executive Vice President, Chief Financial Officer and Treasurer
John Foley	47	Vice President, Marketing
Charles S. Groshon	44	Vice President, Finance
Ellen M. Cotter	32	Vice President, Business Affairs

Mr. Cotter has been Chairman of the Board of Directors since December 1991, Chairman of the Company's Executive Committee since March 1993 and a director since September 1990. Mr. Cotter has been Chairman of the Board of Craig since 1988 and a director since 1985. Mr. Cotter has been a director and the Chairman of the Board of Citadel since 1991. From October 1991 to June 1993, Mr. Cotter also served as the acting Chairman of Citadel's wholly-owned subsidiary, Fidelity Federal Bank, FSB ("Fidelity"), and served as a director of Fidelity until December 1994. Mr. Cotter is the Chairman and a director of Citadel Agricultural Inc., a wholly owned subsidiary of Citadel ("CAI"); the Chairman and a member of the Management Committee of each of the agricultural partnerships which constitute the principal assets of CAI (the "Agricultural Partnerships"); and the Chairman and a member of the Management Committee of Big 4 Farming LLC, a consolidated subsidiary of Citadel. Mr. Cotter has been a director and Chief Executive Officer of Townhouse Cinemas Corporation (motion picture exhibition) since 1987, Executive Vice President and a director of The Decurion Corporation (motion picture exhibition) since 1969 and a director of Stater and its predecessors since 1987. From 1988 through January 1993, Mr. Cotter also served as the President and a director of Cecelia Packing Corporation (a citrus grower and packer), a company wholly owned by Mr. Cotter, and is the Managing Director of Visalia, LLC, which holds a 20% interest in each of the Agricultural Partnerships. Mr. Cotter is also a director and Executive Vice President of Pacific Theatres, a wholly-owned subsidiary of Decurion.

Mr. Smerling has been President of Reading Entertainment since January 1997. Mr. Smerling has served as President of Reading Cinemas, Inc. since November 1994. Mr. Smerling also serves as the President of CineVista and the Chief Executive Officer of Reading Australia. Mr. Smerling served as president of Loews Theater Management Corporation, a subsidiary of Sony Corporation, from May 1990 until November 1994. Mr. Smerling also serves as President and Chief Executive Officer of City Cinemas, a motion picture exhibitor located in New York City, New York. City Cinemas is an affiliate of James J. Cotter and has entered into an Executive Sharing Agreement with the Company with respect to the services of Mr. Smerling.

Mr. Tompkins has been Vice Chairman since January 1997. Mr. Tompkins has been a Director of the Company since March 1994 and was President of the Company from March 1994 through December 1996. Mr. Tompkins is also President and Director of Craig and has served in such positions since March 1, 1994. Prior thereto, Mr. Tompkins was a partner in the law firm of Gibson, Dunn & Crutcher for more than the past five years. Mr. Tompkins has been a director of Citadel since May 1994 and a director of G&L Realty Corp., a New York Stock Exchange listed REIT (Real Estate Investment Trust), since December 1994. Since July 1995, Mr. Tompkins has been the Vice Chairman of Citadel, and currently serves as that company's Secretary/Treasurer and Principal Accounting Officer. Mr. Tompkins is also President and a Director of CAI, a member of the Management Committee of each of the Agricultural Partnerships and Big 4 Farming LLC, and serves for administrative convenience

as an Assistant Secretary of Visalia, LLC and Big 4 Ranch, Inc. (a partner with CAI and Visalia, LLC, in each of the Agricultural Partnerships).

Mr. Rochester has been Chief Executive Officer of Reading Australia since November 1995. From 1990 through 1995, Mr. Rochester was the Managing Director of Television & Media Services Ltd. (formerly Hoyts Entertainment Ltd.). He also served in several other executive offices for that organization since 1987.

Mr. Wunderle has been Chief Financial Officer since January 1987 and Executive Vice President, Treasurer, and Chief Financial Officer since December 1988. He has been Treasurer since March 1986.

Mr. Groshon has been Vice President of the Company since December 1988. He was an internal auditor with the Company from August 1984 until December 1988, and a staff accountant prior thereto.

Mr. Foley has been an officer of the Company since May 1998. Mr. Foley also has been an officer of City Cinemas since January 1997. Prior to joining City Cinemas and the Company, Mr. Foley was the President of Distribution for Miramax, where he, among other things, developed and implemented the distribution plan for The English Patient, the winner of nine Academy Awards and one of the most profitable art films of all time. Prior to joining Miramax in 1994, Mr. Foley was the President of Distribution for MGM/UA from 1989 through 1993.

Ms. Cotter has been the Vice President, Business Affairs of the Company since March 1998. Prior thereto, Ms. Cotter held the same position with Craig from August 1996. Prior thereto, she was an attorney specializing in corporate law with White & Case, a New York law firm. Ms. Cotter is the daughter of Mr. James J. Cotter.

The Company receives consulting services from the following individuals; a full-time employee of an affiliated company, Citadel:

Mr. Wesson has been the President and Chief Executive Officer of CHC since August 1994. Prior to his employment by Citadel in 1993, Mr. Wesson was the Chief Executive Officer of Burton Properties Trust Inc., the U.S. real estate subsidiary of The Burton Group PLC, from 1989. Reading owns 23.5% of the outstanding Common Stock of CHC, and receives real estate consulting services from Citadel pursuant to an agreement with that company.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock Summary

The following table sets forth the high and low prices of Reading Company Class A Common Stock from January 1, 1996 through October 15, 1996, and the REI Common Stock from October 16, 1996 through December 31, 1997, as reported on the NNM. The Reading Company Class A Common Stock was also traded on the Philadelphia Exchange from September 9, 1996 through October 15, 1996 and the REI Common Stock has been traded on such exchange since October 15, 1996. Reading Company's Common Stock traded infrequently on the over-the-counter "pink sheet" market. Historical bid/asked data is insufficient to provide high and low price information on Reading Company's Common Stock during 1996.

	1997			
Quarter	1st	2nd	3rd	4th
High	10 7/8	11 3/4	12 1/2	14 1/2
Low	9 3/4	10 7/8	11 1/8	12 5/16

	1996			
Quarter	1st	2nd	3rd	4th
High	11	11	11 1/8	10 3/8
Low	9	10	10	9

On March 24, 1998, the high, low and closing prices for REI Common Stock on the NNM were, $13.375, $13.0625, $13.125, respectively. On March 16, 1998, there were approximately 1,000 shareholders of record of REI Common Stock, which amount does not include individual participants in security position listings.

Neither REI nor Reading Company have paid any dividends on their Common Stock. The Board of Directors does not intend to authorize payment of dividends on the Common Stock in the foreseeable future. Holders of the Convertible Preferred Stock are entitled to receive quarterly cumulative dividends at the annual rate of $6.50 per share of Series A Preferred Stock and $6.50 per share of Series B Preferred Stock, in each case before any dividends (other than dividends payable in Common Stock) are paid to the holders of the Common Stock.

On October 15, 1996, REI issued the Convertible Preferred Stock to Craig and Citadel. See Item 1 Business -- The Reorganization and Stock Transactions. The Convertible Preferred Stock was offered and sold pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933 as a non-public offering to a limited number of persons.

Item 6. Selected Financial Data

The following table sets forth certain historical consolidated financial information for the Company. This table is based on, and should be read in conjunction with, the Consolidated Financial Statements included elsewhere herein and the related notes thereto.
(In thousands except per share information)

Year ended December 31,	1997(1)	1996(2)	1995	1994(3)	1993
Revenues	$36,288	$22,944	$17,632	$10,911	$3,306
Income (loss) applicable to common shareholders before cumulative effect of accounting change	(1,354)	6,092	2,351	(1,652)	(520)
Cumulative effect of accounting change	0	0	0	0	132
Net (loss) income applicable to common shareholders	($1,354)	$6,092	$2,351	($1,652)	($388)
Earnings per share information:					
Basic earnings per share before cmuulative effect of accounting change	($0.18)	$1.11	$0.47	($0.33)	($0.11)
Cumulative effect of accounting change	0	0	0	0	0.03
Basic earnings per share	($0.18)	$1.11	$0.47	($0.33)	($0.08)
Diluted earnings per share before cumulative effect at accounting change	($0.18)	$1.02	$0.47	($0.33)	($0.11)
Cumulative effect at accounting change	0	0	0	0	0.03
Diluted earning per share	($0.18)	$1.02	$0.47	($0.33)	($0.08)

December 31,	1997	1996	1995	1994	1993
Total assets	$178,012	$181,754	$75,544	$72,716	$70,121
Redeemable preferred stock	$7,000	$7,000	0	0	0
Shareholders' equity	$150,485	$155,954	$68,712	$66,086	$68,026

(1) Includes the results of five new theaters which were opened or acquired during the year.

(2) Includes results of Citadel from March 30, 1996, the acquisition of the NY Angelika from August 28, 1996, and the Stock Transactions from October 16, 1996.

(3) Results of operations of CineVista have been included since its acquisition effective July 1, 1994.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company has elected to focus its theater development and related real estate development activities in two principal areas, the development and operation of state of the art multiplex cinemas in Puerto Rico, the United States and Australia, and the development and operation in Australia of entertainment centers typically consisting of a multiplex cinema, complementary restaurant and retail uses, and self contained parking.

Results of Operations

Due to the nature of the Company's development and acquisition activities and the timing associated with the results of such activities, the effect of litigation awards and settlements, the acquisition of the Angelika Film Center (the "NY Angelika") in the third quarter of 1996, a recapitalization of the Company (the "Stock Transactions") in the fourth quarter of 1996, and the results of operations of five new cinemas opened during 1997, historical revenues and earnings have varied significantly. The Company's entertainment center developments are in the early stage of development and generally will not produce income or cash flow for at least eighteen to twenty four months from the time that all development approvals have been secured. Management believes that historical financial results are not necessarily indicative of future operating results.

Revenue
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Theater Revenue is comprised of Admissions, Concessions and Advertising and other revenues from the Company's cinema operations and totaled the amounts set forth below in each of the three years ended December 31, 1996 inclusive of minority interests where applicable:

1997	1996	1995
$26,984,000	$18,236,000	$14,925,000

CineVista's Theater Revenues decreased from $15,523,000 in 1996 to $15,186,000 in 1997 due primarily to the competitive effect of two new multiplex cinemas in the San Juan metropolitan market (which cinemas opened in July 1996 and January 1997), the closing of four screens at one existing location in 1997 in order to begin construction of an eight screen cinema at the same location, offset somewhat by Theater Revenues realized from a new six screen cinema, which commenced operations in March 1997. CineVista's Theater Revenues increased approximately 4% between 1995 and 1996 as a result of the addition of a new eight screen theater which commenced operations in late 1995 offset somewhat by the effect of competitive theater openings in the San Juan metropolitan market.

Theater Revenues in 1997 include revenues of $7,978,000 from the Company's Domestic Cinemas (the NY Angelika, a new eight screen, 31,700 square foot cinema and cafe complex in Houston, Texas (the "Houston Angelika") and a five screen cinema located in Minneapolis, Minnesota (the "St. Anthony")). In 1996 the Company's only Domestic Cinema contributed $2,713,000 in Theater Revenues (inclusive of minority interest) from August 28 through year end. Box office and concession revenues at this cinema in 1997 increased approximately 3.3% from the amount recorded for the full year of 1996 by such cinema (inclusive of results prior to the Company's acquisition of the theater). The Company commenced operation of the Houston Angelika and the St. Anthony in December 1997. Theater revenues from these additional cinemas were not material in 1997.

The Company opened its first cinema in Australia, a six screen cinema located in Townsville, Queensland (the "Townsville Cinema"), at the end of December 1996 and purchased an operating four screen cinema located in Bundaberg, Victoria (the "Bundaberg Cinema") for approximately $1,600,000 in the third quarter of 1997. A third six screen cinema located in Mandurah, Western Australia (the "Mandurah Cinema") opened in November 1997. Theater Revenues from the three cinemas totaled $3,820,000 in 1997. Reading Australia recorded no Theater Revenues in 1996 or 1995.

In 1998, the Company will receive the benefit of a full year of operation of the five cinemas (representing 29 screens) opened during 1997.

Real Estate revenues include rental income and the net proceeds of sales of the Company's domestic real estate. Reading Australia did not have any revenues relating to its real estate activities. Real estate revenues were $180,000, $543,000 and $272,000 in 1997, 1996 and 1995, respectively. Rental income in 1996 included $289,000 from rentals on leased equipment. The Company does not anticipate recognizing additional income from the leasing transaction until the residual value of the leased equipment is realized in 2002. (See Note 5 to the Consolidated Financial Statements included elsewhere herein.) Gains on sale of property totaled $15,000, $43,000 and $0 in each of the three years ended December 31, 1997, 1996 and 1995, respectively. The Company has approximately 25 parcels and rights-of-way remaining from its historic railroad operations, many of which are of limited marketability. Future domestic real estate revenues may increase as larger properties are sold. However, management believes that most of the properties held for sale will be liquidated within the next two years.

The Company acquired the Stater Bros. Holdings Series B Preferred Stock (the "Stater Preferred Stock") in the Stock Transactions and contributed the Stater Preferred Stock to Reading Australia in late 1996. During the third quarter of 1997 Stater Bros. Holdings ("Stater") exercised an option to purchase the Stater Preferred Stock held by Reading Australia. Pursuant to the option exercise, Stater paid Reading Australia $73,915,000, an amount equal to the stated value of the Stater Preferred Stock plus accrued dividends. In addition to recording income of $4,490,000 from the accrued dividends, the Company recorded a gain of $1,387,000 reflecting the difference between the stated value of the Stater Preferred Stock ($69,365,000) and the carrying value thereof of $67,978,000 (98% of stated value). The Stater Preferred Stock had a dividend yield of 10.5%. The income related to the repurchase of the Stater Preferred Stock from Reading Australia has been recorded as "Earnings from Stater Preferred Stock" in the Company's Consolidated Statement of Operations.

Interest and dividend revenues (exclusive of those from the Stater Preferred Stock) were as follows in each of the three years ended December 31, 1997, 1996 and 1995:

1997	1996	1995
$3,247,000	$2,788,000	$2,435,000

Interest and dividend income increased $459,000 in 1997 as a result of higher average balances of investable funds in the fourth quarter from the proceeds of the Stater Preferred Stock redemption. The increase in interest and dividend income between 1995 and 1996 was due primarily to higher levels of investable funds after the Stock Transactions.

Expenses
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"Theater costs," "Theater concession costs" and "Depreciation and amortization" (collectively "Theater Operating Expenses") reflect the direct theater expenses associated with the Company's cinema operations. Theater Operating Expenses, inclusive of minority interest, increased $7,908,000 from $16,235,000 in 1996, to $24,143,000 in 1997 due primarily to the operating expenses associated with a full year of operations of one of the Company's Domestic Cinemas and the commencement of operations of the Australia theaters which amounts totaled $9,653,000 in 1997 and $2,148,000 in 1996.

CineVista Theater Operating Expenses increased approximately $402,000 to $14,490,00 in 1997 primarily as a result of the additional expenses of operating a new location (subsequent to March 1997). CineVista Operating expenses increased approximately $200,000 between 1995 and 1996 due primarily to the higher level of theater revenues recorded in 1996.

"General and administrative" expenses, without consideration of intercompany management fees, were as follows:

	1997	1996	1995
CineVista	$ 767	$1,050	$922
Domestic Cinemas(1)	645	165	0
Australia(2)	3,714	2,804	390
Other	4,611	3,087	3,278
Total	$9,737	$7,106	$4,590

CineVista's "General Administrative" expenses decreased approximately $283,000 in 1997 to $767,000 from $1,050,000 in 1996 due primarily to certain reclassification of salary expenses ($200,000) and a reduction in professional fees of $70,000.

"General and Administrative" expenses associated with the Domestic Cinemas include $370,000 in 1997 and $43,000 in 1996 of management fees to City Cinemas with respect to the management of the Domestic Cinemas. (See Note 3 to the Consolidated Financial Statements contained elsewhere herein.)

Reading Australia's "General and Administrative" expenses increased from $2,804,000 in 1996 to $3,714,000 in 1997. The principal components of this increase include an increase in Property Development costs of $650,000 ($650,000 recorded in 1996 and $1,300,000 in 1997) which were written off due to project abandonments or reconfiguration, third party theater management fees of $185,000 and increased office, salary and related overhead expenses resulting from an expansion of Reading Australia's theater operations and entertainment center development activities.

The investment in and operating results of Reading International Cinemas LLP ("Reading International"), the parent of Reading Australia, were reported under the equity method through 1995. The Company acquired ownership of 100% of Reading International and consolidated the results of Reading International with the results of the Company in 1996. (See Note 4 to the Consolidated Financial Statements contained elsewhere herein.) "Equity loss from investment in Australian joint venture" appearing in the 1995 Consolidated Statement of Operations reflects the Company's 50% share of the initial General and Administrative expenses in Australia and noncapitalized development expenditures relating to new theater site analysis and selection. Reading Australia anticipates continuing losses during the next several years until additional new theaters and entertainment centers are developed and operations increased.

Other "General and Administrative" expense increased from $3,087,000 in 1996 to $4,611,000 in 1997, and includes the Company's non-capitalized expenses associated with its US cinema development activities. The increase in 1997 includes bonus expense of $475,000 for a bonus paid to the Company's Chairman of the Board of Directors and a $110,000 investment banking fee paid to the Company's former Corporate Secretary, increased salary expense and salary related expenses of approximately $370,000 due to an expansion of cinema development and operating personnel and increased professional fees of approximately $200,000 relating primarily to domestic cinema development activities.

Equity in Earnings of Affiliates

In 1997 and 1996 "Equity in earnings of affiliate" were $298,000 and $1,526,000 respectively and include the results of the Company's common stock interest in Citadel Holding Corporation ("Citadel"). In 1997

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(1) Includes the NY Angelika, the St. Anthony and the Houston Angelika

(2) Does not include Craig's 50% share of Reading International's General and Administrative expenses in 1995.

Citadel's net income totaled $1,575,000 and the Company realized "Equity in earnings of affiliates of $298,000. In 1996, Citadel's 1996 earnings include a nonrecurring gain on sale of real estate of $1,473,000 and nonrecurring income of $4,000,000 from the recognition, for financial statement purposes, of previously deferred proceeds from the bulk sale of loans by a previously owned subsidiary of Citadel. (See Note 5 to the Consolidated Financial Statements included elsewhere herein.)

Other Income

"Other income" totaled $1,531,000, $4,327,000 and $2,341,000 in the three years ended December 31, 1997, 1996 and 1995, respectively, and is primarily comprised of litigation settlements and awards. In 1997 "Other income" includes $615,000 which REI received from Stater in return for REI's agreement not to provide consulting services for, nor own a controlling interest in, a business which competes with Stater (the retail sale of groceries in the "Inland Empire" region of Southern California) for a period of one year, $260,000 from a third party as reimbursement of certain acquisition related expenditures which were expensed by the Company in prior periods, $490,000 of income realized upon settlement of certain litigation relating to a discontinued subsidiary's operations, and a $220,000 gain from currency transactions. (See "Currency Transactions", below).

The principal components of "Other income" in 1996 included a $2,360,000 settlement of the Company's claim against Conrail, the City of Philadelphia, the Southeastern Pennsylvania Transportation Authority and several other parties for reimbursement of costs incurred by the Company associated with cleanup of PCB contamination in certain properties formerly owned by the Company (See Note 9 to the Consolidated Financial Statement contained elsewhere herein), a $941,000 gain from the redemption of the Company's Citadel Series B Preferred Stock, and $1,119,000 received, net of expenses, in settlement of a claim against a third party for failure to pay certain fees.

"Other income" in 1995 included $1,146,000 received in settlement of a condemnation claim, a $425,000 settlement of certain litigation relating to a lease of a property developed by the Company, $319,000 received in settlement of two matters related to the Company's former railroad operations, and $233,000 relating to the expiration of the time period for redemption of unclaimed reorganization debt obligations.

Minority Interest

Minority interest in income of $196,000 in 1997 includes a provision for $238,000 for the 16.67% minority interest in one of the Company's Domestic Cinema's income less $42,000 representing 25% of the loss related to the joint venture partner's interest in on of the Company's Australian theaters. Minority interest in the loss of $321,000 in 1996 included Craig's $388,000 share of Reading International's loss for the period prior to the Company's acquiring 100% ownership, offset by $67,000 of the minority share of the above referenced Domestic Cinema.

Income Tax Provision

Income Tax expense in 1997 totaled $1,067,000 consisting of $146,000 of Federal Alternative Minimum Tax ("AMT"), an accrual for foreign withholding taxes of $698,000 which will be paid if certain intercompany loans are repaid and state taxes of $223,000. (See Note 8 to the Consolidated Financial Statements contained elsewhere herein.) The income tax benefit in 1996 included the $3,957,000 benefit associated with a reversal of the tax asset valuation allowance, described below, offset by AMT of $2,195,000, an accrual for foreign withholding taxes of $446,000 and state taxes of $80,000. "Income Tax" expense in 1995 was composed primarily of AMT expense.

Net Income

As a result of the above "Net income" totaled $2,955,000, $7,003,000 and $2,351,000 in 1997, 1996 and 1995, respectively.

Net (Loss) Income Applicable to Common Shareholders

"Net (loss) income applicable to common stockholders" has been reduced by the 6.5% per annum dividend on the $62,000,000 of Convertible Preferred Stock outstanding since October 15, 1996 and amortization of the asset put option since October 15, 1996 (the period subsequent to the closing on the Stock Transactions). (See "The Stock Transactions", below.)

Currency Transactions

During the fourth quarter of 1997, the Company entered into several foreign currency swaps and a currency forward position with a major bank. The agreements provided for the Company to receive $12,363,800 US dollars ("USD") in return for the delivery of $18,659,300 Australian dollars ("AUD") in January 1998. The value of the contracts at December 31, 1997 was established by computing the difference between the contractual exchange rates of the swap and forward positions (AUD/USD) and the exchange rates in effect at December 31, 1997 and an unrealized gain of $220,000 was recorded in 1997 from these transactions which gain has been included in "Other income".

During the first quarter of 1998, the currency positions and extensions thereof matured and the Company incurred a loss. The loss, which will be recognized in the first quarter of 1998 totals approximately $700,000.

Liquidity and Capital Resources

The Company, where feasible, prefers to own the land on which it constructs its cinemas. In the United States and Puerto Rico, a variety of factors (including land acquisition costs and competition from well established and well financed developers) has caused the Company to focus on leasehold sites. However, an ownership oriented approach is being pursued in Australia with respect to the Company's entertainment center projects (See Item 1, Business). These projects will be more capital intensive, have longer lead times and entail greater development risks than the leasing of facilities in established malls. The entertainment centers will generally consist of a multiplex cinema with complementary retail and restaurant use and convenient parking all constructed on land owned or controlled by the Company. Accordingly, such centers are capital intensive at this stage of development. Reading Australia has acquired three sites (inclusive of a joint venture shopping center site), which the Company may develop as entertainment centers, and has agreements relating to two other possible entertainment center sites. Reading Australia also has a fifty acre property assemblage in the Melbourne area. The Company is considering development options for this site. However, if capital were required to fund the company's entertainment center or other projects, this site could be sold to fund such projects. If all of these potential entertainment center projects are developed, Reading Australia estimates the total development cost of these projects will exceed $100 million over the next two to three years.

The Company anticipates that it will invest approximately $6.2 million during 1998 in furtherance of its expansion of an existing theater scheduled to be completed in 1998. CineVista has also signed a lease agreement for a new twelve screen cinema, and has a letter of intent relating to an expansion of an existing location. CineVista's share of the estimated costs of these two projects is approximately $15 million and will be expended in 1998 and 1999. CineVista may use funds available under its Line of Credit (See Note 11 to the Consolidated Financial Statements contained elsewhere herein) to fund a portion of its theater development costs.

The Company is actively seeking sites to develop Angelika-type theaters throughout the United States and will consider acquiring leasehold or ownership interests in conjunction with such developments. In addition, the Company may from time-to-time develop theaters which specialize in conventional commercial film product if the Company views the markets as attractive. The Company has entered into a lease for a site on which the Company plans to build a twelve screen commercial cinema in New Jersey. The theater is presently under development and scheduled to open in late 1998. In addition, the Company has entered into letters of intent relating to the development of Angelika type cinemas with a total of 35 screens in five locations. The Company's share of the development costs of these projects are estimated to total approximately $30 million. However, with the exception of the one theater under construction, it cannot be assured any of these projects will be completed as leases have not yet been executed. The cash cost of the Company's domestic cinema projects can range from approximately $1.5 million for a turnkey leased facility to over $10 million for an owned site.

If the Company is successful in its efforts to develop all of the projects which it is presently considering, its capital requirements over the next three years will exceed its existing liquid funds and anticipated cash flow. However, the Company believes that additional funding can be realized through, among other things, bank borrowings, sale and lease back transactions and the issuance/sale of additional equity either of REI, Reading Australia or at the project level. The Company presently has liquid funds in excess of its capital commitments.

The following summarizes the major sources and uses of cash funds in each of the three years ended December 31, 1997, 1996 and 1995:

1997:
- -----

"Unrestricted cash and cash equivalents increased $44,190,000 in 1997 from $48,680,000 in 1996 to $92,870,000 at December 31, 1997. Working capital increased $43,790,000 from $43,336,000 at December 31, 1996 to $87,126,000 at December 31, 1997.

The principal source of liquid funds in 1997 was the $73,915,000 in proceeds from the redemption of the Stater Preferred Stock investment. While not necessarily indicative of results of operations determined under generally accepted accounting principles, CineVista's, the Domestic Cinemas' and Reading Australia's (net of minority interest of $196,000) operating cash flow (income before depreciation and amortization and corporate charges) totaled $7,672,000 in 1997. Other sources of liquid funds in 1997 include $2,360,000 in payment of a 1996 litigation settlement, $3,247,000 in "Interest and dividend" income and cash of $875,000 from "Other income".

In addition to the payment of operating expenses the principal use of cash funds included the payment of $4,030,000 of dividends on the Company's Convertible Preferred Stock, and purchases of property and equipment of $20,116,000 ($11,743,000 which relates to Reading Australia, $4,079,000 relating to CineVista and $4,294,000 relating to the Domestic Cinemas), and the investment of $3,871,000 by Reading Australia in a joint venture and a loan to the joint venture partner with respect to property on which Reading Australia intends to develop a multiplex cinema. (See Note 4 to the Consolidated Financial Statements contained elsewhere herein.)

1996:
- -----

"Unrestricted cash and cash equivalents increased $4,491,000 in 1996 from $44,189,000 in 1995 to $48,680,000 at December 31, 1996. Working capital increased $670,000 from $42,666,000 at December 31, 1995 to $43,336,000 at December 31, 1996.

While not necessarily indicative of its results of operations determined under generally accepted accounting principles, CineVista's and the NY Angelika's (net of minority interest of $67,000) operating cash flow (income before depreciation and amortization) of $2,520,000 contributed to the Company's liquid funds in 1996. Other principal sources of liquid funds in 1996 were $4,165,000 in "Interest and dividend" income, $4,327,000 in "Other income," $11,686,000 in proceeds from the Stock Transactions (net of $1,505,000 of paid and accrued expenses and inclusive of the proceeds from the redemption of the Citadel Series B Preferred Stock), and Craig contributions of $12,888,000 to Reading International which benefitted the Company upon the Company's acquisition of 100% ownership in Reading International. Additionally, principal sources of liquid funds included a net increase of $4,544,000 in "Accounts payable and accrued expenses."

In addition to operating expenses, other uses of liquid funds in 1996 included, the purchase of the NY Angelika for $9,217,000 (total purchase price of $12,570,000, net of a credit of $1,285,000 for a judgment secured by a portion of the stock of the seller of the NY Angelika (the "Angelika Judgment") and the minority partner contribution of $2,068,000), the purchase of the Citadel common stock (see Note 5 to the Consolidated

Financial Statements contained elsewhere herein) for $3,325,000, purchases, primarily by Reading Australia, of $11,075,000 in property and equipment and a net increase in "Amounts receivable" of $2,406,000.

1995:

"Unrestricted cash and cash equivalents" together with "Available-for-sale securities" decreased $747,000 in 1995 from $44,936,000 in 1994 to $44,189,000 at December 31, 1995. Working capital decreased $717,000 from $43,383,000 at December 31, 1994 to $42,666,000 at December 31, 1995.

CineVista's operating cash flow (income before depreciation and amortization) of $2,625,000 contributed to the Company's liquid funds in 1995. Other principal sources of liquid funds in 1995 were $2,435,000 in "Interest and dividends" income and $2,341,000 in "Other income" proceeds from litigation.

In addition to operating expenses, principal uses of liquid funds in 1995 include a $1,040,000 increase in amounts "Due from affiliate" related to the Company's advance to Reading International on behalf of Craig of its share of certain capital contributions to the entity, which amount was reimbursed by Craig in February 1996, a $1,040,000 contribution to Reading International (the Company's share), $1,828,000 for the purchase of property, plant and equipment related primarily to CineVista's new eight screen multiplex theater which commenced operations during December 1995 and $1,285,000 for the purchase of the Angelika Judgment.

The Stock Transactions

The Stock Transactions permitted the Company to acquire assets which could be converted into cash or utilized as collateral to raise cash funds necessary to finance the Company's theater and real estate development activities and consolidate Craig and the Company's interest in Reading International in order to reduce the complexity of the Company's corporate structure. With the exception of Reading International, the non-cash assets received in the Stock Transactions, the Stater Preferred Stock and the preferred stock of Citadel (the "Citadel Preferred Stock") were converted into cash in 1996 and 1997.

In the Stock Transactions, the Company received $7,000,000 of cash from Citadel. In return the Company issued to Citadel, $7,000,000 in stated value (70,000 shares) of the Company's Series A Voting Cumulative Preferred Stock (the "Series A Preferred Stock") and granted Citadel certain contractual rights including the asset put option (the "Asset Put Option"). The Asset Put Option grants Citadel the right to require the Company to acquire substantially all of Citadel's assets and assume related liabilities in return for the issuance of Common Stock at any time through a date 30 days after the Company files its 1999 Annual Report on Form 10-K. The number of shares to be issued will be determined by dividing the appraised value of the Citadel assets or $20 million, whichever amount is lower, by $12.25. If the appraised value of the Citadel assets is in excess of $20 million, the Company will issue Common Stock at fair market value for such excess up to a total of $30 million in Citadel assets. The Company received from Craig the Stater Preferred Stock with a stated value of $69,365,000, the Citadel Preferred Stock with a stated value of $5,250,000 and Craig's 50% interest in Reading International. In return, REI issued to Craig, 2,476,190 shares of Common Stock and 550,000 shares ($55,000,000 stated value) of Series B Voting Cumulative Preferred Stock (the "Series B Preferred Stock").

The Stock Transactions were accounted for as a reorganization of related entities requiring that the Company reflect the assets received at the lower of the value which they were recorded on the books of the affiliates.

The Stock Transactions were intended to qualify as an exchange under Section 351(a) (a "351 Exchange") of the Internal Revenue Code of 1986, as amended (the "Code"). In a 351 Exchange, the party acquiring the assets (in the Stock Transactions, REI) retains the contributing parties' tax basis in the acquired assets, with no taxable gain recognized as a result of the exchange. The parties contributing assets (in the Stock Transactions, Craig and Citadel) obtain a basis in the assets received in the exchange equal to the basis in the assets which are contributed in the exchange (the Series A and Series B Preferred Stock). With the exception of the Stater Preferred Stock, the book value of the assets received in the Stock Transactions approximated the tax basis in the assets received. Craig's adjusted tax basis (for federal tax purposes) in the Stater Preferred Stock was approximately $5 million.

The estimated tax liabilities associated with the assets received in the Stock Transactions were $22,042,000 in deferred federal income taxes primarily relating to the Stater Preferred Stock. At the time of the closing of the Stock Transactions, the Company had a gross deferred federal tax asset of $55,968,000 and a tax asset valuation allowance (the "TAVA") in the same amount. Upon receipt of the Stater Preferred Stock, the Company determined that it was more-likely-than-not that a portion of the deferred tax asset which had previously been fully reserved, would be realized and the Company reduced the TAVA by $20,782,000 which amount reflects the amount of federal tax loss carryforwards ("NOLs") which were expected to be utilized net of $1,260,000 in alternative minimum tax ("AMT").

A portion of the reversal of the tax asset valuation allowance, $3,957,000, was included in "Income tax benefit" in the Company's Consolidated Statement of Operations in 1996 and was subsequently reclassified from "Retained Earnings" to "Other Capital". The balance, $18,085,000, was credited directly to "Other Capital" in the Company's Consolidated Statement of Shareholders' Equity in 1996. The amount which was included in income was equal to the NOLs which remained available to the Company and which existed as of the date of the Company's 1981 quasi-reorganization. At the time of the Company's quasi-reorganization, the Company also realized a loss relating to the conveyance of certain assets to Conrail and charged such loss directly to "Other Capital." The benefits of NOLs relating to such charge cannot be reflected in the Company's Consolidated Statement of Operations. The Company has no NOLs which existed at the time of the Company's quasi-reorganization and therefore, future reductions in the Company's tax valuation allowance will be reflected as income in the Company's Consolidated Statement of Operations.

The Company issued Common Stock and the Convertible Preferred Stock in exchange for the assets received in the Stock Transactions. The Convertible Preferred Stock was reflected on the Consolidated Balance Sheet of the Company at December 31, 1996 at its stated value ($100 per share), which value management believes approximates market. The Series A Preferred Stock has not been included as a component of Shareholders' Equity since it includes provisions which permit a majority of the holders to request redemption at stated value plus accrued and unpaid dividends for a 60 day period beginning October 15, 2001 and also provides for redemption at the option of the majority of the holders, if the Company fails to pay four quarterly dividends or in event of a change in control.

In addition to issuing the Series A Preferred Stock, the Company also granted the Asset Put Option to Citadel, which under certain circumstances permits Citadel to exchange substantially all of its assets for Common Stock. The Company did not allocate any value to the Asset Put Option due in part to the subjective nature of the assumptions utilized in option pricing models and the fact that stock option valuation models are intended to value options and the Asset Put Option is not transferable. Had a value been separately ascribed to the Asset Put Option, the value of such option would have been deducted from the value of the Series A Preferred Stock and included as "Other Capital" in the Company's Consolidated Statement of Shareholders' Equity. In addition to the 6.5% dividend payable on the $62 million of Convertible Preferred Stock, the Company has elected to include as a component of "Preferred Stock Dividends" in its calculation of earnings per common share, a provision which will totaled approximately $68,000 in 1996 and $279,000 in 1997 for the amortization of the value of the Asset Put Option (based upon a valuation utilizing the Black & Scholes option valuation model).

Management believes that the tax gain (related to the Stater Preferred Stock) recognized by the Company was offset by the Company's NOL carryforwards (See Note 7 to the Consolidated Financial Statements contained elsewhere herein). However, the amount of NOLs carried on the books of the Company has not been audited by the Internal Revenue Service (the "IRS"), and there can be no assurance that the IRS would agree with the Company as to the amount of NOL available to offset such gains. Use of the NOLs is subject to certain limitations, including those resulting from certain changes in the ownership of the Company. While the transfer restrictions which are applicable to the Company's equity securities are intended to minimize the risk of such ownership changes, ownership changes unknown to the Company may have occurred despite or in violation of such restrictions. In addition, the Code and related case law limit the ability to use NOLs to offset certain "built-in" gains on contributed property. Although the Company does not believe that such limitations on the use of its NOLs would apply to the disposition of the assets recovered by the Company in the Stock Transaction, there can be no assurance that the IRS would not take a different position. Also, if the IRS were to determine that the principal purpose of the Stock Transactions was to make use of the NOLs and the Company could not show

otherwise, such use may not be available. In such case, the financial position of the Company could be materially adversely affected.

The Company has determined that it will not need to modify or replace significant portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and beyond. The Company also does not believe that the failure of any third party suppliers or other parties to remediate year 2000 issues could have a material impact upon the Company's operations.

Effects on Inflation

The Company does not believe that inflation has a material effect upon its existing operations.

Recent Accounting Pronouncements

In 1997, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 requires net income per share to be presented under two calculations, basic income per share and diluted income per share

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosure About Segments of an Enterprise and Related information." SFAS No. 130 established standards for reporting comprehensive income and its components in the financial statements. SFAS No. 131 requires publicly held companies to report financial and other information about key revenue-producing segments of the entity and is utilized by the chief operation decision-maker. The Company is evaluating its implementation approach for SFAS Nos. 130 and 131, both of which will be adopted in 1998.

Forward-Looking Statements

From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing, including those contained herein. Such forward-looking statements may be included in, without limitation, reports to stockholders, press releases, oral statements made with the approval of an authorized executive officer of the Company and filings with the Securities and Exchange Commission. The words or phrases "anticipates," "expects," "will continue," "estimates," "projects," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The results contemplated by the Company's forward-looking statements are subject to certain risks, trends, and uncertainties that could cause actual results to vary materially from anticipated results, including without limitation, delays in obtaining leases and permits for new multiplex locations, construction risks and delays, the lack of strong film product, the impact of competition, market and other risks associated with the Company's investment activities and other factors described herein.

Item 8. Financial Statements and Supplementary Data

The information required by this item is incorporated by reference to pages F-1 through F-31.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item, to the extent that it relates to directors of the Company, is incorporated by reference to the Company's proxy statement with respect to its 1998 Annual Meeting of Shareholders and, to the extent that it relates to executive officers, appears in Part I hereof.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the Company's proxy statement with respect to its 1998 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference to the Company's proxy statement with respect to its 1998 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the Company's proxy statement with respect to its 1998 Annual Meeting of Shareholders.

PART IV.

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

All schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions or are not applicable and therefore have been omitted.

(a)(3) Exhibits

2.1 Agreement and Plan of Merger Among Reading Company, Reading Entertainment, Inc., and Reading Merger Co. (Incorporated by reference to Exhibit A to the Proxy Statement/Prospectus included in Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

3(i) Certificate of Incorporation of Reading Entertainment, Inc. as amended. (Incorporated by reference to Exhibit B to the Proxy Statement/Prospectus included in Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

3(ii) By-laws of Reading Entertainment, Inc. (Incorporated by reference to Exhibit C to the Proxy Statement/Prospectus included in Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

4.1 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. (Incorporated by reference to Exhibit G to the Proxy Statement/Prospectus included in Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

10.1* Reading Company 1982 Non-Qualified Stock Option Plan, as Amended. (Incorporated by reference to Exhibit 4(b) to Reading Company's Registration Statement No. 2-83039, as amended.)

10.2* Reading Company 1982 Incentive Stock Option Plan, as Amended. (Incorporated by reference to Exhibit 4(a) to Reading Company's Registration Statement No. 2-83039, as amended.)

10.3* Reading Company 1992 Nonqualified Stock Option Plan.

10.4 Executive Sharing Agreement by and between Reading Cinemas, Inc. and City Cinemas Corp. dated as of November 1, 1993. (Incorporated by reference to Exhibit 10.1 to Reading Company's Annual Report on Form 10-K for the year ended December 31, 1993.)

10.5 Credit Agreement by and between Reading Cinemas of Puerto Rico, Inc., and Citibank, N.A., as administrative agent for the Lenders thereunder dated as of December 20, 1995. (Incorporated by reference to Exhibit 10.11 to Reading Company's Annual Report on Form 10-K for the year ended December 31, 1995.)

10.6 The First Amendment dated February 7, 1996 to the Credit Agreement by and between Reading Cinemas of Puerto Rico, Inc., and Citibank, N.A., as administrative agent for the Lenders thereunder dated as of December 20, 1995. (Incorporated by reference to Exhibit 10.12 to Reading Company's Annual Report on Form 10-K for the year ended December 31, 1995.)

10.7 RC Revocable Trust Agreement between Reading Investment Company, Inc. and Craig Corporation and Craig Management, Inc. as trustee, dated November 9, 1995. (Incorporated by reference to Exhibit 10.14 to Reading Company's Annual Report on Form 10-K for the year ended December 31, 1995.)

10.8 Stock Purchase and Sale Agreement dated as of March 30, 1996 by and between Reading Holdings, Inc. and Craig Corporation. (Incorporated by reference to Exhibit 10.18 to Reading Company's Annual Report on Form 10-K for the year ended December 31, 1995.)

10.9* Service Deed between Australia Cinema Management Pty Limited and John Rochester dated May 7, 1996. (Incorporated by reference to Exhibit 10.20 to Reading Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.)

10.10 Exchange Agreement among Reading Company, Reading Entertainment Inc., Craig Corporation, Craig Management Inc., Citadel Holding Corporation, and Citadel Acquisition Corp., Inc. (Incorporated by reference to Exhibit F to the Proxy Statement/Prospectus included in Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

10.11 Asset Put and Registration Rights Agreement dated October 15, 1996 by and among Reading Entertainment, Inc., Citadel Holding Corporation, and Citadel Acquisition Corp., Inc. (Incorporated by reference to Exhibit 10.15 to Reading Entertainment, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996.)

10.12 Certificate of Designation of the Series B 3% Cumulative Voting Convertible Preferred Stock of Citadel Holding Corporation. (Incorporated by reference to Exhibit 10.16 to Reading Entertainment, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996.)

10.13 Preferred Stock Purchase Agreement dated November 10, 1994, between Citadel Holding Corporation and Craig Corporation. (Incorporated by reference to Exhibit 2 to Citadel Holding Corporation's Report on Form 8-K dated November 14, 1994.)

10.14 Option Agreement, dated September 3, 1993, among Stater Bros. Holdings Inc., Craig Corporation, and Craig Management Inc. (Incorporated by reference to Exhibit 10.24 to Craig Corporation's Annual Report on Form 10-K for the year ended September 30, 1993.)

10.15 The Sale Agreement dated as of July 1, 1996, by and among Reading Investment Company, Inc., as Purchaser, AFCI, as Seller, and Houston Cinema, Inc., with all Exhibits and Schedules omitted. (Incorporated by reference to Exhibit 2(a) to Reading Company's Report on Form 8-K dated August 27, 1996.)

10.16 Amendment to the Sale Agreement made and entered into as of July 27, 1996 by and among Reading Investment Company, Inc., AFCI and Houston Cinema, Inc. (Incorporated by reference to Exhibit 2(b) to Reading Company's Report on Form 8-K dated August 27, 1996.)

10.17 $2,000,000.00 Non-Negotiable Secured Promissory Note dated as of August 27, 1996 (the "Holdback Note") by AFC, as Maker, to AFCI, as Payee. (Incorporated by reference to Exhibit 2(c) to Reading Company's Report on Form 8-K dated August 27, 1996.)

10.18 Pledge Agreement dated August 27, 1996 by and among AFCI, as Secured Party, and AFC, as Debtor, concerning the cash security for the Holdback Note. (Incorporated by reference to Exhibit 2(d) to Reading Company's Report on Form 8-K dated August 27, 1996.)

10.19 Limited Liability Company Agreement between Angelika Cinemas, Inc. and Sutton Hill Associates dated August 27, 1996. (Incorporated by reference to Exhibit 10.32 to Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

10.20 Management Agreement dated as of August 27, 1996 between Angelika Film Centers, LLC and City Cinemas Corporation. (Incorporated by reference to Exhibit 10.33 to Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

10.21 Restated Certificate of Incorporation of Stater Bros. Holdings Inc. (Incorporated by reference to Exhibit 4.2 to Reading Entertainment, Inc.'s Registration Statement on Form S-4, File No. 333-13413.)

10.22 Purchase Agreement between Equipment Leasing Associates 1995-VI Limited Partnership and FA, Inc. effective December 20, 1996. (Incorporated by reference to Exhibit 10.27 to Reading Entertainment, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996.)

10.23 Master Lease Agreement between FA, Inc. and Equipment Leasing Associates 1995-VI Limited Partnership dated December 20, 1996. (Incorporated by reference to Exhibit 10.28 to Reading Entertainment, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996.)

10.24 Nonrecourse Promissory Note between FA, Inc. and Equipment Leasing Associates 1995-VI Limited Partnership effective December 20, 1996. (Incorporated by reference to Exhibit 10.29 to Reading Entertainment, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996.)

10.25 Lease Rental Purchase Agreement between FA, Inc. and Ralion Financial Services, Inc. dated December 31, 1996. (Incorporated by reference to Exhibit 10.30 to Reading Entertainment, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996.)

10.26*Non-Qualified Stock Option Agreement dated April 18, 1997 by and between Reading Entertainment, Inc. and James J. Cotter. (Incorporated by reference to Exhibit 10.1 to

Reading Entertainment, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.)

10.27*Reading Entertainment, Inc. Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.1 to Reading Entertainment, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.)

10.28*Reading Entertainment, Inc. 1997 Equity Incentive Plan. (Incorporated by reference to Exhibit A to Reading Entertainment, Inc.'s Definitive Proxy Statement on Schedule 14A as filed with the Securities and Exchange Commission on August 21, 1997.)

10.29 Master Management Agreement between Angelika Holding, Inc. and City Cinemas Corporation dated November 26, 1997.

21(i) List of Subsidiaries of Reading Entertainment, Inc.

23.1 Consent of Independent Auditors - Ernst & Young LLP.

27.1 Financial Data Schedule for the year ended December 31, 1997.

27.2 Restated Financial Data Schedule for the quarter ended September 30, 1997.

27.3 Restated Financial Data Schedule for the quarter ended June 30, 1997.

27.4 Restated Financial Data Schedule for the quarter ended March 31, 1997.

27.5 Restated Financial Data Schedule for the year ended December 31, 1996.

27.6 Restated Financial Data Schedule for the quarter ended September 30, 1996.

27.7 Restated Financial Data Schedule for the quarter ended June 30, 1996.

27.8 Restated Financial Data Schedule for the quarter ended March 31, 1996.

27.9 Restated Financial Data Schedule for the year ended December 31, 1995.

(b) Reports on Form 8-K.

NONE

(c) See item 14(a)(3) above.

(d)(1) Not applicable.

(d)(2) Not applicable.

(d)(3) Not applicable.

* These exhibits constitute the executive compensation plans and arrangements of the Company.

Reading Entertainment, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands, except shares and per share amounts)

	December 31,	
	1997	1996
Current Assets		
Cash and cash equivalents	$92,870	$48,680
Amounts receivable, less allowance of $37 in 1997 and $70 in 1996	1,195	3,117
Restricted cash	4,755	3,683
Inventories	194	151
Note receivable	721	0
Prepayments and other current assets	568	814
Total current assets	100,303	56,445
Investment in Stater Preferred Stock	0	67,978
Investment in Citadel Common Stock	4,903	4,850
Net investment in leased equipment	2,125	2,125
Investment in WPG Unit Trust	1,608	0
Property and equipment - net	40,312	21,130
Note receivable from joint venture partner	1,771	0
Other assets	2,033	2,997
Intangible assets:		
Beneficial leases - net of accumulated amortization of $3,197 in 1997 and $2,284 in 1996	13,711	14,624
Cost in excess of assets acquired - net of accumulated amortization of $791 in 1997 and $197 in 1996	11,246	11,605
	77,709	125,309
	$178,012	$181,754

See Notes to Consolidated Financial Statements.

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

	December 31, 1997	1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$2,464	$5,183
Accrued taxes	657	2,549
Accrued property costs and other	3,319	1,240
Film rent payable	1,637	1,102
Note payable	645	1,500
Purchase commitment	3,516	230
Other liabilities	939	1,305
Total current liabilities	13,177	13,109
Capitalized lease, less current portion	509	516
Note payable	1,100	500
Other liabilities	3,735	2,579
Total long term liabilities	5,344	3,595
Minority interests	2,006	2,096
Reading Entertainment Redeemable Series A Preferred Stock, par value $.001 per share, stated value $7,000; Authorized, issued and outstanding - 70,000 shares	7,000	7,000
Shareholders' Equity		
Reading Entertainment Series B Preferred Stock, par value $.001 per share, stated value $55,000; Authorized, issued and outstanding - 550,000 shares	1	1
Reading Entertainment preferred stock, par value $.001 per share: Authorized -- 9,380,000 shares: None issued	0	0
Reading Entertainment common stock, par value $.001 per share: Authorized -- 25,000,000 shares: Issued and outstanding -- 7,449,364 shares	7	7
Other capital	138,637	138,594
Retained earnings	16,163	17,238
Foreign currency translation adjustment	(4,323)	114
Total shareholders' equity	150,485	155,954
	$178,012	$181,754

See Notes to Consolidated Financial Statements.

Reading Entertainment, Inc. and Subsidiaries
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year Ended December 31,		
	1997	1996	1995
REVENUES:			
Theater:			
Admissions	$19,978	$12,986	$10,356
Concessions	6,078	4,486	3,883
Advertising and other	928	764	686
Real estate	180	543	272
Earnings from Stater preferred stock investment	5,877	0	0
Interest and dividends	3,247	4,165	2,435
	36,288	22,944	17,632
EXPENSES:			
Theater costs	20,081	13,631	10,784
Theater concession costs	1,296	821	640
Depreciation and amortization	2,785	1,793	1,369
General and administrative	9,737	7,106	4,200
Equity loss from investment in Australian theater developments	0	0	390
	33,899	23,351	17,383
Income (loss) from operations	2,389	(407)	249
Equity in earnings of affiliate	298	1,526	0
Other income, net	1,531	4,327	2,341
Income before minority interests and income taxes (benefit)	4,218	5,446	2,590
Minority interests	196	(321)	0
Income before income taxes (benefit)	4,022	5,767	2,590
Income taxes (benefit)	1,067	(1,236)	239
Net income	2,955	7,003	2,351
Less: Preferred stock dividends and amortization of asset put option	(4,309)	(911)	0
Net income (loss) applicable to common shareholders	($1,354)	$6,092	$2,351
Basic (loss) earnings per share	($0.18)	$1.11	$0.47
Diluted (loss) earnings per share	($0.18)	$1.02	$0.47

See Notes to Consolidated Financial Statements

Reading Entertainment, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	1997	1996	1995
OPERATING ACTIVITIES			
Net income (loss)	$2,955	$7,003	$2,351
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Condemnation award	0	0	(1,146)
Depreciation	1,240	644	453
Amortization	1,545	1,149	916
Write off of capitalized development costs	1,308	0	0
Deferred rent expense	406	245	165
Deferred income tax expense (benefit)	0	(3,957)	132
Equity in earnings of affiliate	(298)	(1,526)	0
Equity loss from Australian joint venture	0	0	390
Minority interest in net loss of Australian joint venture	(42)	(388)	0
Minority interest in net income of the Angelika	238	67	0
Preferred stock redemption premium	(5,877)	(941)	0
Gain on sale of real estate	(15)	(43)	0
Discharge of reorganization obligations	0	0	(223)
Changes in operating assets and liabilities:			
(Increase) decrease in amounts receivable	1,884	(2,406)	135
(Increase) decrease in inventories	(50)	(17)	(26)
(Increase) decrease in prepaids and other current assets	858	(177)	95
Increase (decrease) in accounts payable and accrued expenses	(3,347)	4,544	(119)
Increase (decrease) in film rent payable	545	769	(60)
Increase (decrease) in other liabilities	654	(134)	(392)
Other, net	(10)	(470)	(49)
Net cash provided by operating activities	1,994	4,362	2,622

See Notes to Consolidated Financial Statements.

Reading Entertainment, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(in thousands)

	Year Ended December 31,		
	1997	1996	1995
Net cash provided by operating activities	$1,994	$4,362	$2,622
INVESTING ACTIVITIES			
Purchase of the Angelika	0	(12,570)	0
Reimbursement proceeds for the Angelika judgement	0	1,293	0
Purchase of the Angelika Minnesota	(229)	0	0
Purchase of property and equipment	(19,887)	(11,075)	(1,828)
Proceeds from redemption of Citadel preferred stock investment	0	6,191	0
Proceeds from redemption of Stater preferred stock investment	73,915	0	0
Purchase of Citadel common stock	0	(3,325)	0
(Increase) decrease in restricted cash	(1,421)	(1,478)	208
(Increase) decrease in long term deposits	(76)	0	0
(Decrease) increase in due from affiliate	0	1,040	(1,040)
Investment in leased equipment (See Note 5)	0	(75)	0
Net proceeds from sales of real estate	21	91	0
Investment in Australian joint venture	0	0	(1,040)
Investment in WPG Unit Trust	(1,850)	0	0
Loans to joint venture partners in Australia	(2,021)	0	0
Purchase of the Angelika judgement (See Note 4)	0	0	(1,285)
Net proceeds from condemnation award	0	0	1,146
Net proceeds from real estate joint venture investments	0	0	185
Purchases of available-for-sale securities	0	0	(510)
Sales and maturities of available-for-sale securities	0	0	36,319
Net cash provided by (used in) investing activities	48,452	(19,908)	32,155
FINANCING ACTIVITIES			
Proceeds from minority partner of Australian joint venture	93	12,888	0
Proceeds from Angelika, Houston landlord	280	0	0
Cash acquired as a result of consolidation of Australian joint venture	0	95	0
Proceeds from issuance of Series A redeemable preferred stock	0	7,000	0
Proceeds from minority partner for purchase of the Angelika	0	2,068	0
Distributions to minority partner of the Angelika	(371)	(38)	0
Payments of Stock Transactions issuance costs	(366)	(1,056)	0
Payment of preferred stock dividends	(4,030)	(843)	0
Decrease in note payable	(1,500)	0	0
Payments of debt financing costs	0	(256)	0
Purchase of treasury stock	0	(1)	(1)
Net cash provided by (used in) financing activities	(5,894)	19,857	(1)
Effect of exchange rate changes on cash and cash equivalents	(362)	180	0
Increase in cash and cash equivalents	44,190	4,491	34,776
Cash and cash equivalents at beginning of year	48,680	44,189	9,413
Cash and cash equivalents at end of year	$92,870	$48,680	$44,189

See Notes to Consolidated Financial Statements.

Reading Entertainment, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years ended December 31, 1997, 1996, 1995
(in thousands, except shares)

	Reading Company					
	Common Stock		Class A Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 1994	12,291	$1	5,144,400	$51	(183,250)	($2,621)
Net income						
Change in unrealized gains and losses						
Realization of tax benefit resulting from pre-quasi-reorganization operating loss carryforwards						
Foreign currency translation adjustment resulting from equity method of accounting in Reading International						
Reading Company common stock converted to Reading Company Class A common stock	(761)		761			
Reading Company treasury stock purchased					(147)	(1)
Balance at December 31, 1995	11,530	1	5,145,161	51	(183,397)	(2,622)
Net income						
Realization of tax benefit resulting from pre-quasi-reorganization operating loss carryforwards						
Foreign currency translation adjustment resulting from equity method of accounting in Reading International						
Reading Company common stock converted to Reading Company Class A common stock	(2,853)		2,853			
Reading Company treasury stock purchased					(120)	(1)
Reading Company Common and Class A common stock converted to Reading Entertainment common stock	(8,677)	(1)	(5,148,014)	(51)		
Reading Company Class A common stock in treasury retired					183,517	2,623
Issuance of Reading Entertainment common stock and Series B Preferred to Craig in accordance with terms of Stock Transactions						
Issuance costs of Stock Transactions						
Reading Entertainment Series A and B preferred dividends declared						
Balance at December 31, 1996	0	0	0	0	0	0

	Reading Entertainment						
	Common Stock Seris B Preferred Stock				Unrealized Gains And	Other	Retained
	Shares	Amount	Shares	Amount	(Losses)	Capital	Earnings
Balance at December 31, 1994	0	$0	0	$0	($286)	$55,057	$13,884
Net income							2,351
Change in unrealized gains and losses					286		
Realization of tax benefit resulting from pre-quasi-reorganization operating loss carryforwards						1,200	(1,200)
Foreign currency translation adjustment resulting from equity method of accounting in Reading International							
Reading Company common stock converted to Reading Company Class A common stock							
Reading Company treasury stock purchased							
Balance at December 31, 1995	0	0	0	0	0	56,257	15,035
Net income							7,003
Realization of tax benefit resulting from pre-quasi-reorganization operating loss carryforwards						22,042	(3,957)
Foreign currency translation adjustment resulting from equity method of accounting in Reading International							
Reading Company common stock converted to Reading Company Class A common stock							
Reading Company treasury stock							

purchased								
Reading Company Common and Class A common stock converted to Reading Entertainment common stock	4,973,174	5				45		
Reading Company Class A common stock in treasury retired						(2,622)		
Issuance of Reading Entertainment common stock and Series B Preferred to Craig in accordance with terms of Stock Transactions	2,476,190	2	550,000	1		64,377		
Issuance costs of Stock Transactions						(1,505)		
Reading Entertainment Series A and B preferred dividends declared								(843)(1)
Balance at December 31, 1996	7,449,364	7	550,000	1	0	138,594	17,238	

	Foregin Currency Translation Adjustment
Balance at December 31, 1994	$0
Net income	
Change in unrealized gains and losses	
Realization of tax benefit resulting from pre-quasi-reorganization operating loss carryforwards	
Foreign currency translation adjustment resulting from equity method of accounting in Reading International	(10)
Reading Company common stock converted to Reading Company Class A common stock	
Reading Company treasury stock purchased	
Balance at December 31, 1995	(10)
Net income	
Realization of tax benefit resulting from pre-quasi-reorganization operating loss carryforwards	
Foreign currency translation adjustment resulting from equity method of accounting in Reading International	124
Reading Company common stock converted to Reading Company Class A common stock	
Reading Company treasury stock purchased	
Reading Company Common and Class A common stock converted to Reading Entertainment common stock	
Reading Company Class A common stock in treasury retired	
Issuance of Reading Entertainment common stock and Series B Preferred to Craig in accordance with terms of Stock Transactions	
Issuance costs of Stock Transactions	
Reading Entertainment Series A and B preferred dividends declared	
Balance at December 31, 1996	114

(1) Represents dividends per share of $1.36 for Reading Entertainment Series A redeemable preferred stock and dividends per share of $1.36 for Reading Entertainment Series B preferred stock.

See Notes to Consolidated Financial Statements.

Reading Entertainment, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity (continued)
Years ended December 31, 1997, 1996, 1995
(in thousands, except shares)

	Reading Company					
	Common Stock		Class A Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 1996	0	$0	0	$0	0	$0
Net income						
Issuance costs of Stock Transactions						
Foreign currency translation adjustments						
Reading Entertainment Series A and B preferred dividends declared						
Balance at December 31, 1997	0	$0	0	$0	0	$0

	Reading Entertainment							
	Common Stock		Seris B Preferred Stock		Unrealized Gains And	Other	Retained	Foregin Currency Translation
	Shares	Amount	Shares	Amount	(Losses)	Capital	Earnings	Adjustment
Balance at December 31, 1996	7,449,364	$7	550,000	$1	$0	$138,594	$17,238	$114
Net income							2,955	
Issuance costs of Stock Transactions						43		
Foreign currency translation adjustments								(4,437)
Reading Entertainment Series A and B preferred dividends declared							(4,030)(1)	
Balance at December 31, 1997	7,449,364	$7	550,000	$1	$0	$138,637	$16,163	($4,323)

(1) Represents dividends per share of $6.50 for Reading Entertainment Series A redeemable preferred stock and dividends per share of $6.50 for Reading Entertainment Series B preferred stock.

See Notes to Consolidated Financial Statements.

In 1996, Reading Company merged with a wholly owned subsidiary of Reading Entertainment, Inc., a newly formed Delaware corporation ("REI" or "Reading Entertainment" and collectively, with its subsidiaries and predecessors, "Reading" or the "Company"). As a result of the merger, shareholders of Reading Company became shareholders of REI (the "Reorganization") and Reading Company became a wholly-owned subsidiary of REI. (See Note 2.)

The Company is in the business of developing and operating multi-plex cinemas in the United States, Puerto Rico and Australia and of developing, and eventually operating, entertainment centers in Australia. The Company operates its cinemas through various subsidiaries under the Angelika Film Centers and Reading Cinemas names in the mainland United States (the "Domestic Cinemas") through Reading Cinemas of Puerto Rico, Inc., a wholly owned subsidiary, under the CineVista name in Puerto Rico ("CineVista" or the "Puerto Rico Circuit"); and through Reading Australia Pty, Limited (collectively with its subsidiaries referred to herein as "Reading Australia") under the Reading Cinemas name in Australia (the "Australia Circuit"). The Company's entertainment center development activities in Australia are also conducted through Reading Australia, under the Reading Station name.

The Company is also a participant in two real estate joint ventures in Philadelphia, Pennsylvania and holds certain property for sale located primarily in Philadelphia and owns certain leased equipment which it leases to third parties.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation: The consolidated financial statements of Reading Entertainment and Subsidiaries include the accounts of REI and its majority-owned subsidiaries, after elimination of all significant intercompany transactions, accounts and profit. The Company's investments in 20% to 50% - owned companies, in which it has the ability to exercise signigficant influence over operating and financial policies, are accounted for on the equity method. Investments in other companies are carried at cost.

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 reporting period. Actual results could differ from those estimates.

Income Taxes: The Company underwent a quasi-reorganization in 1981 in which it eliminated its accumulated deficit by a charge to other capital. The quasi-reorganization did not require restatement of any assets or liabilities or any other modification of capital accounts. Through the year ended December 31, 1996, the Company was required to make a transfer from "Retained earnings" to "Other capital" in the Consolidated Statement of Shareholders' Equity in an amount equal to the tax benefit resulting from utilization of federal net operating loss carryforwards which relate to periods prior to the quasi-reorganization.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Cash Equivalents: The Company considers all highly liquid investments with original maturities of three months or less at the time of acquisition to be cash equivalents. Cash equivalents are stated at cost plus accrued interest, which approximates fair market value, and consist principally of Eurodollar time deposits, federal agency securities and other short-term money market instruments.

Inventories: Inventories are comprised of confection goods used in theater operations and are stated at the lower of cost (first-in, first-out method) or net realizable value.

Property and Equipment: Property and equipment are carried at cost. Depreciation of buildings, capitalized premises lease, leasehold improvements and equipment is recorded on a straight-line basis over the estimated useful lives of the assets or, if the assets are leased, the remaining lease term (inclusive of renewal options, if likely to be exercised), whichever is shorter. The estimated useful lives are generally as follows:

Building and Improvements	40 years
Equipment	7-15 years
Furniture and Fixtures	7 years
Leasehold Improvements	20 years

Construction in Progress and Property Development Costs: Construction-in-progress and property development costs are comprised of all direct costs associated with the development of potential theater (whether for purchase or lease) or entertainment center locations. Amounts are carried at cost unless management decides that a particular location will not be pursued to completion or if the costs are no longer relevant to the proposed project. If such a judgement is made, previously capitalized costs which are no longer of value are written-off.

Intangible Assets: Intangible assets are comprised of acquired beneficial theater leases used in CineVista's operations and cost in excess of net assets acquired in the acquisition of the Angelika Film Center, 6-screen cinema located in the Soho area of Manhattan (the "NY Angelika") and a five screen cinema located in Minneapolis, Minnesota (the "St. Anthony").

The amount of the purchase price of the NY Angelika assets in excess of the appraised value of the assets is being amortized on a straight-line basis over a period of 20 years. The fair value of the NY Angelika assets was determined by an independent appraiser. The purchase price of the St. Anthony is being amortized on a straight-line basis over the remaining life of the lease term which approximates 5 years.

The amount of the CineVista purchase price ascribed to the beneficial leases was determined by an independent appraiser computing the present value of the excess of market rental rates over the rental rates in effect under CineVista's leases at the time of the Company's acquisition of CineVista and allocating such amount as a component of the purchase price of CineVista. The beneficial leases are amortized on a straight-line basis over the remaining term of the underlying leases, which approximates 16 years.

Translation of Non-U.S. Currency Amounts: The financial statements and transactions of Reading Australia's cinema and real estate operations are maintained in their functional currency (Australian dollars) and translated into U.S. dollars in accordance with Statement of Financial Accounting Standards, ("SFAS") No. 52, "Foreign Currency Translation." Assets and liabilities of such operations are denominated in Australian dollars and translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the period. Translation adjustments are reported as a separate component of shareholders' equity.

Income (Loss) Per Share: Net (loss) income available to common stock shareholders reflects the reduction for dividends declared on the Company's Series A Voting Cumulative Convertible Redeemable Preferred Stock (the "Series A Preferred Stock"), and Series B Voting Cumulative Convertible Preferred Stock (the "Series B Preferred Stock") (collectively, the "Convertible Preferred Stock") and for amortization of the value of an estimate of an asset put option (the "Asset Put Option") had one been recorded (See Notes 2 and 13).

In 1997, the Company adopted the provisions of SFAS No. 128, "Earnings Per Share." SFAS No. 128 requires net income per share to be presented under two calculations, basic income per share and diluted income per share. Basic income (loss) per share (Reading Entertainment common stock (the "Common Stock") for the period subsequent to the Reorganization and Reading Company Class A common and common stock for periods prior to the Reorganization) is calculated using the weighted average number of shares outstanding during the periods presented. The weighted average number of shares used in the computation of basic earnings per share were 7,449,364 in 1997, 5,494,145 in 1996, and 4,973,369 in 1995. Diluted income (loss) per share is calculated by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of stock options, convertible securities and the Asset Put Option. Stock options to purchase 347,732 and 359,732 shares of Common Stock were outstanding at a weighted average exercise price of $13.98 and $14.03 during 1996 and 1995, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares during such periods. The Asset Put Option conversion rate of $11.75 was also higher than the average market price of the Common Stock during that portion of the year in which it was in effect in 1996. In October 1996 the Company issued the Convertible Preferred Stock. If the Convertible Preferred Stock had been converted in 1996, the weighted average number of shares would have increased by 1,274,623 to 6,768,768 and income available to common shareholders' would have increased by $843,000 (the amount of preferred stock dividends recorded during such period) to $6,935,000, resulting in diluted earnings per share of $1.02 versus basic earnings per share of $1.11 in 1996. During 1997 the Company recorded a net loss available to shareholders of $1,574,000 and therefore the stock options, the Convertible Preferred Stock and the Asset Put Option, were anti-dilutive.

Recent Accounting Pronouncements: In June 1997 the Financial Accounting Standards Board issued SFAS No. 130,"Reporting Comprehensive Income,"and SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." SFAS No. 130 establishes standards for reporting comprehensive income and its components in the financial statements. SFAS No. 131 requires publicly held companies to report financial and other information about key revenue-producing segments of the entity and is utilized by the chief operation decision-maker. The Company is evaluating its implementation approach for SFAS Nos. 130 and 131, both of which will be adopted in 1998.

Reclassification: Certain amounts in previously issued financial statements have been reclassified to conform with the current presentation.

NOTE 2 - REORGANIZATION AND STOCK TRANSACTIONS

In October 1996, two transactions were approved by the Company's shareholders, the Reorganization and the exchange by REI of capital stock for certain assets of Citadel Holding Corporation (together with its wholly owned subsidiaries "Citadel") and Craig Corporation (together with its wholly owned subsidiaries "Craig") (the "Stock Transactions"). Both transactions were completed on October 15, 1996.

In the Stock Transactions, REI issued (i) 70,000 shares of Series A Preferred Stock, to Citadel, and granted certain contractual rights to Citadel, in return for $7 million in cash and (ii) 550,000 shares of the Series B Preferred Stock and 2,476,190 shares of Common Stock to Craig in exchange for certain assets owned by Craig. The assets acquired by REI from Craig consisted of 693,650 shares of Stater Bros. Holdings, Inc.'s ("Stater") Series B Preferred Stock (the "Stater Preferred Stock"), Craig's 50% membership interest in Reading International Cinemas LLC ("Reading International"), of which an indirect wholly owned subsidiary of REI was the sole other member, and 1,329,114 shares of Citadel's 3% Cumulative Voting Convertible Preferred Stock, stated value $3.95 per share which shares were exchanged by REI immediately after conclusion of the Stock Transactions for Citadel preferred stock (the Citadel Preferred Stock") with the same terms except for a reduced accrual rate on the redemption premium. The Series A and Series B Preferred Stock have stated values of $7 million and $55 million, respectively.

The contractual rights granted to Citadel in the Stock Transactions include the Asset Put Option pursuant to which Citadel has the option until 30 days after REI files its Annual Report on Form 10-K for the year ending December 31, 1999, to require REI to acquire substantially all of Citadel's assets, and assume related liabilities (such as mortgages), for shares of Common Stock. In exchange for up to $20 million in aggregate appraised value of Citadel assets on exercise of the Asset Put Option, REI is obliged to deliver to Citadel a number of shares of Common Stock determined by dividing the appraised value of the Citadel assets by $12.25. If the value of the Citadel assets is in excess of $20 million, REI is obliged to pay for the excess by issuing Common Stock at the then- fair market value up to a maximum of $30 million of assets. 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 immaterial and that the methods of valuing options include numerous subjective assumptions and such methods are not intended to value non-transferable options such as the Asset Put Option.

Both the Stater Preferred Stock and the Citadel Preferred Stock have been redeemed (See Note 5).

NOTE 3 -- RELATED PARTY TRANSACTIONS

In 1995, 1996 and 1997, the Company's Board of Directors voted to waive the transfer restrictions imposed by the provisions of the Company's capital stock to the extent necessary to permit James J. Cotter, Chairman of the Board of Directors of the Company and Craig, to acquire additional shares of the Company's capital stock. The transfer provisions prohibit a party from acquiring more than 4.75% of the Company's outstanding capital stock without the permission of the Company's Board of Directors and are intended to assure the continuing availability of the Company's federal tax loss carryforwards by precluding a change in control which could limit the value of the carryforwards. Prior to granting the waiver of the restrictions, the Board of Directors had determined that acquisition of the shares by Mr. Cotter and Craig would not affect the continuing availability of the Company's federal tax loss carryforwards.

The Company acquired the NY Angelika on August 27, 1996 (See Note 4). The theater is owned jointly by the Company and Sutton Hill, a partnership affiliated with City Cinemas, a Manhattan-based theater operator and owned in equal parts by Mr. James J. Cotter, the Company's Chairman, and Mr. Michael Forman. A company controlled by Mr. Forman and his family beneficially own 12.4% of Craig's currently outstanding capital stock.

City Cinemas manages the NY Angelika, the Houston Angelika and the St. Anthony pursuant to management agreements (See Note 4). Robert F. Smerling, President of the Company, and John Foley, Vice President, Marketing of the Company also serve in the same positions with City Cinemas.

The Stock Transactions (See Note 2) involved the issuance of Common Stock and Series B Preferred Stock to Craig (which as a result of the Stock Transactions and certain open market purchases holds securities representing approximately 78% of the Company's voting securities), in return for certain assets owned by Craig. The Company is a subsidiary of Craig. At the time that the negotiations which led to the Stock Transactions were initiated, Craig owned 51% of the Company's voting securities and the Chairman and President of the Company (both of whom are also directors of Craig and the Company) served in the same positions at Craig. The Company's Board of Directors therefore established an Independent Committee of the Board of Directors comprised of directors with no affiliation with Craig or Citadel (other than the Company's ownership in Citadel) to negotiate the terms of the proposed transaction with Craig and Citadel, to review the fairness of any consideration to be received or paid by the Company and the other terms of any such transaction and to make a recommendation to the Board of Directors concerning such transaction.

The Company utilizes the services of certain Citadel employees, including the President and Chief Executive Officer of Citadel, for real estate advisory services. The Company pays Citadel for such services at a rate which is believed to approximate the fair market value of such services. During 1997, the amount paid to Citadel for such services totalled $252,000.

On December 29, 1997, Citadel capitalized a wholly owned subsidiary, Big 4 Ranch, Inc., ("BRI") with a cash contribution of $1.2 million and then distributed 100% of the shares of BRI to Citadel's common shareholders of

record as of the close of business on December 23, 1997, as a spin-off dividend. Reading received 1,564,473 shares or 23.4% of BRI. The Board of Directors and executive officers of BRI are comprised of one director of REI and two Craig Directors.

On December 31, 1997, BRI (owning 40%), Citadel (owning 40%) and Visalia LLC (a limited liability company controlled by Mr. James J. Cotter, the Chairman of the Board of REI, Craig, and Citadel, and owned by Mr. Cotter and certain members of his family) entered into three general partnerships in December 1997, which Partnerships on December 31, 1997 acquired an agricultural property (purchase price amounting to approximately $7.6 million). The acquisition was financed by a ten year purchase money mortgage in the amount of $4.05 million, a line of credit from Citadel and pro-rata contributions from the partners. Through its holdings in BRI and Citadel, the Company owns approximately 18.8% of such Partnerships at December 31, 1997.

NOTE 4 -- ACQUISITION AND DEVELOPMENT ACTIVITIES

Domestic Activity

The Company commenced operation of the eight screen Houston Angelika theater located in downtown Houston, in December 1997. The cinema and a cafe, which is included in the lobby area and operated by a local restaurant operator, occupy approximately 31,700 square feet and is leased pursuant to a long-term lease. The theater was designed and built to Company specification and is the Company's first purpose built theater specializing in art, foreign and sophisticated commercial product similar to that offered in the NY Angelika.

The Company acquired the St. Anthony, a leased five screen theater, located in Minneapolis Minnesota from a national theater owner operator in December 1997. The theater operates under the Reading Cinemas name. The Company paid the former lessee approximately $229,000 for the theater and assumed all obligations of the lessee under the lease, which lease has a remaining term of approximately 5 years, subject to an option to extend for an additional five years.

In August 1996, the Company and Sutton Hill Associates ("Sutton Hill"), acquired the assets comprising the NY Angelika, a multiplex theater located in Soho area of New York City. The purchase price was approximately $12,570,000 (subject to certain adjustments), inclusive of acquisition costs of approximately $529,000. The Company and Sutton Hill formed a limited liability company, Angelika Film Centers LLC ("AFC"), to hold their interest in the Angelika. AFC acquired the NY Angelika assets with a combination of available cash, a promissory note collateralized by escrowed cash issued to the sellers in the amount of $2,000,000 (the "Sellers Note") and credit at December 31, 1997

(amounts in tables in thousands, except shares and per share data)

in full satisfaction of a judgement encumbering certain of the stock of the sellers. The final payment on the Sellers Note of $500,000 was made in February 1998. At December 31, 1996 this amount was classified as "Note Payable" and "Restricted cash" on the Company's Consolidated Balance Sheet.

The Company contributed 83.3% of the capital of AFC and Sutton Hill contributed the remaining 16.7%. The operating agreement of AFC provides that all depreciation and amortization (the "Special Deductions") will first be allocated to Sutton Hill until the aggregate amount of such Special Deductions equals Sutton Hill's initial investment. Thereafter, the Company will receive all Special Deductions until the relative ownership interests are equal to the initial ownership interests of the parties. Sutton Hill has agreed to subordinate its interest in AFC to the Company's interest in order to permit the Company to pledge AFC and its assets as collateral to secure borrowing by the Company. In addition, Sutton Hill has agreed that the Company will be entitled to receive up to 100% of the proceeds of borrowing by AFC, up to the amount of the Company's initial capital contribution to AFC. AFC is managed by City Cinemas, a New York motion picture exhibitor and an affiliate of Sutton Hill, pursuant to the terms of a management agreement.

The Houston Angelika, the St. Anthony and the NY Angelika are managed by City Cinemas pursuant to management agreements. The management agreements for the St. Anthony and the Houston Angelika provide for City Cinemas to receive a fee equal to 2.5% of revenues. The NY Angelika management agreement provides for the payment of a minimum fee of $125,000 plus an incentive fee equal to 50% of annual cash flow (as defined) over prescribed levels provided, however, that the maximum annual aggregate fee cannot exceed 5% of NY Angelika's revenues.

The Company's 83.3% interest in the NY Angelika was accounted for using the purchase method and the NY Angelika's operating results since the acquisition on August 27, 1996 have been consolidated with the operating results of the Company. Sutton Hill's initial capital investment and share of the NY Angelika's net earnings for the period subsequent to the acquisition of the NY Angelika have been recorded as "Minority interest" in the Consolidated Balance Sheet as of December 31, 1997.

The unaudited pro forma consolidated operating results set forth below assume that the acquisition of the NY Angelika was completed at the beginning of 1996 and include the impact of certain adjustments, including amortization of intangibles, depreciation and reductions in "Interest and dividend" income resulting from payment of the purchase price.

	Year Ended December 31,	
	1996	1995
Revenues	$27,443	$24,350
Net income	$6,861	$1,944
Earnings per share:		
Basic	$1.25	$ .39
Diluted	$1.14	$ .39

(amounts in tables in thousands, except shares and per share data)

Reading Australia

In November 1995, the Company and Craig formed Reading International to develop and operate multiplex cinemas in Australia under the operating name Reading Cinemas. Reading International was equally owned by the Company and Craig prior to conclusion of the Stock Transactions, and wholly-owned by the Company subsequent thereto.

Since formation, Reading Australia has opened three cinemas, two in leased facilities and one in an owned facility, with a total of sixteen screens. In addition, Reading Australia has acquired several sites which may be developed as entertainment center projects.

In 1996, the Company consolidated the financial results of Reading International and reflected Craig's 50% share of the losses prior to the Stock Transactions as "Minority Interest" (which amount totaled $388,000) in the Company's Consolidated Financial Statements.

The unaudited pro forma consolidated operating results set forth below assume that the Company owned 100% of Reading International as of the beginning of 1995, and include the impact of certain adjustments, including reductions in net income and "Interest and dividend" income resulting from the operations of and funding requirements associated with 100% ownership of Reading International.

	Year Ended December 31,	
	1996	1995
Revenues	$22,943	$17,632
Net income	$6,614	$1,961
Earnings per share:		
Basic	$1.20	$ .39
Diluted	$1.10	$ .39

Puerto Rico

The Company acquired CineVista effective as of July 1, 1994. Since that time the Company has opened two new cinemas with a total of 14 screens and has eight screens under construction and scheduled to open in summer 1998, which cinema replaces a six screen cinema at the same location.

NOTE 5 -- INVESTMENTS

Stater Preferred Stock

The Stater Preferred Stock received by the Company in the Stock Transactions was contributed to Reading Australia in 1996. During the third quarter of 1997 Stater exercised an option to acquire the Stater Preferred Stock. Pursuant to the option exercise, Stater paid Reading Australia $73,915,000, an amount equal to the stated value of the Stater Preferred Stock plus accrued dividends. A gain of $5,877,000 was recorded by the Company in 1997 related to the sale of the Stater Preferred Stock, comprised of $4,490,000 of accrued dividends and the difference between the carrying value of the Stater Preferred Stock (98% of stated value) and the redemption price at stated value which difference totaled $1,387,000. Stater also paid REI $615,000 in return for REI's agreement not to

provide consulting services for, nor own a controlling interest in, a business which competes with Stater (the retail sale of groceries in the "Inland Empire" region of Southern California) for a period of one year. This payment has been recorded as "Other income" in the 1997 Consolidated Statement of Operations.

The unaudited pro forma effect on "Interest and dividend" revenues, "Other income", and "Net loss or income" from the sale of the Stater Preferred Stock would have been to reduce net income by $3,140,000 and $741,000 in 1997 and 1996, respectively, exclusive of the non-recurring $1,387,000 gain associated with the writeup to stated value had the sale occurred at the beginning of each period. The pro forma "Net loss" in 1997 would have been $188,000 and the "Net loss available to common shareholders" would have totaled $4,497,000 (basic and diluted loss of $.60 per share). The pro forma "Net income" in 1996 would have been $3,790,000 and "Net loss available to common shareholders" would have totaled $519,000 (basic and diluted loss of $.07 per share).

Whitehorse Property Group

In November 1997, Reading Australia acquired a 50% interest from Burstone Victoria Pty. Ltd. ("Burstone") in the Whitehorse Property Group Unit Trust ("WPG") for approximately $1,600,000. WPG owns a shopping center located near Melbourne, Australia. WPG is currently studying the redevelopment of the Whitehorse Shopping Center as an entertainment center through development of a multiplex cinema and complementary restaurants and retail shops. In conjunction with Reading Australia's acquisition of its interest in WPG, Reading Australia loaned approximately $1,400,000 to the joint venture partner which loan accrues interest at 7.5% annum. Reading Australia also guaranteed 50% of the underlying property debt of WPG, which amount totals approximately $4,000,000. The carrying amount of the Company's 50% interest approximates half the appraised value of WPG. Management believes that the December 31, 1997 carrying value of the WPG investment approximates its fair value. WPG operated at a break-even level from the November 1997 acquisition date through the end of the year. Accordingly no gains or losses have been recorded from the investment in the 1997 Consolidated Statement of Operations.

Citadel Holding Corporation

In March 1996, the Company acquired 1,564,473 shares of Citadel common stock from Craig representing an interest of approximately 26.1%. In 1997, Citadel issued 666,000 common shares pursuant to the exercise of warrants which reduced the Company's ownership to approximately 23.5%. The Company accounts for its investment in the Citadel common stock by the equity method. Citadel's net earnings in 1997 were $1,575,000 and the Company's share of such earnings was $298,000 which amount is included in the Consolidated Statement of Operations as "Equity in earnings of affiliate." Citadel's assets and liabilities totaled $28,860,000 and $10,806,000, respectively, as of December 31, 1997. The closing price of Citadel's common stock on the American Stock Exchange was $4.50 per share. Accordingly, the market value of the Company's interest in Citadel was in excess of the carrying value of this investment at December 31, 1997.

(amounts in tables in thousands, except shares and per share data)

The unaudited pro forma consolidated operating results set forth below assume that the acquisition of the Company's common stock interest in Citadel was completed at the beginning of 1995 and include the impact of certain adjustments.

	Year Ended December 31,	
	1996	1995
Revenues	$22,943	$17,632
Net income	$6,992	$ 2,406
Earnings per share:		
Basic	$1.27	$ .48
Diluted	$1.16	$ .48

During 1996, the Company exercised its right to convert the Citadel Preferred Stock it received from Craig in the Stock Transactions to Citadel common stock whereupon Citadel exercised its right to redeem the Citadel Preferred Stock. Under the terms of the Citadel Preferred Stock, the Company received all accrued and unpaid dividends and a redemption premium of $941,000, which premium was included in "Other income" in the 1996 Consolidated Statement of Operations.

Net Investment in Leased Equipment

During 1996, a wholly-owned subsidiary of the Company purchased computer equipment for $40,934,000 which equipment was leased to various retail companies (the "User Leases"). Concurrent with the purchase of the equipment, the Company leased the equipment back to the seller, subject to the User Leases, for a period of five years (the "Wrap Lease"). The Company's investment in the equipment was funded through a cash payment of $1,944,000 and the issuance of a nonrecourse promissory note (the "Promissory Note") in the amount of $38,990,000. Payments due under the Wrap Lease were subsequently sold to a third party in return for a $32,000 payment and assumption by the purchaser of all obligations under the Promissory Note. The Company has retained all rights and interest in the equipment subject to the User Leases and the Wrap Lease. Therefore, the Company has rights to the residual value of the equipment upon conclusion of the Wrap Lease (which term exceeds the term of the User Leases). The residual interest has been reflected at its net cost, $2,125,000, in the Consolidated Balance Sheet at December 31, 1997 as "Net investment in leased equipment."

(amounts in tables in thousands, except shares and per share data)

NOTE 6 -- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 1997	December 31, 1996
Land	$10,978	$7,332
Property under development*	4,137	0
Buildings	1,959	743
Capitalized premises lease	538	538
Leasehold improvements	13,480	5,774
Equipment	7,611	5,990
Construction-in-progress and property development costs	4,599	2,562
	43,302	22,939
Less: Accumulated depreciation	(2,990)	(1,809)
	$ 40,312	$ 21,130

* Includes the net purchase price of a property which was acquired by the Company in March 1998 and which the Company was obligated to reimburse seller for demolition costs at December 31, 1997.
(See Note 10.)

NOTE 7 -- STOCK OPTION PLANS

In October 1995, the Financial Accounting Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 encourages companies to adopt a fair value approach to valuing stock options that would require compensation cost to be recognized based on the fair value of the stock option granted. As permitted by SFAS No. 123, the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", (APB 25) and related Interpretations in accounting for its employee stock options and will provide the footnote disclosures required by SFAS No. 123. Under APB 25, if the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

As of December 31, 1997, the Company had options outstanding under two Stock Option Plans, the 1992 Non-qualified Stock Option Plan (the "1992 Plan") and the 1997 Equity Incentive Plan (the "1997" Plan). Each plan was approved by shareholders in the year of adoption. The 1997 Plan reserved 200,000 shares for grant and provides for one-fourth of the options granted to be exercisable on the first anniversary of the date of grant, and an additional one-fourth on each subsequent anniversary, unless the Compensation Committee of the Board of Directors (the "Committee"), in its discretion, decides otherwise.

The 1992 Plan reserved 500,000 shares for grant and provides for one-third of options granted to be immediately exercisable, one-third exercisable on the first anniversary of the date of grant, and the final one-third exercisable upon the second anniversary date of the date of grant unless the Committee in its discretion, decides otherwise.

Options granted under both the 1992 Plan and the 1997 Plan must have exercise prices equal to or less than 100 percent of the fair market value of the underlying shares on the date of grant and expire ten years from the date

(amounts in tables in thousands, except shares and per share data)

of grant and may contain certain other terms and conditions as determined by the Committee. Shareholders of the Company approved a grant of options on September 16, 1997 to James J. Cotter, Chairman of the Board of Directors of the Company (the "Cotter Option"). The Cotter Options are divided into three groups: options (the "Basic Options") to purchase up to 110,000 shares of Common Stock, which become exercisable in four equal installments commencing one year from the date of grant: options (the "Convertible Preferred Options") to purchase up to 260,000 shares of Common Stock, which become exercisable over a similar vesting schedule, but only in proportion to the number of shares of Convertible Preferred Stock which are converted into Common Stock; and options (the "Asset Put Options") to purchase up to 90,000 shares of Common Stock which become exercisable over a similar vesting schedule, but only in proportion to the number of shares of Common Stock which are issued pursuant to the Asset Put Option (See Note 2). All shares granted under the Cotter Option have a exercisable price of $12.80 per share.

Changes in the number of shares subject to options under the plans are summarized as follows:

	1997		1996		1995	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
1982 Plans:						
Outstanding at beginning of year	5,000	$12.50	17,000	$14.57	17,000	$14.57
Canceled	(5,000)	$12.50				
Expired			(12,000)	$15.44		
Outstanding at end of period	0		5,000	$12.50	17,000	$14.57
1992 Plan:						
Outstanding at beginning of year	342,732	$14.00	342,732	$14.00	357,732	$14.00
Canceled(1)	(55,000)	$14.00			(15,000)	$14.00
Granted(1)	72,500	$12.81	0		0	
Outstanding at the end of year	360,232	$13.76	342,732	$14.00	342,732	$14.00
1997 Plan:						
Outstanding at beginning of year						
Granted	152,000	$12.82				
Outstanding at the end of year	152,000	$12.82				
Cotter Option(2):						
Outstanding at beginning of year						
Granted	110,000	$12.80				
Outstanding at the end of year	110,000	$12.80				
Total						
Outstanding at Year End	622,232	$13.36	347,732	$13.98	359,732	$14.03
Exercisable at Year End	310,232	$13.91	337,357	$13.98	341,982	$14.03

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(1) Includes 22,500 options which were amended to reduce the exercise price from $14.00 per share to $12.80 per share.

(2) Does not include the Asset Put Options or the Convertible Preferred Stock Options since the conditions precedent to the granting of such options have not occurred.

(amounts in tables in thousands, except shares and per share data)

The weighted-average remaining contractual life of all options outstanding at December 31, 1997 was 6.73 years.

Pro forma net income and earnings per share information reflecting the fair value approach to valuing stock options and the corresponding increase in compensation expense is required by SFAS No. 123 in each of the years that a company grants stock options. The Company did not grant any stock options in 1995 or 1996. In computing the pro forma effect of the grants of Stock Options in 1997, all options granted under the 1997 Plan and 1992 Plan in 1997, modifications to options previously granted under the 1992 Plan, the Basic Options and the Asset Put Options have been included. The fair value of these options was estimated at the respective dates of grant using a Black-Scholes option pricing model with the following weighted average assumptions: stock option exercise price of $12.81, risk free interest rate of 6.71%, expected dividend yield at 0%, expected option life of 5 years and expected volatility of 22.31%. The weighted-average fair value of options granted in 1997 was $12.81 per share. The pro forma effect of the issuance of these options would have been to increase the "Net loss available to common shareholders" by $264,000 ($.04 per share) to $1,618,000 ($.22 per share). The pro forma adjustments may not be representative of future disclosures because the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years. Further, SFAS 123 requires assumptions by management regarding the likelihood of events on which the vesting of contingent, performance based options are predicated.

NOTE 8 -- INCOME TAXES

Effective December 31, 1981, after approval by its shareholders, the Company eliminated its accumulated deficit by a charge to "Other capital." This quasi-reorganization did not require the restatement of any assets or liabilities or any other modification of capital accounts. Through December 31, 1996, tax benefits realized from the carryforwards of pre-quasi-reorganization losses have been included in the determination of net income and then reclassified from "Retained earnings" to "Other capital." Had such tax benefits been excluded from net income, the Company would have reported net income of $1,667,000 or $.30 per share in 1996 and $1,152,000 or $.23 per share in 1995.

	Year Ended December 31,		
	1997	1996	1995
Income (loss) before income taxes consists of the following components:			
United States	$7,349	$10,497	$3,916
Foreign	(3,327)	(4,730)	(1,326)
Total	$4,022	$5,767	$2,590

(amounts in tables in thousands, except shares and per share data)

Significant components of the provisions for income taxes attributable to operations are as follows:

	Year Ended December 31,		
	1997	1996	1995
Income taxes (benefit):			
Current:			
United States	$146	$2,195	$1,419
Foreign	698	446	20
State and local	223	80	0
Total	1,067	2,721	1,439
Increase (decrease) in valuation allowance from net operating loss carry forwards	0	(3,957)	(1,200)
Total income taxes (benefit)	$1,067	($1,236)	$239

Reconciliation of income taxes at United States statutory rates to income taxes as reported are as follows:

	Year Ended December 31,		
	1997	1996	1995
Tax provision (benefit) at U.S. statutory rates	$1,367	$1,961	$881
Foreign and U.S. losses not currently benefitted	1,123	234	538
Foreign withholding taxes	698	446	20
State income taxes	223	80	0
Use of net operating loss carry forwards	(2,344)	(3,957)	(1,200)
Total income taxes (benefit)	$1,067	($1,236)	$239

The 1996 Stock Transactions are intended to qualify as an exchange under Section 351(a) (a "351 Exchange") of the Internal Revenue Code of 1986, as amended (the "Code"). In a 351 Exchange, the party acquiring the assets retains the contributing parties' tax basis in the acquired assets, with no taxable gain recognized as a result of the exchange. The parties contributing assets obtain a tax basis in the assets received in the exchange equal to the basis in the assets which are contributed in the exchange. With the exception of the Stater Preferred Stock, the book value of the assets received in the Stock Transactions approximated the tax basis in the assets received. Craig's adjusted tax basis (for federal tax purposes) in the Stater Preferred Stock was approximately $5 million and, accordingly, upon the Company's contribution of the Stater Preferred Stock to Reading Australia, a taxable gain (for federal tax purposes) of approximately $64,524,000 was recorded by the Company.

(amounts in tables in thousands, except shares and per share data)

The estimated tax liabilities associated with the assets received in the Stock Transactions were $22,042,000 in deferred federal income taxes primarily relating to the Stater Preferred Stock. At the time of the closing on the Stock Transactions, the Company had a gross deferred federal tax asset of $55,968,000 and a valuation allowance in the same amount. Upon receipt of the Stater Preferred Stock, the Company determined that it was more-likely-than-not that a portion of the deferred tax asset which had previously been fully reserved, would be realized and the Company reduced the valuation allowance by $20,782,000, which amount reflects the value of the Company's federal tax loss carryforwards which were expected to be utilized by the Company, net of $1,260,000 in federal alternative minimum tax ("AMT").

A portion of the reversal of the tax asset valuation allowance, $3,957,000, was included in "Income tax benefit" in the Company's Consolidated Statement of Operations and was subsequently reclassified from "Retained Earnings" to "Other Capital." The balance, $18,085,000, was credited directly to "Other Capital" in the Company's Consolidated Statement of Shareholders' Equity.

The sale of the Wrap Lease payments described in Note 5 resulted in a taxable gain of approximately $39 million in 1996. This gain was not recognized for financial reporting purposes.

Carryforwards and temporary differences which give rise to the deferred tax asset at December 31 are as follows:

	1997	1996
Net operating loss carryforwards	$14,996	$16,291
Alternative minimum taxes	3,073	2,928
Foreign Tax Credits	1,168	470
Wrap Lease rental sale	10,712	12,938
Reserves and other, net	1,311	977
Gross deferred asset	31,260	33,604
Valuation allowance	(31,260)	(33,604)
Net deferred asset	$0	$0

Based on an analysis of the likelihood of realizing the Company's gross deferred tax asset (taking into consideration applicable statutory carryforward periods), the Company concluded that under SFAS No. 109, a valuation allowance for the entire amount was necessary at December 31, 1997.

The Company's federal tax net operating loss carryforwards expire as follows:

Year	Amount
2000	$21,983
2002	7,382
2003	589
2007	1,443
2008	1,155
2009	32
	$32,584

In addition to the federal net operating loss carryforwards, the Company has AMT credits of $3,073,000 which can be carried forward indefinitely. Also, the Company has foreign net operating loss carryforwards of $9,517,000, $8,189,000 of which expire between 2000 and 2002 unless utilized prior thereto. In 1996, the Company had $13,426,000 of federal net operating loss carryforwards that expired unused.

The Company is required to pay AMT for 1997, 1996 and 1995. AMT is calculated separately from the regular federal income tax and is based on a flat rate applied to a broader tax base. Amounts payable thereunder cannot be totally eliminated through the application of net operating loss carryforwards. The Company recorded AMT expense of $146,000, $2,195,000 and $87,000 in 1997 , 1996 and 1995, respectively.

The Company paid $2,405,000, $139,000 and $1,000 in income taxes in 1997, 1996 and 1995, respectively.

NOTE 9 -- LEGAL PROCEEDINGS

Environmental
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Reading Company had been advised by the Environmental Protection Agency ("EPA") that it is a potentially responsible party ("PRP") under environmental laws including Federal Superfund legislation ("Superfund") for a site located in Douglassville, Pennsylvania. In 1995, the federal district court judge who presided over Reading Company's bankruptcy reorganization ruled that all liability asserted against Reading Company relating to the site was discharged pursuant to the consummation order issued in conjunction with the bankruptcy on December 31, 1980. The judge's decision was appealed and the appeal was heard in July 1996. A decision upholding the Company's position was rendered in June 1997 by the United States Court of Appeals for the Third Circuit (the "Appeals Court"). A subsequent request for a rehearing was rejected by the Appeals Court, and the period for appeal to the United States Supreme Court has expired. Accordingly, the Company believes that Reading Company has no liability relating to the site. However, a subsidiary of Reading Company was also named as a PRP at the site and if that subsidiary's defenses (including insolvency), proved ineffective the liability is estimated to be less than $300,000.

Pursuant to a settlement of litigation, the City of Philadelphia, Conrail, and the Southeastern Pennsylvania Transportation Authority have agreed to pay an amount ranging from 52% to 55% of future costs that the Company may incur in cleaning environmental contamination on one of its other properties, the Viaduct, which the Company believes may be contaminated by polychlorinated biphenyls ("PCBs"). Reading Company has advised the EPA of the potential contamination. The Company has not determined the scope and extent of any such PCB contamination. However, the Company has been advised by counsel that, given the lack of regulatory attention to the Viaduct in the fifteen years which have elapsed since the EPA was notified of the likelihood of contamination, it is unlikely that the Company will be required to decontaminate the Viaduct or incur costs related thereto.

Redevelopment Authority of the City of Philadelphia v. Reading
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On December 12, 1997 the Redevelopment Authority of the City of Philadelphia (the "RDA") filed an action in the Philadelphia Court of Common Pleas which relates to the 1993 sale of the Headhouse property by the Company to the RDA. Plaintiff has alleged discovery of asbestos, PCB's, lead paint, and alleges past and future clean-up costs in excess of $1,000,000. The action is based upon theories of contract and state environmental law. The Company has denied liability and intends to vigorously defend. It is management's opinion that the RDA's

claim is meritless in that the Company adequately disclosed the condition of the property and expressly limited its representations made in connection with the sale.

Certain Shareholder Litigation
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In September, 1996, the holder of 50 shares of the Common Stock commenced a purported class action on behalf of the Company's minority shareholders, owning Reading Company Class A Common Stock, in the Philadelphia Court of Common Pleas relating to the Reorganization and Stock Transactions. (See Note 2.) The Complaint in the action (the "Complaint") named the Company, Craig, two former directors of the Company and all of the current directors of the Company (other than Gregory R. Brundage), as defendants. The Complaint alleged, among other things, that the Independent Committee (set up to review the transactions) and the current and former directors of the Company breached their fiduciary duty to the minority shareholders in the review and negotiation of the Reorganization and Stock Transactions and that none of the directors of the Company were independent and that they all were controlled by James J. Cotter, Craig, or those controlled by them. The Complaint also alleged, in part, that the defendants failed to disclose the full future earnings potential of the Company and that Craig would benefit unjustly by having its credit rating upgraded and its balance sheet bolstered and that the value of the minority shareholders' interest in the Company was diluted by the transactions. The Complaint sought injunctive relief to prevent the consummation of the Stock Transactions and recision of the Stock Transactions, if they were consummated; divestiture by the defendants of the assets or shares of the Company that they obtained as a result of the Stock Transactions; and unspecified damages and other relief.

In October 1996, all of the defendants filed preliminary objections to the Complaint and thereafter, by agreement of the parties and Order of the Court, the Company was dismissed as a defendant, without prejudice. Plaintiff dismissed, with prejudice, his request for preliminary and permanent injunctive relief to prevent the consummation of the Stock Transactions and his request to rescind and set aside the Stock Transactions.

In November 1996, plaintiffs filed an Amended Complaint against all of the Company's present directors, its two former directors, and Craig. The Amended Complaint does not name the Company as a defendant. The Amended Complaint essentially restates all of the allegations contained in the Complaint and contends that the named defendant directors and Craig breached their fiduciary duties to the alleged class. The Amended Complaint seeks unspecified damages on behalf of the alleged class and attorneys' and experts' fees. On December 9, 1997, the Court certified the case as a Class Action and approved the plaintiff as Class Representative.

On April 24, 1997, plaintiff filed a purported derivative action against the same defendants. This action included claims substantially similar to those asserted in the class action and also alleged waste of tax benefits relating to the Company's historic railroad operating losses. The Company moved to dismiss this case for failure of the plaintiff to comply with the mandated procedures for bringing such an action. On January 23, 1998, the Court dismissed the derivative action. The Company intends to pursue recovery of counsel fees expended in the defense of the case. The dismissal of the derivative action does not affect the class action case, nor does it preclude re-assertion of the claims contained in the derivative action.

Management believes that the allegations contained in the Amended Complaint are without merit and intends to vigorously defend the directors in the matter. The Company has Directors and Officers Liability Insurance and believes that the claim is covered by such insurance.

(amounts in tables in thousands, except shares and per share data)

The Company is not a party to any other pending legal proceedings or environmental action which management believes could have a material adverse effect on its financial position.

NOTE 10 -- LEASE AGREEMENTS AND PURCHASE COMMITMENTS

The Company determines annual base rent expense by amortizing total minimum lease obligations on a straight-line basis over the lease terms. Base rent expense under operating leases totaled $4,184,000, $2,675,000 and $2,139,000 in 1997, 1996 and 1995, respectively. In 1997, 1996 and 1995, contingent rental expense under the CineVista operating leases totaled $25,000, $220,000 and $197,000, respectively.

CineVista and the Domestic Cinemas conduct their operations in leased premises. Two of Reading Australia's three operating multiplexes are in leased facilities. The Company's cinema leases have remaining terms inclusive of options of 12 to 40 years. Certain of the Company's cinema leases provide for contingent rentals based upon a specified percentage of theater revenues with a guaranteed minimum. Substantially all of the leases require the payment of property taxes, insurance and other costs applicable to the property. The Company also leases office space, warehouse space and equipment under noncancellable operating leases. With the exception of one capital lease, all leases are accounted for as operating leases.

Future minimum lease payments by year and in the aggregate, under noncancellable operating leases and the CineVista capital lease consist of the following at December 31, 1997:

	Capital Lease	Operating Leases
1998	$ 95	$ 3,215
1999	95	3,101
2000	95	3,068
2001	95	3,098
2002	95	3,099
Thereafter	1,069	41,511
Total net minimum lease payments	1,544	$ 57,092
Less amount representing interest	1,028	
Present value of net minimum lease payments under capital lease	$ 516	

At December 31, 1997 the Company had four lease agreements for theater facilities with a total of 46 screens which were then under construction or for which construction is anticipated to be completed in 1998 and 1999. The aggregate anticipated contribution for construction costs for such facilities was approximately $27 million at December 31, 1997. The aggregate minimum annual rental for such leases is approximately $1.9 million (excluding one lease which provides for the payment of rent currently, which amount is included in the minimum lease payments set forth above), which rentals commence upon the opening of the theaters.

During 1997, Reading Australia entered into two property purchase agreements and one option agreement to acquire land. Pursuant to the terms of the agreements, Reading Australia has made deposits of approximately $700,000, which amounts have been classified as "Restricted Cash" on the Company's Consolidated Balance Sheet.

Under the terms of one of the purchase contracts, Reading Australia was required to pay the balance of the purchase price, approximately $4,137,000 upon completion of certain demolition activities to be performed by the property owner. Reading Australia also issued a fully cash-collateralized guarantee prior to the commencement of the demolition activities in favor of the property owner in the amount of approximately $2.9 million, which amount has been reflected as "Restricted Cash" in the Company's Consolidated Balance Sheet. The Company has included the full amount of the purchase price of the property as "Property under development" in the 1997 Consolidated Balance Sheet and reflected the obligation for the remaining purchase price, $3,516,000, as a "Purchase commitment"on the Consolidated Balance Sheet. Closing on the property purchase occurred in March 1998. Reading Australia intends to develop an entertainment center on the site at an estimated cost of approximately $19 million, exclusive of the property purchase price.

Reading Australia has an option to acquire a 12 acre site located in Sydney, Australia. The option exercise price is approximately $6.8 million. If the option is exercised, the Company intends to develop an entertainment center on the site at an estimated cost of in excess of $23 million.

In April 1997, Reading Australia entered into a joint venture agreement with an experienced theater operator whereby the joint venture partner may borrow up to approximately $650,000 from Reading Australia to invest in certain country cinema developments. In accordance with the agreement, the partner has borrowed approximately $325,000 from Reading Australia and utilized the proceeds of the borrowing to acquire a 25% ownership interest (computed after consideration of certain management fees payable to Reading Australia) in Reading Australia's theater in Townsville, Queensland.

Under the terms of the joint venture agreement with WPG (See Note 5), Reading Australia is required to build a multiplex theater with a minimum of ten screens with a cost of not less than approximately $6.5 million, if the Company's joint venture partner prepares and funds a plan to renovate and expand the joint venture property.

NOTE 11 -- LONG-TERM DEBT

CineVista has a $7.5 million, eight-year revolving credit agreement (the "Credit Agreement") with a bank. Under terms of the Credit Agreement, CineVista may borrow up to $7.5 million to fund new theater development costs. Through December 31, 1998, CineVista may borrow and repay amounts outstanding under the Credit Agreement. Amounts outstanding at December 31, 1998 are payable in increasing quarterly installments over the balance of the loan term. At December 31, 1997 and 1996, no amounts were outstanding under this agreement.

As security for the loan, CineVista has pledged substantially all of its assets. In addition, the stock of CineVista's parent company has been pledged as security for the loan. In conjunction with the loan, the Company has also agreed to subordinate to the lender its right to payment of certain loans and fees payable by CineVista to the Company under certain circumstances.

The provisions of the Credit Agreement require CineVista to maintain a minimal level of net worth and other financial ratios, restrict the payment of dividends, and limit additional borrowing and capital expenditures. Borrowings under the Credit Agreement accrue interest at LIBOR (the London Interbank Offered Rate) plus 2.25%, or the base rate plus 1/2 of 1%, at CineVista's election.

(amounts in tables in thousands, except shares and per share data)

In accordance with the provisions of the Credit Agreement, CineVista is required to pay a commitment fee on the unused commitment equal to 1/2 of 1%.

NOTE 12 -- QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information for 1997 and 1996 is summarized below:

1997:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 8,242	$ 9,064	$ 10,429	$ 8,553
Net income (loss) applicable to common shareholders	$ 349	($ 522)	$ 697	($ 1,878)
Earnings (loss) per share:				
Basic	$ .05	($ .07)	$ .09	($ .25)
Diluted	$ .05	($ .07)	$ .09	($ .25)

1996:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 4,670	$ 4,857	$ 5,775	$ 7,642
Net (loss) income applicable to common shareholders	($ 273)	$ 1,313	$ 1,372	$ 3,680
Earnings (loss) per share:				
Basic	($ .05)	$ .26	$ .28	$ .52
Diluted	($ .05)	$ .26	$ .28	$ .37

1997:

Revenues in the first three quarters include income from the Stater Preferred Stock of $1,975,000, $1,816,000 and $2,086,000 respectively. First quarter revenues include $260,000 received from a third party as reimbursement of certain acquisition related expenditures which were expensed by the Company in prior periods. Third Quarter income includes $615,000 received from Stater in return for REI's agreement not to provide consulting services for, nor own a controlling interest in, a business which competes with Stater (the retail sale of groceries in the "Inland Empire" region of Souther California) for a period of one year. During the fourth quarter the Company concluded all obligations relating to SWS Industries. The Company had been a guarantor on various performance bonds issued on behalf of SWS. As a result of the conclusion of activities, $490,000 was recorded as income to reverse the provision for this matter recorded in prior years. Also, during the fourth quarter, Reading Australia wrote off $554,000 of previously capitalized project costs.

1996:
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The second quarter includes $1,433,000 of equity earnings from the Citadel Common Stock investment. These equity earnings included the Company's 26.1%(current ownership is 23.5% See Note 5) share of a nonrecurring gain on sale of real estate of $1,473,000 and nonrecurring income of $4,000,000 from the recognition for financial statement purposes of previously deferred proceeds from the bulk sale of loans by a previously owned subsidiary of Citadel (See Note 5). The third quarter includes $1,119,000 received net of expenses in full settlement of a claim relating to a prior year purchase offer. Fourth quarter revenues include $2,360,000 recorded as income related to a settlement of a claim for property cleanup amounts previously expensed by the Company. The fourth quarter also includes a $941,000 preferred stock redemption premium (See Note 5) and a deferred tax benefit of $3,957,280 related to the reduction in the deferred tax asset valuation allowance (See Note 7). The first, second and third quarters include equity losses from Reading International of $254,000, $52,000 and $68,000 respectively. Reading International's fourth quarter loss (which was consolidated with the Company's operations subsequent to the Stock Transactions) was $1,468,000.

NOTE 13 -- CAPITALIZATION

Common Stock
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Common Stock (par value $.001) is traded on the Nasdaq National Market system under the symbol RDGE and the Philadelphia Stock Exchange under the symbol RDG. The Articles of Incorporation include restrictions on the transfer of Common Stock which are intended to reduce the risk that an "ownership change" within the meaning of Section 382(g) of the Internal Revenue Code of 1986, as amended, will occur, which change could reduce the amount of federal tax net loss carryforwards available to offset taxable income. The restrictions provide that any attempted sale, transfer, assignment or other disposition of any shares of Common Stock to any person or group who, prior to the transfer owns (within the meaning of the Code and such regulations) shares of Common Stock or any other securities of REI which are considered "stock" for proposes of Section 382, having a fair market value equal to or greater than 4.75% of the value of all outstanding shares of REI "stock" shall be void ab initio, unless the Board of Directors of the Company shall have given its prior written approval. The transfer restrictions will continue until January 1, 2003 (unless earlier terminated by the Company's Board of Directors).

Reading Entertainment Series A and Series B Cumulative Convertible Preferred Stock
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Holders of the Convertible Preferred Stock are entitled to receive quarterly cumulative dividends at the annual rate of $6.50 per share. In the event of a liquidation of the Company, the holders of the Convertible Preferred Stock will be entitled to receive the stated value of $100 per share plus accrued and unpaid dividends before any payment is made to the holders of the Common Stock. The Series B Preferred Stock ranks junior to the Series A Preferred Stock in rights to dividend distributions and distributions in liquidation.

Holders of the Convertible Preferred Stock are entitled to cast 9.64 votes per share. In the event that dividends are not paid on either series of the Convertible Preferred Stock for six consecutive quarters, the holders of such series of the Convertible Preferred Stock will be entitled to elect one director.

Each share of Series A Preferred Stock is convertible into shares of Common Stock at a conversion price of $11.50 per share and each share of Series B Preferred Stock is convertible into shares of Common Stock at a price of $12.25 per share, at any time after April 15, 1998. The shares of Series A Preferred Stock are convertible prior to April 15, 1998 in the event that a change in control of the Company occurs. The Company also has the right to

(amounts in tables in thousands, except shares and per share data)

require conversion of the Series A Preferred Stock in the event that the average market price of the Common Stock over a 180-day period exceeds 135% of the conversion price of the Series A Preferred Stock. The Series B Preferred Stock has no mandatory conversion provisions. Citadel has certain registration rights with respect to the shares of the Common Stock to be received upon the conversion of the Series A Preferred Stock or the exercise of the Assets Put Option.

The Company 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%, declining 2% per annum until the percentage equals 100%) plus accrued and unpaid dividends to the date of redemption. The holders of a majority of the Series A Preferred Stock have the right to require REI to repurchase the Series A Preferred Stock at the stated value plus accrued and unpaid dividends for a 90 day period beginning October 15, 2001. In addition, the holders of the Series A Preferred Stock may require the Company to repurchase the shares at the stated value plus accrued and unpaid dividends in the event that the Company fails to pay dividends on the Series A Preferred Stock in any four quarterly periods (after April 15, 1998). In the event of a change in control of the Company, the holders of a majority of the Series A Preferred Stock may require redemption at a premium. The Series A Preferred Stock has not been included as Shareholders' Equity in the Company's Consolidated Balance Sheet due to the mandatory redemption provisions.

NOTE 14 -- Business Segments and Geographic Area Information

In order to more accurately identify its operating activities and future development plans, Reading Australia undertook steps to separate its real estate development activities from its cinema operations in Australia during 1997. Accordingly, effective as of January 1997 Reading Australia commenced operations in two business segments, cinema development and operations, and real estate development. Prior thereto, the Company conducted operations in one business segment, the development and operations of cinemas. Domestically, and in Puerto Rico, the Company is primarily engaged in one business segment, the operation and development of cinemas. The following sets forth certain information concerning the Company's two segments, real estate development, and cinema operations in 1997 the only period in which the Company's operated in more than one segment:

1997	Real Estate Development	Cinema Operations	Corporate and Eliminations(1)	Consolidated
Revenues	$ 0	$ 26,984	$ 180	$ 27,164
Operating Income	(2,506)	778	(5,007)	(6,735)
Identifiable assets	18,910	53,525	105,577	178,012
Depreciation and Amortization	0	2,735	50	2,785
Capital expenditures(2)	7,586	12,463	67	20,116

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(1) Amounts do not include "Interest and Dividend" income, or "Earnings from Stater Preferred stock investment". "Real estate" revenues from the Company's domestic property liquidating activities have been included in Corporate.

(2) Real estate capital expenditures are net of "Purchase commitment" of $3,516,000.

(amounts in tables in thousands, except shares and per share data)

The following table indicates the relative amounts of revenues from operations and identifiable assets of the Company by geographic area during the three-year period ended December 31, 1997. The Company has no export revenues.

	1997	1996	1995
Revenues:			
Puerto Rico	$ 15,186	$ 15,523	$ 14,925
Mainland United States	8,158	3,256	272
Australia	3,820	0	0
Income (loss) from operations:(1)			
Puerto Rico	(70)	385	1,225
Mainland United States	1,288	889	273
Australia	(3,518)	(2,429)	(391)
Corporate and Other(2)	6,404	7,159	1,482
Identifiable assets:(3)			
Puerto Rico	27,838	26,529	26,979
Mainland United States	20,860	15,824	0
Australia	28,379	12,948	2,380
Corporate and other	100,935	126,453	46,184
Consolidated Assets(4)	$ 178,012	$ 181,754	$ 75,543

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(1) Reflects earnings before interest expense, taxes and intercompany interest and management fees.

(2) Corporate and other income includes corporate General and Administrative expense, Earnings from Stater Preferred Stock, Other Income, and Interest Income/expense and excludes intercompany interest and management fees.

(3) Reading Australia has cash and cash equivalents, which assets had a value of $60,889,000 and $14,232,000 in 1997 and 1996, respectively. Such amounts have been included in the value of Corporate and other Assets.

(4) Consolidated assets for 1995, 1996 and 1997 include the assets of Reading Australia.

NOTE 15 -- Financial Instruments

During the fourth quarter of 1997, the Company entered into several foreign currency swaps and a currency forward position with a major bank. The agreements provided for the Company to receive $12,363,800 U.S. dollars ("USD") in return for the delivery of $18,659,300 Australian dollars ("AUD") in January 1998. The value of the contracts at December 31, 1997 was established by computing the difference between the contractual exchange rates of the swap and forward positions (AUD/USD) and the exchange rates in effect at December 31, 1997 and an unrealized gain of $220,000 was recorded in 1997 from these transactions which gain has been included in "Other income".

During the first quarter of 1998, the currency positions and extensions thereof matured and the Company incurred a loss. The loss, which will be recognized in the first quarter of 1998, totals approximately $700,000.

Report of Independent Auditors

Board of Directors and Shareholders
Reading Entertainment, Inc.

We have audited the accompanying consolidated balance sheets of Reading Entertainment, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reading Entertainment, Inc. and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
March 13, 1998

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

READING ENTERTAINMENT, INC.

By: /s/ Robert F. Smerling
Robert F. Smerling, President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ James J. Cotter James J. Cotter	Chairman and Director	March 30, 1998
/s/ S. Craig Tompkins S. Craig Tompkins	Vice Chairman and Director	March 30, 1998
/s/ James A. Wunderle James A. Wunderle	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 30, 1998
/s/ Gregory R. Brundage Gregory R. Brundage	Director	March 30, 1998
/s/ Edward L. Kane Edward L. Kane	Director	March 30, 1998

Signature	Title	Date
/s/ John W. Sullivan		March 30, 1998
John W. Sullivan	Director	
/s/ Albert J. Tahmoush		March 30, 1998
Albert J. Tahmoush	Director	

Exhibit Index

Exhibit No.	
10.3*	Reading Company 1992 Nonqualified Stock Option Plan, as Amended.
10.29	Master Management Agreement between Angelika Holding, Inc. and City Cinemas Corporation dated November 26, 1997.
21(i)	List of Subsidiaries of Reading Entertainment, Inc.
23.1	Consent of Independent Auditors - Ernst & Young LLP.
27.1	Financial Data Schedule for the year ended December 31, 1997.
27.2	Restated Financial Data Schedule for the quarter ended September 30, 1997.
27.3	Restated Financial Data Schedule for the quarter ended June 30, 1997
27.4	Restated Financial Data Schedule for the quarter ended March 31, 1997.
27.5	Restated Financial Data Schedule for the year ended December 31, 1996.
27.6	Restated Financial Data Schedule for the quarter ended September 30, 1996.
27.7	Restated Financial Data Schedule for the quarter ended June 30, 1996.
27.8	Restated Financial Data Schedule for the quarter ended March 31, 1996.
27.9	Restated Financial Data Schedule for the year ended December 31, 1995

* These exhibits are part of the executive compensation plans and arrangements of the Company.

PARTNERSHIP AGREEMENT
of
CITADEL AGRICULTURAL PARTNERS NO. 1,
a California General Partnership

PARTIES: CITADEL AGRICULTURE, INC., a California corporation ("Citadel"), VISALIA, LLC, a California limited liability company ("Visalia"), and BIG 4 RANCH, INC., a Delaware corporation ("Big 4 Ranch"), (individually "partner" and collectively, the "partners").

RECITALS:

1. New Partnership. The partners desire to form a general partnership under the laws of the State of California for the purposes and on the terms and conditions stated in this agreement.

2. Name of Partnership. The name of the partnership is Citadel Agricultural Partners No. 1.

3. Places of Business. The partnership's principal office and place of business shall be at 550 So. Hope Street, Suite 1825, Los Angeles, California. The principal place of business may be changed from time to time, and other offices may be established by actions taken in accordance with the provisions of this agreement that govern management of the partnership's business and affairs.

4. Definite Term. The partnership shall begin on the date of this agreement and shall continue until December 31, 2050 unless it is terminated earlier as provided in this agreement. On the expiration of its term, the partnership shall be dissolved and its affairs shall be wound up.

5. Business Purposes. The purposes of the partnership are to engage in the business of acquiring, holding, improving and operating agricultural real property, including, without limitation, the citrus cultivation business, and to do all things reasonably incidental to or in furtherance of that business. In connection with any disposition of the real property, this partnership may improve the real property for non-agricultural purposes.

6. Powers. The partnership is empowered to do any and all things necessary, appropriate, or convenient for the furtherance and accomplishment of its purposes, and for the protection and benefit of the partnership and its properties, including but not limited to the following:

a. Entering into and performing contracts of any kind;

b. Acquiring, constructing, operating, maintaining, owning, selling, transferring, renting, or leasing any property, real, personal or mixed;

c. Borrowing money and issuing evidences of indebtedness, and securing any such indebtedness by mortgage, deed of trust, pledge, lien, or other security interest in or on any properties of the partnership;

d. Applying for and obtaining governmental authorizations and approvals;

e. Bringing and defending actions at law or equity; and

f. Subject to the express provisions of this agreement, purchasing the interest of any partner.

7. Fictitious Business Name Statement. The partners, or any one of them on the partnership's behalf, shall sign and cause to be filed and published an appropriate fictitious business name statement under the California

Fictitious Business Name Law within 40 days after the partnership begins doing business, within 40 days after any subsequent change in its membership, and before the expiration of any previously filed statement. Each partner appoints Citadel as his or her agent and attorney-in-fact to execute on his or her behalf any such fictitious business name statement relating to this partnership.

8. Address and Agent for Service. The partnership shall execute and file with the California Secretary of State a statement pursuant to California Corporations Code Section 24003 in which the location and complete address of the partnership's principal office in California, as set forth above, is designated and in which an agent of the partnership for service of process is designated.

9. Statement for Partnership Real Property. Promptly after the date the partnership begins and any subsequent change in its membership, the partners shall sign, acknowledge, and verify a statement as provided in California Corporations Code Section 15010.5, and cause it to be recorded in each county in California in which the partnership owns or contemplates owning real property or any interest in real property. That statement shall include a statement as permitted under Section 15010.7 of that Code to the effect that any conveyance, encumbrance, or transfer of an interest in the partnership's real property must be signed on behalf of the partnership by any two partners representing a majority of the capital interest of the partnership.

10. Cash and Property. The partnership's initial capital shall consist of the amounts in cash and in property shown in Exhibit "A" to this agreement. That exhibit sets forth the capital contributions to be made by the respective partners, the nature of their respective contributions, and, for contributions consisting of any property, the amounts that the partners agree are the market values of the respective items. Each partner's contribution to the partnership shall be paid in full or conveyed within ninety (90) days after the date of this agreement.

11. Calls for Additional Capital. Whenever it is determined by the written agreement of partners holding more than 80% of the capital interest of the partnership that the partnership's capital is or is presently likely to become insufficient for the conduct of its business, those partners may, by written notice to all partners, call for additional contributions to capital. These contributions shall be payable in cash no later than the date specified in the notice, and no sooner than forty-five (45) days after the notice is given. Each partner shall be liable to the partnership for that partner's share of the aggregate contributions duly called for under this paragraph. Each partner's share shall be in proportion to his or her share of the partnership's profits, but no partner shall be required in the event of such a call or calls to contribute more than $100,000.00 in the aggregate unless otherwise agreed.

12. Pre-emptive Rights. Any determination by the partnership to sell additional equity interests will require the approval of partners holding more than 80% of the capital interests in the partnership. In the event that such a determination is made, the partnership will give notice (the "Capital Notice") to each partner of the amount of equity to be raised together with a description of the equity interest to be sold. Each partner will have 30 days following the delivery of such Capital Notice to elect to acquire such additional equity interests, followed by a closing within 120 days of the date of delivery of such Capital Notice. If more than one partner elects to participate and as a consequence partners have subscribed for interests in excess of the amount being offered, such interests will be allocated among the subscribing partners in accordance with their respective capital accounts.

13. Voluntary Contributions. No partner may make any voluntary contribution of capital to the partnership without the consent of all the partners.

14. Withdrawals of Capital. No partner may withdraw capital from the partnership without the consent of all the partners.

15. No Interest To Be Paid. No partner shall be entitled to receive any interest on his or her capital contribution.

16. Future Loans. No partner shall lend or advance money to or for the partnership's benefit without the approval of a majority in capital interest of the partners. If any partner, with the requisite consent of the other partners, lends any money to the partnership in addition to its contribution to its capital, the loan shall be a debt of the partnership to that partner and shall bear interest at the rate as is agreed on by a majority in capital interest of the partners. The liability shall not be regarded as an increase in the lending partner's capital, and it shall not entitle the lending partner to any increased share of the partnership's profits.

17. Voting Based on Capital Interest. All partnership votes required under this Agreement shall be based upon a partner's capital interest. The capital interest of each partner shall be adjusted according to the rules contained in Paragraph 20, below. If a transferee of a partnership interest has not been admitted as a partner, such transferee shall not be entitled to vote and its interest shall not be counted in determining the total capital interest of the partnership.

18. Division Based on Initial Capital Contribution. The partnership's profits and losses shall be shared among the partners in the same proportions as their initial capital accounts bear to each other. No other additional share of profits or losses shall inure to any partner because of fluctuations in the partners' capital accounts.

19. Distributions to Partners.

a. Annual Distributions. Each year, the partnership shall distribute 45% of its taxable income. An amount greater than 45% may be distributed upon the approval of partners holding not less than a majority of the capital interest in the partnership.

b. Partners' Drawing Accounts. Each partner shall be entitled to draw against profits such amounts as shall from time to time be agreed on by a majority in interest of the partners. These amounts shall be charged to the partners' drawing accounts as they are drawn.

c. Excessive Withdrawals as Loans. Notwithstanding the provisions of this agreement governing drawing accounts of partners, to the extent that any partner's withdrawals under those provisions during any fiscal year of the partnership exceed that partner's distributive share of the partnership's profits, the excess shall be regarded as a loan by the partnership that the partner is obligated to repay within ninety (90) days after the end of that fiscal year, with interest on the unpaid balance at a rate of eight percent (8%) per annum from the end of that fiscal year to the date of repayment.

d. Overall Limit on Distributions. Notwithstanding anything in this agreement to the contrary, the aggregate amounts distributed to the partners from the partnership's profits shall not exceed the amount of cash available for distribution, taking into account the partnership's reasonable working capital needs as determined by a majority in capital interest of the partners.

20. Accounting.

a. Fiscal Year of Partnership. The fiscal year of the partnership shall be the calendar year.

b. Accounting Method. The partnership books shall be kept on the accrual basis.

c. Capital Accounts. An individual capital account shall be maintained for each partner, and the partner's initial capital contribution in cash or property shall be credited to that account. Capital accounts shall be maintained in accordance with Treasury Regulation section 1.704-1(b)(2)(iv). No additional share of profits or losses shall inure to any partner because of changes or fluctuations in the partner's capital account.

d. Increases in Capital Accounts. The capital account for each partner shall be credited with or increased by the following:

(1) The partner's initial capital contribution to the partnership;

(2) Any additional capital contributions made by the partner from time to time as authorized by this agreement;

(3) The partner's share under this agreement of the partnership's profits; and

(4) On the partnership's dissolution and in its winding up, the credits authorized by the provisions of this agreement that relate to adjustments of capital accounts in connection with liquidation.

e. Reductions of Capital Accounts. The capital account for each partner shall be debited with or reduced by the following:

(1) Distributions to the partner of cash or property, which property shall be valued for this purpose at its fair market value;

(2) The partner's share under this agreement of the partnership's losses and of any items then required under applicable tax laws, rules, and regulations to be debited to capital accounts of partners, to the extent and in the manner so required; and

(3) On the partnership's dissolution and in its winding up, the debits authorized by the provisions of this agreement that relate to adjustments of capital accounts in connection with liquidation.

f. Capital Account Adjustments on Liquidation. In connection with the actual liquidation of the properties of the partnership on its dissolution and winding up, the capital accounts shall be adjusted to reflect the following:

(1) The results of operations for the fiscal period then ended.

(2) The results of transactions in connection with the liquidation.

(3) Unrealized gain or loss on property of the partnership that is to be or has been transferred to creditors on account of their claims or distributed to partners on account of their interests in the partnership. The amount of such unrealized gain or loss shall be computed by comparing the fair market value of any such property to its adjusted basis for federal income tax purposes. Such unrealized gain or loss shall be allocated to the partners' capital accounts in the same manner as the gain or loss from the actual sale of such property would have been allocated.

(4) The distribution of cash or property to partners made on the liquidation.

(5) If there is a deficit in any partner's capital account after the capital accounts have been adjusted as provided in this agreement in connection with the liquidation of the properties of the partnership, that partner (the partner at that time and not any predecessor) shall contribute the amount of such deficit to the partnership before the end of the taxable year of the liquidation or by such earlier date as may be required to

complete the liquidation in accordance with a duly adopted plan of liquidation. Amounts thus contributed shall be distributed to or among the creditors and partners in accordance with the then applicable provisions for distribution of partnership property on dissolution, winding up, and liquidation.

g. Determination of Profit and Loss. The partnership's net profit or net loss for each fiscal year shall be determined as soon as practicable after the close of that fiscal year in accordance with the accounting principles employed in the preparation of the federal income tax return filed by the partnership for that year, but without any special provisions for tax exempt or partially tax exempt income.

h. Definitions of Profit and Loss. "Profit" and "loss" for all purposes of this agreement shall be determined in accordance with the accounting method followed by the partnership for federal income tax purposes and otherwise in accordance with generally accepted accounting principles and procedures applied in a consistent manner. However, the calculation of profit and loss shall take into account partnership income exempt from federal income tax and partnership expenses and costs not deductible or properly chargeable to capital for federal income tax purposes. Every item of income, gain, loss, deduction, credit, or tax preference entering into the computation of profit or loss shall be considered as allocated to each partner in the same proportion as profit is allocated to that partner for any year in which the partnership operates at a profit, and in the same proportion as loss is allocated to that partner for any year in which the partnership operates at a loss. Any increase or reduction in the amount of any item of income, gain, loss, or deduction attributable to an adjustment to the basis of partnership property made pursuant to a valid election under Section 754 of the Internal Revenue Code of 1986, as amended (or any successor statute corresponding to that Section), and pursuant to the corresponding provisions of applicable state and local income tax laws, shall be charged or credited, as the case may be, and any increase or reduction in the amount of any item of credit or tax preference attributable to any such adjustment shall be allocated, to the capital accounts of those partners entitled to them under such code or laws.

21. Partnership Books. Proper and complete books of account of the partnership business shall be kept at the partnership's principal place of business and shall be open to inspection by any of the partners or their authorized representatives at any reasonable time during business hours. The accounting records shall be maintained in accordance with generally accepted bookkeeping practices for this type of business.

22. Annual Report to Partners. Within ninety (90) days after the end of each fiscal year, the partnership shall furnish to each partner an annual report consisting of at least (1) a copy of the partnership's federal income tax returns for that fiscal year, (2) a supporting statement of income or loss, (3) a balance sheet showing the partnership's financial position as of the end of that fiscal year, and (4) any additional information that the partners may require for the preparation of their individual federal and state income tax returns.

23. Control of Business. Unless reserved to a full partnership vote, each partner shall participate in the control and management of the partnership through such partner's vote for representatives on a management committee.

24. Control by Management Committee. The partners shall nominate and elect a total of three (3) members of the Partnership's Management Committee. The members of the Management Committee shall serve until replaced. The Management Committee or any member thereof may be replaced by partnership vote. Each partner's vote shall be in proportion to the partner's interest in the partnership's capital. The Management Committee shall have control over the business of the partnership and assume direction of its business operations. The Management Committee shall consult and confer as far as practicable with the nonmanaging partners, but the power of decision shall be vested in the Management Committee. The Management Committee's duties shall include control over the partnership's books and records and hiring any independent public accountants it deems necessary for this purpose. Except as otherwise expressly provided in this agreement, all things to be done by the partnership shall be done under the Management Committee's control and supervision.

25. Acts Requiring More Than 80% Consent. The following acts may be done only with the consent of more than 80% in capital interest of the partners:

a. Amendment of this agreement;

b. Admission of any new partner; or

c. Sale by the partnership of any additional partnership interest.

26. Acts Requiring Majority Consent. The following acts may be done only with the consent of a majority in capital interest of the partners:

a. Borrowing money in the partnership's name, other than in the ordinary course of the partnership's business or to finance any part of the purchase price of the partnership's properties;

b. Transferring, hypothecating, compromising, or releasing any partnership claim in excess of $25,000 except on payment in full;

c. Selling, leasing, or hypothecating any partnership property or entering into any contract for any such purpose, other than in the ordinary course of the partnership's business and other than any hypothecation of partnership property to secure a debt resulting from any transaction permitted under Section 26a;

d. Knowingly suffering or causing anything to be done whereby partnership property may be seized or attached or taken in execution, or its ownership or possession otherwise endangered;

e. Commencement of any litigation;

f. Termination of or amending any farm management contract; or

g. Electing or replacing any member of the Management Committee.

h. The early liquidation and winding-up of the partnership.

27. Management Committee Handles Funds. All partnership funds shall be deposited into the partnership's name and shall be subject to withdrawal only on the signature of persons authorized by the Management Committee.

28. Outside Activities Freely Permitted. It is understood and agreed that each partner may engage in other enterprises, including enterprises in competition with the partnership, and that the partners need not offer business opportunities to the partnership but may take advantage of those opportunities for their own accounts or for the accounts of other partnerships or enterprises with which they are associated. Neither the partnership nor any other partner shall have any right to any income or profit derived by a partner from any enterprise or opportunity permitted under this Section.

29. Partners' Salaries. No partner shall be entitled to any salary.

30. Admitting New Partners. A new partner may be admitted to the partnership but only with the written approval of more than an 80% in capital interest of the partners. Each new partner shall be admitted only if the new partner shall have executed this agreement or an appropriate supplement to it in which the new partner agrees to be

bound by the terms and provisions of this agreement as they may be modified by that supplement. Admission of a new partner shall not cause dissolution of the partnership. Furthermore, the right to engage freely in competition with the partnership as provided in Section 28 hereof shall not apply to any new partner unless said written approval expressly provides that the new partner has such rights.

31. Interest of New Partner. A newly admitted partner's capital contribution and share of the partnership's profits and losses shall be set forth in the written consents of the partners consenting to the admission of the new partner.

32. Partnership Continues. The partnership shall not dissolve or terminate on any partner's dissolution, liquidation, death, permanent physical or mental disability, or retirement or voluntary withdrawal from the partnership if, within one hundred twenty (120) days after the partnership has received notice of the partner's dissolution, liquidation, death, permanent physical or mental disability or desire to withdraw, it elects to purchase that partner's interest. If the partnership so elects, it may purchase that interest and thereafter continue and it shall not wind up its affairs or liquidate because of the dissolution, liquidation, death, disability, retirement, or withdrawal. The vote of partners holding a majority in capital interest of the partnership (excluding the interest of the dissolved, liquidated, deceased, disabled, retired, or withdrawing partner) shall be sufficient to make the election to purchase. The price to be paid for the interest of the dissolved, liquidated, deceased, disabled, retired, or withdrawing partner shall be equal to the value of that interest as determined under this agreement.

33. Partner's Bankruptcy or Insolvency. A partner shall cease to be a partner and shall have no interest in common with the remaining partners or in partnership property when the partner does any of the following:

a. Obtains or becomes subject to an order for relief under the Bankruptcy Code;

b. Obtains or becomes subject to an order or decree of insolvency under state law;

c. Makes an assignment for the benefit of creditors;

d. Consents to or suffers the appointment of a receiver or trustee to any substantial part of the partner's assets that is not vacated within One Hundred Twenty (120) days;

e. Consents to or suffers an attachment or execution on any substantial part of the partner's assets that is not released within One Hundred Twenty (120) days; or

f. Consents to or suffers a charging order against the partner's interest in the partnership that is not released or satisfied within One Hundred Twenty (120) days.

From the date of that event, the former partner shall be considered a transferee pursuant to Sections 16502 and 16503 of the Corporations Code.

34. Limited Transferability. Except in the case of a transfer of the stock of Big 4 Ranch to shareholders of Citadel Holding Corporation, which transfer is hereby approved by the partnership and partners, a partner may transfer all or part of his or her interest in the partnership only as follows:

a. To the partnership or to any other partner;

b. To an entity, if, immediately after the transfer, the partner making the transfer owns (and thereafter continues to own) all of that entity's voting equity; or

c. In the case of Visalia, transfers to James J. Cotter, and/or any one or more members of his family, and /or to any entity controlled (and thereafter continues to be controlled) by any one or more such persons, and/or to any trust of which Mr. Cotter is the trustee or of which Mr. Cotter and/or any one or more members of his family are the principal beneficiaries.

d. To any person after the partner making the transfer has first offered the other partners their rights of first refusal in accordance with the provisions of this agreement dealing with those rights of first refusal.

No such transfer shall make the transferee a partner or entitle the transferee to any of the rights of a partner, other than the right to receive as much of the transferor's share of partnership distributions as is transferred to the transferee. Until the transferee is admitted to the partnership in substitution for the transferor under the provisions of this agreement for admitting new partners, such a transfer shall not terminate any of the transferor's obligations.

NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, IT SHALL BE IMPERMISSIBLE UNDER THIS PARTNERSHIP AGREEMENT TO TRANSFER ANY PARTNERSHIP INTEREST IF, AS A RESULT OF SUCH TRANSFER, THE TRANSFEREE (OR ANY OF ITS DIRECT OR INDIRECT BENEFICIAL OWNERS) WOULD HAVE BENEFICIAL OWNERSHIP OF MORE LAND THAN WOULD QUALIFY FOR FEDERAL WATER. AS A CONDITION TO ANY TRANSFER OF ANY PARTNERSHIP INTEREST, PRIOR TO THE EFFECTIVE DATE OF ANY SUCH TRANSFER, THE PROPOSED TRANSFEREE SHALL DELIVER TO THE PARTNERSHIP AND EACH PARTNER A CERTIFICATE INDEMNIFYING THE PARTNERSHIP AND EACH PARTNER BY BOTH THE TRANSFEREE AND TRANSFEROR AGAINST ANY LOSS IN THE EVENT FEDERAL WATER IS LIMITED TO THE PARTNERSHIP OR ANY PARTNER AS A RESULT OF SUCH TRANSFER. SUCH CERTIFICATE MUST BE IN A FORM ACCEPTABLE TO PARTNERS HOLDING MORE THAN 80% OF THE CAPITAL INTEREST OF THE PARTNERSHIP.

35. Right of First Refusal. Partners or parties that are non-admitted transferees (collectively "Holders") may transfer their interest in the partnership pursuant to this paragraph to a party not described in paragraph 34 pursuant to this paragraph and for cash or cash plus a purchase money note only. In cases where any Holder receives an offer, whether or not solicited by that Holder, from a person not then a partner to purchase all or any portion of the partner's interest in the partnership, and if the Holder receiving the offer is willing to accept it, and, in cases where there has been no solicitation of an offer but the Holder desires to sell all or a portion of its interest, the Holder may transfer the interest or portion specified in the offer only after he or she has afforded the partnership and the other partners the following rights of first refusal:

a. The Holder desiring to make the transfer must first notify the partnership itself and each of the other partners in writing of the interest or portion the partner proposes to transfer, the price and terms on which it is proposed to be transferred, the identity of any proposed transferee, a contact person of any proposed transferee and a recent audited financial statement of any proposed transferee.

b. The partnership, upon the vote of a majority in capital interest (excluding the Holder's interest), shall have the option to purchase that interest or portion from the partner at the same price and, subject to the option in Section 39, same terms as those specified in the notice of the proposed transfer. The Partnership also may elect to transfer said option to any party (including partners), provided (i) more than 80% in capital interest of the partners approves the transfer (whether the proposed transferee is a third party or an existing partner) and (ii) the transferee complies with the requirements of paragraph 30. The partnership's option to purchase the interest or portion or to transfer said option to another party shall be exercised by written notice from the partnership to the partner, given within six (6) months after receipt by the partnership of the Holder's notice of his or her desire to transfer.

c. If the partnership does not exercise its option to purchase the interest or portion within the time provided, then, within six (6) months after receipt by the partnership of the Holder's notice of the proposed transfer, any of the other partners desiring to purchase all or any part of that interest or portion may deliver to the Holder who proposed to make the transfer and to each of the other partners written notice of election to purchase all or a specified part of the interest or portion.

d. If the aggregate parts of the interest or portion specified in notices of election timely made by other partners equal or exceed the entire offered interest or portion, the Holder desiring to transfer his or her interest or portion shall sell, and the partners electing to purchase shall purchase, the interest or portion at a price equal to the same price and on the same terms as those specified in the notice of the proposed transfer; provided that, if the aggregate parts of the interest specified in the notices of election timely made exceed the entire interest or portion proposed to be transferred, each partner making this election shall purchase such part of the offered interest allocable in the same proportions as such partners' capital accounts bear to each other, excluding Holder's capital account.

e. If the partnership does not exercise or assign its option to purchase the interest within the time provided, and if the aggregate parts of the interest or portion specified in the notices of election timely made by partners are less than the entire interest or portion proposed to be transferred, all of these elections shall be ineffective, and the Holder proposing to make the transfer shall not be obligated to sell, nor shall any of the other partners electing to purchase be entitled or obligated to purchase, all or any part of the offered interest or portion. In cases where the Holder has received an offer, the Holder proposing to transfer an interest or portion may then, at any time within thirty (30) days following the expiration of the six (6) month period referred to in paragraph 35(c), transfer the specified interest or portion to the transferee specified in the notice on terms no more favorable to the purchaser than the terms stated in the notice and at no lower a price than the price stated in the notice. In cases where there has been no solicitation of an offer but the Holder desires to sell all or a portion of its interest, Holder shall have a period of 1 year following the expiration of the 6 month period referred to in paragraph 35(c) in which to attempt to market its interest. If Holder finds a buyer and the terms are less favorable than those offered to the partnership pursuant to paragraph 35(a), then the Holder must given notice of the actual terms to the partnership and the partnership and partners shall have the same rights described in paragraphs 35(b), (c) and (d) with respect to such revised terms of sale, provided, however, the time periods contained in paragraphs 35(b) and 35(c) shall be changed from 6 months to 30 days. If the partnership or partners elect to purchase Holder's interest or any portion thereof, it must give notice to the Holder within the 30 day period and may have 120 days (measured from the date of notice given by the holder) in which to close the acquisition.

f. Notwithstanding any other provision contained in this agreement, if a Holder or Holders representing a majority of the capital interests of this partnership elect to sell their partnership interests to a buyer or buyers in a single or related transaction, the buyer or buyers must agree that the remaining partners may elect to sell and the buyer or buyers must agree to purchase the partnership interest of the remaining partners at the same proportionate price and on the same terms as the Holder or Holders.

g. The provisions of this Section, and Section 34, will apply to indirect as well as to direct transfers. Accordingly, in the event of a transfer (whether as the result of one or of a group of related transactions) of a majority interest (either voting or in underlying equity ownership) in any holder which is not a publicly traded company or in any parent of such Holder (again other than a parent which is a publicly traded company), the transfer of such majority interest shall be deemed to be a transfer subject to this agreement. In such event, the partnership will have an assignable right to purchase the interest of such Holder, subject to the requirements of paragraph 35b, for the fair market value of such interest, as determined pursuant to Section 37 below, and, in the event that it does not elect to purchase such interest, to approve the admission or readmission of such Holder as a partner. In the case of a Holder which is a publicly traded company, or

which is a subsidiary of a publicly traded company, the election or appointment of individuals representing a majority of the directors of such company shall also be deemed to be a transfer subject to this agreement. In such event, the partnership will likewise have an assignable right to purchase the interests of such Holder, subject to the requirements of paragraph 35b, for its fair market value as determined pursuant to Section 37, below, and, in the event that it does not elect to purchase such interest, to approve the readmission of such holder as partner who shall be deemed a proposed "new partner" requiring compliance with paragraph 30.

h. In the case of a proposed transfer, the option of the partnership to purchase pursuant to paragraph 35(b) and the options of the other partners to purchase pursuant to paragraph 35(c) may be assigned by the owners of such options ("Option Owner") to one or more third parties or, if not so assigned, after execution of their respective options, such Option Owners may name one or more third party nominees to take title to the purchased partnership interests. Provided, however, the Option Owner shall remain secondarily liable after the assignee or nominee to the Holder (i.e., selling partner) for all amounts that remain unpaid for the purchased partnership interest, including without limitation, attorneys fees incurred for collection, after the Holder has exhausted his, her or its remedies of recovery against the assignee or nominee.

36. Tax Matters Partner. The partners shall nominate and elect a Tax Matters Partner. The Tax Matters Partner shall be a member of the Management Committee and shall remain the partnership's Tax Matters Partner until replaced. The Tax Matters Partner shall be elected or replaced by an approval of partners holding more than an 80% of the capital interests in the partnership.

37. Valuation of Interest. The value of a partner's interest in the partnership for purposes of this agreement shall be determined by appraisal as follows:

Within thirty (30) days after the event described in paragraph 35(g), the partnership and Holder either (1) shall jointly appoint an appraiser for this purpose, or (2) failing this joint action, shall each separately designate an appraiser and, within thirty (30) days after their appointment, the two designated appraisers shall jointly designate a third appraiser. The failure of either the partnership or the Holder whose interest is being appraised to appoint an appraiser within the time allowed shall be deemed equivalent to appointment of the appraiser appointed by the other party. No person shall be appointed or designated an appraiser unless that person is then a member of American Society of Farm Managers and Rural Appraisers.

If, within thirty (30) days after the appointment of all appraisers, a majority of the appraisers concur on the value of the interest being appraised, that appraisal shall be binding and conclusive. If a majority of the appraisers do not concur within that period, the determination of the appraiser whose appraisal is neither highest nor lowest shall be binding and conclusive. The partnership and the Holder whose interest is to be appraised, shall share the appraisal expenses equally.

A Holder's interest in the partnership so appraised shall be based on that Holder's proportional interest in the partnership's aggregate capital.

38. Standards of Appraisal. In arriving at a valuation figure, the appraisers shall use the going-concern concept, and observe the following bases for valuation, but not be limited to them in computing the partnership's value:

a. Inventory shall be valued at the lower of cost or fair market value.

b. Buildings and land shall be valued at fair market value.

c. Machinery and equipment shall be valued at replacement cost for replacements of similar age and condition.

d. In determining fair market value, the existence of a willing purchaser shall be assumed.

e. A valuation shall be placed on items of substantial value not carried on the partnership's books.

f. Investment securities owned by the partnership for which there is an established trading market shall be valued at the market price on the effective date of valuation. For this purpose, market price means (a) for securities listed on any national securities exchange or for which sales are reported on NASDAQ, the last reported sales price on that date (or, if no sales on that date are reported, on the next preceding day for which sales were reported), and (b) for other publicly traded securities, the mean between the highest bid and lowest asked prices reported for these securities on that date (or, if no such prices are reported on that date, on the next preceding day for which such prices were reported).

g. Investment securities owned by the partnership for which there is no established trading market shall be valued at the amounts at which they are carried on the partnership's books in accordance with generally accepted accounting principles, including the equity method under Opinion 18 of the Accounting Principles Board to the extent applicable.

h. Contingent items shall not be specifically deducted from the valuation figure, but they shall be considered in assessing the value of the partnership's goodwill.

i. Goodwill, including trademarks, trade names, and other intangibles of commercial value such as patents, shall be considered in arriving at a valuation figure.

j. Past, present, and prospective earnings, including the existing and prospective economic condition of the industry, shall be considered in arriving at a valuation figure.

k. Adjustments shall be made for the federal and state income tax effect on the differences between tax bases and the market values determined by the appraisers.

39. Payment of Purchase Price. Except as otherwise provided, whenever the partnership or its assignee of its option to purchase pursuant to paragraph 35(b) is obligated or, having the right to do so, chooses to purchase a partner's interest, it shall pay for that interest, at its option, in cash or by promissory note of the partnership, or partly in cash and partly by note. Any promissory note shall be dated as of the effective date of the purchase, shall mature in not more than four (4) years, shall be payable in installments that come due not less frequently than annually, shall bear interest at the rate of the lesser of: (1) the maximum amount allowed by California law, or (2) the prime rate, as published on the day the obligation to pay the purchase price originally arises, as published by the Wall Street Journal, and may, at the partnership's option, be subordinated to existing and future debts to banks and other institutional lenders for money borrowed.

40. Assumption of Outstanding Partnership Liabilities. Except as otherwise provided, the continuing partnership shall pay, as they mature, all partnership obligations and liabilities that exist on the effective date of a partner's termination and shall hold the terminating partner harmless from any action or claim arising or alleged to arise from those obligations or from liabilities accruing after that date.

41. Disposition of Insurance Policies. On the withdrawal or termination of any partner for any reason other than his or her death, any insurance policies on that partner's life for which the partnership paid the premiums shall be delivered to that partner in specie and become his or her sole and separate property. If the policy has a cash surrender value, that amount shall be paid to the partnership by the withdrawing or terminating partner, or offset

against the partnership's obligations to the withdrawing or terminating partner. An adjustment shall be made in the distributive share of the withdrawn or terminated partner's interest, reflecting the difference between the premium rates previously paid on the policies insuring the withdrawn or terminated partner's life and the premium rates previously paid on the policies insuring the continuing partners' lives.

42. Dissolution. On any dissolution of the partnership under this agreement or applicable law, except as otherwise provided in this agreement, the continuing operation of the partnership's business shall be confined to those activities reasonably necessary to wind up the partnership's affairs, discharge its obligations, and preserve and distribute its assets. Promptly on dissolution, a notice of dissolution shall be published under California Corporations Code Section 15035.5 or any equivalent successor statute then applicable.

43. Distributions on Liquidation. On the dissolution of the partnership, its business shall be wound up and its properties liquidated, and the net proceeds of the liquidation, together with any property to be distributed in kind, shall be distributed as follows:

a. First, to the payment of the partnership's debts and obligations that are then due, including any loans or advances that may have been made by any of the partners (such debts and obligations to creditors other than partners having priority over debts and obligations to partners) and the expenses of winding up and liquidation;

b. Secondly, to the establishment of any reserves that the partners may consider necessary, appropriate, or desirable for any future, contingent, or unforeseen liabilities, obligations, or debts of the partnership, which reserves may but need not be deposited with an independent escrow holder with instructions to disburse them in payment of those liabilities, obligations, and debts and, at the expiration of such period as the partners may have specified, to distribute the balance remaining as provided in this agreement; and

c. Thirdly, to the partners in proportion to the balances in their respective capital accounts after giving effect to the adjustments of capital accounts in connection with liquidation authorized by this agreement, but if all capital accounts then have zero balances such distributions to partners shall be made in proportion to the allocation of profit from the sale of partnership property applicable under this agreement as of the date of such distributions.

44. Miscellaneous Provisions.

a. Indemnification. Each partner shall indemnify and hold harmless the partnership and each of the other partners from any and all expense and liability resulting from or arising out of any negligence or misconduct on his or her part to the extent that the amount is not covered by the applicable insurance carried by the partnership.

b. Notices. All notices, requests, demands, and other communications required to or permitted to be given under this Agreement shall be in writing and shall be conclusively deemed to have been duly given (1) when hand delivered to the other party; or (2) when received when sent by facsimile to the address and number set forth below (provided, however, that notices given by facsimile shall not be effective unless either (a) a duplicate copy of such facsimile notice is promptly sent by depositing same in a United States post office with first-class postage prepaid and addressed to the parties as set forth below, or (b) the receiving party delivers a written confirmation of receipt for such notice either by facsimile or any other method permitted under this paragraph; additionally, any notice given by facsimile shall be deemed received on the next business day if such notice is received after 5:00 p.m. (recipient's time) or on a nonbusiness day); or (3) three business days after the same have been deposited in a United States post office with first class or certified mail return receipt requested postage prepaid and addressed to the parties

as set forth below; or (4) the next business day after same have been deposited with a national overnight delivery service, postage prepaid, addressed to the parties as set forth below with next-business-day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

To: Citadel Agriculture, Inc.
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. President

To: Visalia LLC
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. Managing Director

To: Big 4 Ranch, Inc.
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. President

Each party shall make an ordinary, good faith effort to ensure that it will accept or receive notices that are given in accordance with this paragraph and that any person to be given notice actually receives such notice. A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section by giving the other party written notice of the new address in the manner set forth above.

c. Counterparts. The parties may execute this agreement in two or more counterparts, which shall, in the aggregate, be signed by all the parties; each counterpart shall be deemed an original instrument as against any party who has signed it.

d. Governing Law. This agreement is executed in and intended to be performed in the State of California, and the laws of that state (other than as to choice of laws) shall govern its interpretation and effect.

e. Successors. This agreement shall be binding upon and inure to the benefit of the respective successors, assigns, and personal representatives of the parties, except to the extent of any contrary provision in this agreement.

f. Severability. If any term, provision, covenant, or condition of this agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the rest of the agreement shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

g. Further Action. Each partner shall execute and deliver such papers, documents, and instruments, and perform such acts as are necessary or appropriate, to implement the terms of the agreement and the intent of the parties to the agreement.

h. Waiver of Action for Partition. Each of the parties to the agreement irrevocably waives, during the term of the partnership, any right that it may have to maintain any action for partition with respect to the partnership properties.

i. Construction. In construing this agreement, no consideration shall be given to the fact or presumption that any party had a greater or lesser hand in the drafting of this agreement.

j. Gender. In construing this agreement, pronouns of any gender shall be deemed to include the other gender.

k. Nonrecourse Loans. If the partnership borrows monies on a nonrecourse basis, a creditor who makes such a loan to the partnership will not have or acquire at any time as a result of making the loan, any direct or indirect interest in the profits, capital, or property of the partnership other than as a secured creditor.

l. No Election. No election shall be made by the partnership or any partner, for the partnership to be excluded from the application of the provisions of Subchapter K of the Internal Revenue Code.

m. Incorporation by Reference. Every exhibit, schedule, and other appendix attached to and referred to in this agreement is incorporated in this agreement by reference.

n. Attorney Fees. If the services of an attorney are required by any party to secure the performance of this Agreement or otherwise upon the breach or default of another party to this Agreement, or if any judicial remedy or arbitration is necessary to enforce or interpret any provision of this Agreement or the rights and duties of any person in relation thereto, the prevailing party shall be entitled to reasonable attorney fees, costs and other expenses, in addition to any other relief to which such party may be entitled. Any award of damages following judicial remedy or arbitration as a result of the breach of this Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law.

o. Entire Agreement. This instrument contains the entire agreement of the parties relating to the rights granted and obligations assumed in this instrument. Any oral representations or modifications concerning this instrument shall be of no force or effect unless contained in a subsequent written modification signed by the party to be charged.

p. Investment Letter. Each partner hereby represents and warrants to, and covenants with the partnership and each of the other partners, that (1) the interest in the partnership being acquired by that partner is being acquired for the partner's own personal account and without a view to a sale or other transfer in connection with any distribution of that interest or any portion of it, and (2) the partner has no contract, undertaking, or arrangement with any person to sell or transfer to such person or to have any person sell for that partner all or any portion of the partner's interest in the partnership, or to afford or allow any participation in that interest by any other person. The foregoing warranties and covenants do not preclude the existence of such rights, if any, as a partner's spouse may have as to the partner's partnership interest under community property laws.

q. Counting Days. If a party is required to complete the performance of an obligation under this agreement by a date certain and such date is a Saturday, Sunday, or Federal bank holiday (collectively, a Nonbusiness Day), then the date for the completion of such performance will be the next succeeding day that is not a Nonbusiness Day.

r. Execution. IN WITNESS WHEREOF, the partners of CITADEL AGRICULTURAL PARTNERS NO. 1, a California General Partnership, have executed this agreement as of the 19th DAY OF December, 1997.

Signatures of Partners

CITADEL AGRICULTURE, INC., a California corporation

By: /s/ S. Craig Tompkins

S. Craig Tompkins
Title: President

VISALIA, LLC, a California limited liability company

By: /s/ James J. Cotter

James J. Cotter
Title: Managing Director

BIG 4 RANCH, INC., a Delaware corporation

By: /s/ Edward L. Kane

Edward L. Kane
Title: President

EXHIBIT "A"

Citadel Agricultural Partners No. 1,
a California General Partnership

The partnership's initial capital shall consist of cash to be contributed by the partners in the following amounts:

Name	Amount	Percentage
Citadel		40%
Big 4 Ranch		40%
Visalia		20%
		100%

Each partner's contribution shall be paid in full within fifteen (15) days after the execution of this Agreement.

CONTRIBUTIONS TO PARTNERSHIP OF PROPERTY

None

PARTNERSHIP AGREEMENT
of
CITADEL AGRICULTURAL PARTNERS NO. 2,
a California General Partnership

PARTIES: CITADEL AGRICULTURE, INC., a California corporation ("Citadel"), VISALIA, LLC, a California limited liability company ("Visalia"), and BIG 4 RANCH, INC., a Delaware corporation ("Big 4 Ranch"), (individually "partner" and collectively, the "partners").

RECITALS:

1. New Partnership. The partners desire to form a general partnership under the laws of the State of California for the purposes and on the terms and conditions stated in this agreement.

2. Name of Partnership. The name of the partnership is Citadel Agricultural Partners No. 2.

3. Places of Business. The partnership's principal office and place of business shall be at 550 So. Hope Street, Suite 1825, Los Angeles, California. The principal place of business may be changed from time to time, and other offices may be established by actions taken in accordance with the provisions of this agreement that govern management of the partnership's business and affairs.

4. Definite Term. The partnership shall begin on the date of this agreement and shall continue until December 31, 2050 unless it is terminated earlier as provided in this agreement. On the expiration of its term, the partnership shall be dissolved and its affairs shall be wound up.

5. Business Purposes. The purposes of the partnership are to engage in the business of acquiring, holding, improving and operating agricultural real property, including, without limitation, the citrus cultivation business, and to do all things reasonably incidental to or in furtherance of that business. In connection with any disposition of the real property, this partnership may improve the real property for non-agricultural purposes.

6. Powers. The partnership is empowered to do any and all things necessary, appropriate, or convenient for the furtherance and accomplishment of its purposes, and for the protection and benefit of the partnership and its properties, including but not limited to the following:

a. Entering into and performing contracts of any kind;

b. Acquiring, constructing, operating, maintaining, owning, selling, transferring, renting, or leasing any property, real, personal or mixed;

c. Borrowing money and issuing evidences of indebtedness, and securing any such indebtedness by mortgage, deed of trust, pledge, lien, or other security interest in or on any properties of the partnership;

d. Applying for and obtaining governmental authorizations and approvals;

e. Bringing and defending actions at law or equity; and

f. Subject to the express provisions of this agreement, purchasing the interest of any partner.

7. Fictitious Business Name Statement. The partners, or any one of them on the partnership's behalf, shall sign and cause to be filed and published an appropriate fictitious business name statement under the California

Fictitious Business Name Law within 40 days after the partnership begins doing business, within 40 days after any subsequent change in its membership, and before the expiration of any previously filed statement. Each partner appoints Citadel as his or her agent and attorney-in-fact to execute on his or her behalf any such fictitious business name statement relating to this partnership.

8. Address and Agent for Service. The partnership shall execute and file with the California Secretary of State a statement pursuant to California Corporations Code Section 24003 in which the location and complete address of the partnership's principal office in California, as set forth above, is designated and in which an agent of the partnership for service of process is designated.

9. Statement for Partnership Real Property. Promptly after the date the partnership begins and any subsequent change in its membership, the partners shall sign, acknowledge, and verify a statement as provided in California Corporations Code Section 15010.5, and cause it to be recorded in each county in California in which the partnership owns or contemplates owning real property or any interest in real property. That statement shall include a statement as permitted under Section 15010.7 of that Code to the effect that any conveyance, encumbrance, or transfer of an interest in the partnership's real property must be signed on behalf of the partnership by any two partners representing a majority of the capital interest of the partnership.

10. Cash and Property. The partnership's initial capital shall consist of the amounts in cash and in property shown in Exhibit "A" to this agreement. That exhibit sets forth the capital contributions to be made by the respective partners, the nature of their respective contributions, and, for contributions consisting of any property, the amounts that the partners agree are the market values of the respective items. Each partner's contribution to the partnership shall be paid in full or conveyed within ninety (90) days after the date of this agreement.

11. Calls for Additional Capital. Whenever it is determined by the written agreement of partners holding more than 80% of the capital interest of the partnership that the partnership's capital is or is presently likely to become insufficient for the conduct of its business, those partners may, by written notice to all partners, call for additional contributions to capital. These contributions shall be payable in cash no later than the date specified in the notice, and no sooner than forty-five (45) days after the notice is given. Each partner shall be liable to the partnership for that partner's share of the aggregate contributions duly called for under this paragraph. Each partner's share shall be in proportion to his or her share of the partnership's profits, but no partner shall be required in the event of such a call or calls to contribute more than $100,000.00 in the aggregate unless otherwise agreed.

12. Pre-emptive Rights. Any determination by the partnership to sell additional equity interests will require the approval of partners holding more than 80% of the capital interests in the partnership. In the event that such a determination is made, the partnership will give notice (the "Capital Notice") to each partner of the amount of equity to be raised together with a description of the equity interest to be sold. Each partner will have 30 days following the delivery of such Capital Notice to elect to acquire such additional equity interests, followed by a closing within 120 days of the date of delivery of such Capital Notice. If more than one partner elects to participate and as a consequence partners have subscribed for interests in excess of the amount being offered, such interests will be allocated among the subscribing partners in accordance with their respective capital accounts.

13. Voluntary Contributions. No partner may make any voluntary contribution of capital to the partnership without the consent of all the partners.

14. Withdrawals of Capital. No partner may withdraw capital from the partnership without the consent of all the partners.

15. No Interest To Be Paid. No partner shall be entitled to receive any interest on his or her capital contribution.

16. Future Loans. No partner shall lend or advance money to or for the partnership's benefit without the approval of a majority in capital interest of the partners. If any partner, with the requisite consent of the other partners, lends any money to the partnership in addition to its contribution to its capital, the loan shall be a debt of the partnership to that partner and shall bear interest at the rate as is agreed on by a majority in capital interest of the partners. The liability shall not be regarded as an increase in the lending partner's capital, and it shall not entitle the lending partner to any increased share of the partnership's profits.

17. Voting Based on Capital Interest. All partnership votes required under this Agreement shall be based upon a partner's capital interest. The capital interest of each partner shall be adjusted according to the rules contained in Paragraph 20, below. If a transferee of a partnership interest has not been admitted as a partner, such transferee shall not be entitled to vote and its interest shall not be counted in determining the total capital interest of the partnership.

18. Division Based on Initial Capital Contribution. The partnership's profits and losses shall be shared among the partners in the same proportions as their initial capital accounts bear to each other. No other additional share of profits or losses shall inure to any partner because of fluctuations in the partners' capital accounts.

19. Distributions to Partners.

a. Annual Distributions. Each year, the partnership shall distribute 45% of its taxable income. An amount greater than 45% may be distributed upon the approval of partners holding not less than a majority of the capital interest in the partnership.

b. Partners' Drawing Accounts. Each partner shall be entitled to draw against profits such amounts as shall from time to time be agreed on by a majority in interest of the partners. These amounts shall be charged to the partners' drawing accounts as they are drawn.

c. Excessive Withdrawals as Loans. Notwithstanding the provisions of this agreement governing drawing accounts of partners, to the extent that any partner's withdrawals under those provisions during any fiscal year of the partnership exceed that partner's distributive share of the partnership's profits, the excess shall be regarded as a loan by the partnership that the partner is obligated to repay within ninety (90) days after the end of that fiscal year, with interest on the unpaid balance at a rate of eight percent (8%) per annum from the end of that fiscal year to the date of repayment.

d. Overall Limit on Distributions. Notwithstanding anything in this agreement to the contrary, the aggregate amounts distributed to the partners from the partnership's profits shall not exceed the amount of cash available for distribution, taking into account the partnership's reasonable working capital needs as determined by a majority in capital interest of the partners.

20. Accounting.

a. Fiscal Year of Partnership. The fiscal year of the partnership shall be the calendar year.

b. Accounting Method. The partnership books shall be kept on the accrual basis.

c. Capital Accounts. An individual capital account shall be maintained for each partner, and the partner's initial capital contribution in cash or property shall be credited to that account. Capital accounts shall be maintained in accordance with Treasury Regulation section 1.704-1(b)(2)(iv). No additional share of profits or losses shall inure to any partner because of changes or fluctuations in the partner's capital account.

d. Increases in Capital Accounts. The capital account for each partner shall be credited with or increased by the following:

(1) The partner's initial capital contribution to the partnership;

(2) Any additional capital contributions made by the partner from time to time as authorized by this agreement;

(3) The partner's share under this agreement of the partnership's profits; and

(4) On the partnership's dissolution and in its winding up, the credits authorized by the provisions of this agreement that relate to adjustments of capital accounts in connection with liquidation.

e. Reductions of Capital Accounts. The capital account for each partner shall be debited with or reduced by the following:

(1) Distributions to the partner of cash or property, which property shall be valued for this purpose at its fair market value;

(2) The partner's share under this agreement of the partnership's losses and of any items then required under applicable tax laws, rules, and regulations to be debited to capital accounts of partners, to the extent and in the manner so required; and

(3) On the partnership's dissolution and in its winding up, the debits authorized by the provisions of this agreement that relate to adjustments of capital accounts in connection with liquidation.

f. Capital Account Adjustments on Liquidation. In connection with the actual liquidation of the properties of the partnership on its dissolution and winding up, the capital accounts shall be adjusted to reflect the following:

(1) The results of operations for the fiscal period then ended.

(2) The results of transactions in connection with the liquidation.

(3) Unrealized gain or loss on property of the partnership that is to be or has been transferred to creditors on account of their claims or distributed to partners on account of their interests in the partnership. The amount of such unrealized gain or loss shall be computed by comparing the fair market value of any such property to its adjusted basis for federal income tax purposes. Such unrealized gain or loss shall be allocated to the partners' capital accounts in the same manner as the gain or loss from the actual sale of such property would have been allocated.

(4) The distribution of cash or property to partners made on the liquidation.

(5) If there is a deficit in any partner's capital account after the capital accounts have been adjusted as provided in this agreement in connection with the liquidation of the properties of the partnership, that partner (the partner at that time and not any predecessor) shall contribute the amount of such deficit to the partnership before the end of the taxable year of the liquidation or by such earlier date as may be required to

complete the liquidation in accordance with a duly adopted plan of liquidation. Amounts thus contributed shall be distributed to or among the creditors and partners in accordance with the then applicable provisions for distribution of partnership property on dissolution, winding up, and liquidation.

g. Determination of Profit and Loss. The partnership's net profit or net loss for each fiscal year shall be determined as soon as practicable after the close of that fiscal year in accordance with the accounting principles employed in the preparation of the federal income tax return filed by the partnership for that year, but without any special provisions for tax exempt or partially tax exempt income.

h. Definitions of Profit and Loss. "Profit" and "loss" for all purposes of this agreement shall be determined in accordance with the accounting method followed by the partnership for federal income tax purposes and otherwise in accordance with generally accepted accounting principles and procedures applied in a consistent manner. However, the calculation of profit and loss shall take into account partnership income exempt from federal income tax and partnership expenses and costs not deductible or properly chargeable to capital for federal income tax purposes. Every item of income, gain, loss, deduction, credit, or tax preference entering into the computation of profit or loss shall be considered as allocated to each partner in the same proportion as profit is allocated to that partner for any year in which the partnership operates at a profit, and in the same proportion as loss is allocated to that partner for any year in which the partnership operates at a loss. Any increase or reduction in the amount of any item of income, gain, loss, or deduction attributable to an adjustment to the basis of partnership property made pursuant to a valid election under Section 754 of the Internal Revenue Code of 1986, as amended (or any successor statute corresponding to that Section), and pursuant to the corresponding provisions of applicable state and local income tax laws, shall be charged or credited, as the case may be, and any increase or reduction in the amount of any item of credit or tax preference attributable to any such adjustment shall be allocated, to the capital accounts of those partners entitled to them under such code or laws.

21. Partnership Books. Proper and complete books of account of the partnership business shall be kept at the partnership's principal place of business and shall be open to inspection by any of the partners or their authorized representatives at any reasonable time during business hours. The accounting records shall be maintained in accordance with generally accepted bookkeeping practices for this type of business.

22. Annual Report to Partners. Within ninety (90) days after the end of each fiscal year, the partnership shall furnish to each partner an annual report consisting of at least (1) a copy of the partnership's federal income tax returns for that fiscal year, (2) a supporting statement of income or loss, (3) a balance sheet showing the partnership's financial position as of the end of that fiscal year, and (4) any additional information that the partners may require for the preparation of their individual federal and state income tax returns.

23. Control of Business. Unless reserved to a full partnership vote, each partner shall participate in the control and management of the partnership through such partner's vote for representatives on a management committee.

24. Control by Management Committee. The partners shall nominate and elect a total of three (3) members of the Partnership's Management Committee. The members of the Management Committee shall serve until replaced. The Management Committee or any member thereof may be replaced by partnership vote. Each partner's vote shall be in proportion to the partner's interest in the partnership's capital. The Management Committee shall have control over the business of the partnership and assume direction of its business operations. The Management Committee shall consult and confer as far as practicable with the nonmanaging partners, but the power of decision shall be vested in the Management Committee. The Management Committee's duties shall include control over the partnership's books and records and hiring any independent public accountants it deems necessary for this purpose. Except as otherwise expressly provided in this agreement, all things to be done by the partnership shall be done under the Management Committee's control and supervision.

25. Acts Requiring More Than 80% Consent. The following acts may be done only with the consent of more than 80% in capital interest of the partners:

a. Amendment of this agreement;

b. Admission of any new partner; or

c. Sale by the partnership of any additional partnership interest.

26. Acts Requiring Majority Consent. The following acts may be done only with the consent of a majority in capital interest of the partners:

a. Borrowing money in the partnership's name, other than in the ordinary course of the partnership's business or to finance any part of the purchase price of the partnership's properties;

b. Transferring, hypothecating, compromising, or releasing any partnership claim in excess of $25,000 except on payment in full;

c. Selling, leasing, or hypothecating any partnership property or entering into any contract for any such purpose, other than in the ordinary course of the partnership's business and other than any hypothecation of partnership property to secure a debt resulting from any transaction permitted under Section 26a;

d. Knowingly suffering or causing anything to be done whereby partnership property may be seized or attached or taken in execution, or its ownership or possession otherwise endangered;

e. Commencement of any litigation;

f. Termination of or amending any farm management contract; or

g. Electing or replacing any member of the Management Committee.

h. The early liquidation and winding-up of the partnership.

27. Management Committee Handles Funds. All partnership funds shall be deposited into the partnership's name and shall be subject to withdrawal only on the signature of persons authorized by the Management Committee.

28. Outside Activities Freely Permitted. It is understood and agreed that each partner may engage in other enterprises, including enterprises in competition with the partnership, and that the partners need not offer business opportunities to the partnership but may take advantage of those opportunities for their own accounts or for the accounts of other partnerships or enterprises with which they are associated. Neither the partnership nor any other partner shall have any right to any income or profit derived by a partner from any enterprise or opportunity permitted under this Section.

29. Partners' Salaries. No partner shall be entitled to any salary.

30. Admitting New Partners. A new partner may be admitted to the partnership but only with the written approval of more than an 80% in capital interest of the partners. Each new partner shall be admitted only if the new partner shall have executed this agreement or an appropriate supplement to it in which the new partner agrees to be

bound by the terms and provisions of this agreement as they may be modified by that supplement. Admission of a new partner shall not cause dissolution of the partnership. Furthermore, the right to engage freely in competition with the partnership as provided in Section 28 hereof shall not apply to any new partner unless said written approval expressly provides that the new partner has such rights.

31. Interest of New Partner. A newly admitted partner's capital contribution and share of the partnership's profits and losses shall be set forth in the written consents of the partners consenting to the admission of the new partner.

32. Partnership Continues. The partnership shall not dissolve or terminate on any partner's dissolution, liquidation, death, permanent physical or mental disability, or retirement or voluntary withdrawal from the partnership if, within one hundred twenty (120) days after the partnership has received notice of the partner's dissolution, liquidation, death, permanent physical or mental disability or desire to withdraw, it elects to purchase that partner's interest. If the partnership so elects, it may purchase that interest and thereafter continue and it shall not wind up its affairs or liquidate because of the dissolution, liquidation, death, disability, retirement, or withdrawal. The vote of partners holding a majority in capital interest of the partnership (excluding the interest of the dissolved, liquidated, deceased, disabled, retired, or withdrawing partner) shall be sufficient to make the election to purchase. The price to be paid for the interest of the dissolved, liquidated, deceased, disabled, retired, or withdrawing partner shall be equal to the value of that interest as determined under this agreement.

33. Partner's Bankruptcy or Insolvency. A partner shall cease to be a partner and shall have no interest in common with the remaining partners or in partnership property when the partner does any of the following:

a. Obtains or becomes subject to an order for relief under the Bankruptcy Code;

b. Obtains or becomes subject to an order or decree of insolvency under state law;

c. Makes an assignment for the benefit of creditors;

d. Consents to or suffers the appointment of a receiver or trustee to any substantial part of the partner's assets that is not vacated within One Hundred Twenty (120) days;

e. Consents to or suffers an attachment or execution on any substantial part of the partner's assets that is not released within One Hundred Twenty (120) days; or

f. Consents to or suffers a charging order against the partner's interest in the partnership that is not released or satisfied within One Hundred Twenty (120) days.

From the date of that event, the former partner shall be considered a transferee pursuant to Sections 16502 and 16503 of the Corporations Code.

34. Limited Transferability. Except in the case of a transfer of the stock of Big 4 Ranch to shareholders of Citadel Holding Corporation, which transfer is hereby approved by the partnership and partners, a partner may transfer all or part of his or her interest in the partnership only as follows:

a. To the partnership or to any other partner;

b. To an entity, if, immediately after the transfer, the partner making the transfer owns (and thereafter continues to own) all of that entity's voting equity; or

c. In the case of Visalia, transfers to James J. Cotter, and/or any one or more members of his family, and /or to any entity controlled (and thereafter continues to be controlled) by any one or more such persons, and/or to any trust of which Mr. Cotter is the trustee or of which Mr. Cotter and/or any one or more members of his family are the principal beneficiaries.

d. To any person after the partner making the transfer has first offered the other partners their rights of first refusal in accordance with the provisions of this agreement dealing with those rights of first refusal.

No such transfer shall make the transferee a partner or entitle the transferee to any of the rights of a partner, other than the right to receive as much of the transferor's share of partnership distributions as is transferred to the transferee. Until the transferee is admitted to the partnership in substitution for the transferor under the provisions of this agreement for admitting new partners, such a transfer shall not terminate any of the transferor's obligations.

NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, IT SHALL BE IMPERMISSIBLE UNDER THIS PARTNERSHIP AGREEMENT TO TRANSFER ANY PARTNERSHIP INTEREST IF, AS A RESULT OF SUCH TRANSFER, THE TRANSFEREE (OR ANY OF ITS DIRECT OR INDIRECT BENEFICIAL OWNERS) WOULD HAVE BENEFICIAL OWNERSHIP OF MORE LAND THAN WOULD QUALIFY FOR FEDERAL WATER. AS A CONDITION TO ANY TRANSFER OF ANY PARTNERSHIP INTEREST, PRIOR TO THE EFFECTIVE DATE OF ANY SUCH TRANSFER, THE PROPOSED TRANSFEREE SHALL DELIVER TO THE PARTNERSHIP AND EACH PARTNER A CERTIFICATE INDEMNIFYING THE PARTNERSHIP AND EACH PARTNER BY BOTH THE TRANSFEREE AND TRANSFEROR AGAINST ANY LOSS IN THE EVENT FEDERAL WATER IS LIMITED TO THE PARTNERSHIP OR ANY PARTNER AS A RESULT OF SUCH TRANSFER. SUCH CERTIFICATE MUST BE IN A FORM ACCEPTABLE TO PARTNERS HOLDING MORE THAN 80% OF THE CAPITAL INTEREST OF THE PARTNERSHIP.

35. Right of First Refusal. Partners or parties that are non-admitted transferees (collectively "Holders") may transfer their interest in the partnership pursuant to this paragraph to a party not described in paragraph 34 pursuant to this paragraph and for cash or cash plus a purchase money note only. In cases where any Holder receives an offer, whether or not solicited by that Holder, from a person not then a partner to purchase all or any portion of the partner's interest in the partnership, and if the Holder receiving the offer is willing to accept it, and, in cases where there has been no solicitation of an offer but the Holder desires to sell all or a portion of its interest, the Holder may transfer the interest or portion specified in the offer only after he or she has afforded the partnership and the other partners the following rights of first refusal:

a. The Holder desiring to make the transfer must first notify the partnership itself and each of the other partners in writing of the interest or portion the partner proposes to transfer, the price and terms on which it is proposed to be transferred, the identity of any proposed transferee, a contact person of any proposed transferee and a recent audited financial statement of any proposed transferee.

b. The partnership, upon the vote of a majority in capital interest (excluding the Holder's interest), shall have the option to purchase that interest or portion from the partner at the same price and, subject to the option in Section 39, same terms as those specified in the notice of the proposed transfer. The Partnership also may elect to transfer said option to any party (including partners), provided (i) more than 80% in capital interest of the partners approves the transfer (whether the proposed transferee is a third party or an existing partner) and (ii) the transferee complies with the requirements of paragraph 30. The partnership's option to purchase the interest or portion or to transfer said option to another party shall be exercised by written notice from the partnership to the partner, given within six (6) months after receipt by the partnership of the Holder's notice of his or her desire to transfer.

c. If the partnership does not exercise its option to purchase the interest or portion within the time provided, then, within six (6) months after receipt by the partnership of the Holder's notice of the proposed transfer, any of the other partners desiring to purchase all or any part of that interest or portion may deliver to the Holder who proposed to make the transfer and to each of the other partners written notice of election to purchase all or a specified part of the interest or portion.

d. If the aggregate parts of the interest or portion specified in notices of election timely made by other partners equal or exceed the entire offered interest or portion, the Holder desiring to transfer his or her interest or portion shall sell, and the partners electing to purchase shall purchase, the interest or portion at a price equal to the same price and on the same terms as those specified in the notice of the proposed transfer; provided that, if the aggregate parts of the interest specified in the notices of election timely made exceed the entire interest or portion proposed to be transferred, each partner making this election shall purchase such part of the offered interest allocable in the same proportions as such partners' capital accounts bear to each other, excluding Holder's capital account.

e. If the partnership does not exercise or assign its option to purchase the interest within the time provided, and if the aggregate parts of the interest or portion specified in the notices of election timely made by partners are less than the entire interest or portion proposed to be transferred, all of these elections shall be ineffective, and the Holder proposing to make the transfer shall not be obligated to sell, nor shall any of the other partners electing to purchase be entitled or obligated to purchase, all or any part of the offered interest or portion. In cases where the Holder has received an offer, the Holder proposing to transfer an interest or portion may then, at any time within thirty (30) days following the expiration of the six (6) month period referred to in paragraph 35(c), transfer the specified interest or portion to the transferee specified in the notice on terms no more favorable to the purchaser than the terms stated in the notice and at no lower a price than the price stated in the notice. In cases where there has been no solicitation of an offer but the Holder desires to sell all or a portion of its interest, Holder shall have a period of 1 year following the expiration of the 6 month period referred to in paragraph 35(c) in which to attempt to market its interest. If Holder finds a buyer and the terms are less favorable than those offered to the partnership pursuant to paragraph 35(a), then the Holder must given notice of the actual terms to the partnership and the partnership and partners shall have the same rights described in paragraphs 35(b), (c) and (d) with respect to such revised terms of sale, provided, however, the time periods contained in paragraphs 35(b) and 35(c) shall be changed from 6 months to 30 days. If the partnership or partners elect to purchase Holder's interest or any portion thereof, it must give notice to the Holder within the 30 day period and may have 120 days (measured from the date of notice given by the holder) in which to close the acquisition.

f. Notwithstanding any other provision contained in this agreement, if a Holder or Holders representing a majority of the capital interests of this partnership elect to sell their partnership interests to a buyer or buyers in a single or related transaction, the buyer or buyers must agree that the remaining partners may elect to sell and the buyer or buyers must agree to purchase the partnership interest of the remaining partners at the same proportionate price and on the same terms as the Holder or Holders.

g. The provisions of this Section, and Section 34, will apply to indirect as well as to direct transfers. Accordingly, in the event of a transfer (whether as the result of one or of a group of related transactions) of a majority interest (either voting or in underlying equity ownership) in any holder which is not a publicly traded company or in any parent of such Holder (again other than a parent which is a publicly traded company), the transfer of such majority interest shall be deemed to be a transfer subject to this agreement. In such event, the partnership will have an assignable right to purchase the interest of such Holder, subject to the requirements of paragraph 35b, for the fair market value of such interest, as determined pursuant to Section 37 below, and, in the event that it does not elect to purchase such interest, to approve the admission or readmission of such Holder as a partner. In the case of a Holder which is a publicly traded company, or

which is a subsidiary of a publicly traded company, the election or appointment of individuals representing a majority of the directors of such company shall also be deemed to be a transfer subject to this agreement. In such event, the partnership will likewise have an assignable right to purchase the interests of such Holder, subject to the requirements of paragraph 35b, for its fair market value as determined pursuant to Section 37, below, and, in the event that it does not elect to purchase such interest, to approve the readmission of such holder as partner who shall be deemed a proposed "new partner" requiring compliance with paragraph 30.

h. In the case of a proposed transfer, the option of the partnership to purchase pursuant to paragraph 35(b) and the options of the other partners to purchase pursuant to paragraph 35(c) may be assigned by the owners of such options ("Option Owner") to one or more third parties or, if not so assigned, after execution of their respective options, such Option Owners may name one or more third party nominees to take title to the purchased partnership interests. Provided, however, the Option Owner shall remain secondarily liable after the assignee or nominee to the Holder (i.e., selling partner) for all amounts that remain unpaid for the purchased partnership interest, including without limitation, attorneys fees incurred for collection, after the Holder has exhausted his, her or its remedies of recovery against the assignee or nominee.

36. Tax Matters Partner. The partners shall nominate and elect a Tax Matters Partner. The Tax Matters Partner shall be a member of the Management Committee and shall remain the partnership's Tax Matters Partner until replaced. The Tax Matters Partner shall be elected or replaced by an approval of partners holding more than an 80% of the capital interests in the partnership.

37. Valuation of Interest. The value of a partner's interest in the partnership for purposes of this agreement shall be determined by appraisal as follows:

Within thirty (30) days after the event described in paragraph 35(g), the partnership and Holder either (1) shall jointly appoint an appraiser for this purpose, or (2) failing this joint action, shall each separately designate an appraiser and, within thirty (30) days after their appointment, the two designated appraisers shall jointly designate a third appraiser. The failure of either the partnership or the Holder whose interest is being appraised to appoint an appraiser within the time allowed shall be deemed equivalent to appointment of the appraiser appointed by the other party. No person shall be appointed or designated an appraiser unless that person is then a member of American Society of Farm Managers and Rural Appraisers.

If, within thirty (30) days after the appointment of all appraisers, a majority of the appraisers concur on the value of the interest being appraised, that appraisal shall be binding and conclusive. If a majority of the appraisers do not concur within that period, the determination of the appraiser whose appraisal is neither highest nor lowest shall be binding and conclusive. The partnership and the Holder whose interest is to be appraised, shall share the appraisal expenses equally.

A Holder's interest in the partnership so appraised shall be based on that Holder's proportional interest in the partnership's aggregate capital.

38. Standards of Appraisal. In arriving at a valuation figure, the appraisers shall use the going-concern concept, and observe the following bases for valuation, but not be limited to them in computing the partnership's value:

a. Inventory shall be valued at the lower of cost or fair market value.

b. Buildings and land shall be valued at fair market value.

c. Machinery and equipment shall be valued at replacement cost for replacements of similar age and condition.

d. In determining fair market value, the existence of a willing purchaser shall be assumed.

e. A valuation shall be placed on items of substantial value not carried on the partnership's books.

f. Investment securities owned by the partnership for which there is an established trading market shall be valued at the market price on the effective date of valuation. For this purpose, market price means (a) for securities listed on any national securities exchange or for which sales are reported on NASDAQ, the last reported sales price on that date (or, if no sales on that date are reported, on the next preceding day for which sales were reported), and (b) for other publicly traded securities, the mean between the highest bid and lowest asked prices reported for these securities on that date (or, if no such prices are reported on that date, on the next preceding day for which such prices were reported).

g. Investment securities owned by the partnership for which there is no established trading market shall be valued at the amounts at which they are carried on the partnership's books in accordance with generally accepted accounting principles, including the equity method under Opinion 18 of the Accounting Principles Board to the extent applicable.

h. Contingent items shall not be specifically deducted from the valuation figure, but they shall be considered in assessing the value of the partnership's goodwill.

i. Goodwill, including trademarks, trade names, and other intangibles of commercial value such as patents, shall be considered in arriving at a valuation figure.

j. Past, present, and prospective earnings, including the existing and prospective economic condition of the industry, shall be considered in arriving at a valuation figure.

k. Adjustments shall be made for the federal and state income tax effect on the differences between tax bases and the market values determined by the appraisers.

39. Payment of Purchase Price. Except as otherwise provided, whenever the partnership or its assignee of its option to purchase pursuant to paragraph 35(b) is obligated or, having the right to do so, chooses to purchase a partner's interest, it shall pay for that interest, at its option, in cash or by promissory note of the partnership, or partly in cash and partly by note. Any promissory note shall be dated as of the effective date of the purchase, shall mature in not more than four (4) years, shall be payable in installments that come due not less frequently than annually, shall bear interest at the rate of the lesser of: (1) the maximum amount allowed by California law, or (2) the prime rate, as published on the day the obligation to pay the purchase price originally arises, as published by the Wall Street Journal, and may, at the partnership's option, be subordinated to existing and future debts to banks and other institutional lenders for money borrowed.

40. Assumption of Outstanding Partnership Liabilities. Except as otherwise provided, the continuing partnership shall pay, as they mature, all partnership obligations and liabilities that exist on the effective date of a partner's termination and shall hold the terminating partner harmless from any action or claim arising or alleged to arise from those obligations or from liabilities accruing after that date.

41. Disposition of Insurance Policies. On the withdrawal or termination of any partner for any reason other than his or her death, any insurance policies on that partner's life for which the partnership paid the premiums shall be delivered to that partner in specie and become his or her sole and separate property. If the policy has a cash surrender value, that amount shall be paid to the partnership by the withdrawing or terminating partner, or offset

against the partnership's obligations to the withdrawing or terminating partner. An adjustment shall be made in the distributive share of the withdrawn or terminated partner's interest, reflecting the difference between the premium rates previously paid on the policies insuring the withdrawn or terminated partner's life and the premium rates previously paid on the policies insuring the continuing partners' lives.

42. Dissolution. On any dissolution of the partnership under this agreement or applicable law, except as otherwise provided in this agreement, the continuing operation of the partnership's business shall be confined to those activities reasonably necessary to wind up the partnership's affairs, discharge its obligations, and preserve and distribute its assets. Promptly on dissolution, a notice of dissolution shall be published under California Corporations Code Section 15035.5 or any equivalent successor statute then applicable.

43. Distributions on Liquidation. On the dissolution of the partnership, its business shall be wound up and its properties liquidated, and the net proceeds of the liquidation, together with any property to be distributed in kind, shall be distributed as follows:

a. First, to the payment of the partnership's debts and obligations that are then due, including any loans or advances that may have been made by any of the partners (such debts and obligations to creditors other than partners having priority over debts and obligations to partners) and the expenses of winding up and liquidation;

b. Secondly, to the establishment of any reserves that the partners may consider necessary, appropriate, or desirable for any future, contingent, or unforeseen liabilities, obligations, or debts of the partnership, which reserves may but need not be deposited with an independent escrow holder with instructions to disburse them in payment of those liabilities, obligations, and debts and, at the expiration of such period as the partners may have specified, to distribute the balance remaining as provided in this agreement; and

c. Thirdly, to the partners in proportion to the balances in their respective capital accounts after giving effect to the adjustments of capital accounts in connection with liquidation authorized by this agreement, but if all capital accounts then have zero balances such distributions to partners shall be made in proportion to the allocation of profit from the sale of partnership property applicable under this agreement as of the date of such distributions.

44. Miscellaneous Provisions.

a. Indemnification. Each partner shall indemnify and hold harmless the partnership and each of the other partners from any and all expense and liability resulting from or arising out of any negligence or misconduct on his or her part to the extent that the amount is not covered by the applicable insurance carried by the partnership.

b. Notices. All notices, requests, demands, and other communications required to or permitted to be given under this Agreement shall be in writing and shall be conclusively deemed to have been duly given (1) when hand delivered to the other party; or (2) when received when sent by facsimile to the address and number set forth below (provided, however, that notices given by facsimile shall not be effective unless either (a) a duplicate copy of such facsimile notice is promptly sent by depositing same in a United States post office with first-class postage prepaid and addressed to the parties as set forth below, or (b) the receiving party delivers a written confirmation of receipt for such notice either by facsimile or any other method permitted under this paragraph; additionally, any notice given by facsimile shall be deemed received on the next business day if such notice is received after 5:00 p.m. (recipient's time) or on a nonbusiness day); or (3) three business days after the same have been deposited in a United States post office with first class or certified mail return receipt requested postage prepaid and addressed to the parties

as set forth below; or (4) the next business day after same have been deposited with a national overnight delivery service, postage prepaid, addressed to the parties as set forth below with next-business-day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

To: Citadel Agriculture, Inc.
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. President

To: Visalia LLC
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. Managing Director

To: Big 4 Ranch, Inc.
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. President

Each party shall make an ordinary, good faith effort to ensure that it will accept or receive notices that are given in accordance with this paragraph and that any person to be given notice actually receives such notice. A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section by giving the other party written notice of the new address in the manner set forth above.

c. Counterparts. The parties may execute this agreement in two or more counterparts, which shall, in the aggregate, be signed by all the parties; each counterpart shall be deemed an original instrument as against any party who has signed it.

d. Governing Law. This agreement is executed in and intended to be performed in the State of California, and the laws of that state (other than as to choice of laws) shall govern its interpretation and effect.

e. Successors. This agreement shall be binding upon and inure to the benefit of the respective successors, assigns, and personal representatives of the parties, except to the extent of any contrary provision in this agreement.

f. Severability. If any term, provision, covenant, or condition of this agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the rest of the agreement shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

g. Further Action. Each partner shall execute and deliver such papers, documents, and instruments, and perform such acts as are necessary or appropriate, to implement the terms of the agreement and the intent of the parties to the agreement.

h. Waiver of Action for Partition. Each of the parties to the agreement irrevocably waives, during the term of the partnership, any right that it may have to maintain any action for partition with respect to the partnership properties.

i. Construction. In construing this agreement, no consideration shall be given to the fact or presumption that any party had a greater or lesser hand in the drafting of this agreement.

j. Gender. In construing this agreement, pronouns of any gender shall be deemed to include the other gender.

k. Nonrecourse Loans. If the partnership borrows monies on a nonrecourse basis, a creditor who makes such a loan to the partnership will not have or acquire at any time as a result of making the loan, any direct or indirect interest in the profits, capital, or property of the partnership other than as a secured creditor.

l. No Election. No election shall be made by the partnership or any partner, for the partnership to be excluded from the application of the provisions of Subchapter K of the Internal Revenue Code.

m. Incorporation by Reference. Every exhibit, schedule, and other appendix attached to and referred to in this agreement is incorporated in this agreement by reference.

n. Attorney Fees. If the services of an attorney are required by any party to secure the performance of this Agreement or otherwise upon the breach or default of another party to this Agreement, or if any judicial remedy or arbitration is necessary to enforce or interpret any provision of this Agreement or the rights and duties of any person in relation thereto, the prevailing party shall be entitled to reasonable attorney fees, costs and other expenses, in addition to any other relief to which such party may be entitled. Any award of damages following judicial remedy or arbitration as a result of the breach of this Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law.

o. Entire Agreement. This instrument contains the entire agreement of the parties relating to the rights granted and obligations assumed in this instrument. Any oral representations or modifications concerning this instrument shall be of no force or effect unless contained in a subsequent written modification signed by the party to be charged.

p. Investment Letter. Each partner hereby represents and warrants to, and covenants with the partnership and each of the other partners, that (1) the interest in the partnership being acquired by that partner is being acquired for the partner's own personal account and without a view to a sale or other transfer in connection with any distribution of that interest or any portion of it, and (2) the partner has no contract, undertaking, or arrangement with any person to sell or transfer to such person or to have any person sell for that partner all or any portion of the partner's interest in the partnership, or to afford or allow any participation in that interest by any other person. The foregoing warranties and covenants do not preclude the existence of such rights, if any, as a partner's spouse may have as to the partner's partnership interest under community property laws.

q. Counting Days. If a party is required to complete the performance of an obligation under this agreement by a date certain and such date is a Saturday, Sunday, or Federal bank holiday (collectively, a Nonbusiness Day), then the date for the completion of such performance will be the next succeeding day that is not a Nonbusiness Day.

r. Execution. IN WITNESS WHEREOF, the partners of CITADEL AGRICULTURAL

PARTNERS NO. 2, a California General Partnership, have executed this agreement as of the 19th DAY OF December, 1997.

Signatures of Partners

CITADEL AGRICULTURE, INC.,
a California corporation

By: /s/ S. Craig Tompkins

S. Craig Tompkins
Title: President

VISALIA, LLC, a California
limited liability company

By: /s/ James J. Cotter

James J. Cotter
Title: Managing Director

BIG 4 RANCH, INC.,
a Delaware corporation

By: /s/ Edward L. Kane

Edward L. Kane
Title: President

EXHIBIT "A"

Citadel Agricultural Partners No. 2,
a California General Partnership

The partnership's initial capital shall consist of cash to be contributed by the partners in the following amounts:

Name	Amount	Percentage
Citadel		40%
Big 4 Ranch		40%
Visalia		20%
Total		100%

Each partner's contribution shall be paid in full within fifteen (15) days after the execution of this Agreement.

CONTRIBUTIONS TO PARTNERSHIP OF PROPERTY

None

PARTNERSHIP AGREEMENT
of
CITADEL AGRICULTURAL PARTNERS NO. 3,
a California General Partnership

PARTIES: CITADEL AGRICULTURE, INC., a California corporation ("Citadel"), VISALIA, LLC, a California limited liability company ("Visalia"), and BIG 4 RANCH, INC., a Delaware corporation ("Big 4 Ranch"), (individually "partner" and collectively, the "partners").

RECITALS:

1. New Partnership. The partners desire to form a general partnership under the laws of the State of California for the purposes and on the terms and conditions stated in this agreement.

2. Name of Partnership. The name of the partnership is Citadel Agricultural Partners No. 3.

3. Places of Business. The partnership's principal office and place of business shall be at 550 So. Hope Street, Suite 1825, Los Angeles, California. The principal place of business may be changed from time to time, and other offices may be established by actions taken in accordance with the provisions of this agreement that govern management of the partnership's business and affairs.

4. Definite Term. The partnership shall begin on the date of this agreement and shall continue until December 31, 2050 unless it is terminated earlier as provided in this agreement. On the expiration of its term, the partnership shall be dissolved and its affairs shall be wound up.

5. Business Purposes. The purposes of the partnership are to engage in the business of acquiring, holding, improving and operating agricultural real property, including, without limitation, the citrus cultivation business, and to do all things reasonably incidental to or in furtherance of that business. In connection with any disposition of the real property, this partnership may improve the real property for non-agricultural purposes.

6. Powers. The partnership is empowered to do any and all things necessary, appropriate, or convenient for the furtherance and accomplishment of its purposes, and for the protection and benefit of the partnership and its properties, including but not limited to the following:

a. Entering into and performing contracts of any kind;

b. Acquiring, constructing, operating, maintaining, owning, selling, transferring, renting, or leasing any property, real, personal or mixed;

c. Borrowing money and issuing evidences of indebtedness, and securing any such indebtedness by mortgage, deed of trust, pledge, lien, or other security interest in or on any properties of the partnership;

d. Applying for and obtaining governmental authorizations and approvals;

e. Bringing and defending actions at law or equity; and

f. Subject to the express provisions of this agreement, purchasing the interest of any partner.

7. Fictitious Business Name Statement. The partners, or any one of them on the partnership's behalf, shall sign and cause to be filed and published an appropriate fictitious business name statement under the California

Fictitious Business Name Law within 40 days after the partnership begins doing business, within 40 days after any subsequent change in its membership, and before the expiration of any previously filed statement. Each partner appoints Citadel as his or her agent and attorney-in-fact to execute on his or her behalf any such fictitious business name statement relating to this partnership.

8. Address and Agent for Service. The partnership shall execute and file with the California Secretary of State a statement pursuant to California Corporations Code Section 24003 in which the location and complete address of the partnership's principal office in California, as set forth above, is designated and in which an agent of the partnership for service of process is designated.

9. Statement for Partnership Real Property. Promptly after the date the partnership begins and any subsequent change in its membership, the partners shall sign, acknowledge, and verify a statement as provided in California Corporations Code Section 15010.5, and cause it to be recorded in each county in California in which the partnership owns or contemplates owning real property or any interest in real property. That statement shall include a statement as permitted under Section 15010.7 of that Code to the effect that any conveyance, encumbrance, or transfer of an interest in the partnership's real property must be signed on behalf of the partnership by any two partners representing a majority of the capital interest of the partnership.

10. Cash and Property. The partnership's initial capital shall consist of the amounts in cash and in property shown in Exhibit "A" to this agreement. That exhibit sets forth the capital contributions to be made by the respective partners, the nature of their respective contributions, and, for contributions consisting of any property, the amounts that the partners agree are the market values of the respective items. Each partner's contribution to the partnership shall be paid in full or conveyed within ninety (90) days after the date of this agreement.

11. Calls for Additional Capital. Whenever it is determined by the written agreement of partners holding more than 80% of the capital interest of the partnership that the partnership's capital is or is presently likely to become insufficient for the conduct of its business, those partners may, by written notice to all partners, call for additional contributions to capital. These contributions shall be payable in cash no later than the date specified in the notice, and no sooner than forty-five (45) days after the notice is given. Each partner shall be liable to the partnership for that partner's share of the aggregate contributions duly called for under this paragraph. Each partner's share shall be in proportion to his or her share of the partnership's profits, but no partner shall be required in the event of such a call or calls to contribute more than $100,000.00 in the aggregate unless otherwise agreed.

12. Pre-emptive Rights. Any determination by the partnership to sell additional equity interests will require the approval of partners holding more than 80% of the capital interests in the partnership. In the event that such a determination is made, the partnership will give notice (the "Capital Notice") to each partner of the amount of equity to be raised together with a description of the equity interest to be sold. Each partner will have 30 days following the delivery of such Capital Notice to elect to acquire such additional equity interests, followed by a closing within 120 days of the date of delivery of such Capital Notice. If more than one partner elects to participate and as a consequence partners have subscribed for interests in excess of the amount being offered, such interests will be allocated among the subscribing partners in accordance with their respective capital accounts.

13. Voluntary Contributions. No partner may make any voluntary contribution of capital to the partnership without the consent of all the partners.

14. Withdrawals of Capital. No partner may withdraw capital from the partnership without the consent of all the partners.

15. No Interest To Be Paid. No partner shall be entitled to receive any interest on his or her capital contribution.

16. Future Loans. No partner shall lend or advance money to or for the partnership's benefit without the approval of a majority in capital interest of the partners. If any partner, with the requisite consent of the other partners, lends any money to the partnership in addition to its contribution to its capital, the loan shall be a debt of the partnership to that partner and shall bear interest at the rate as is agreed on by a majority in capital interest of the partners. The liability shall not be regarded as an increase in the lending partner's capital, and it shall not entitle the lending partner to any increased share of the partnership's profits.

17. Voting Based on Capital Interest. All partnership votes required under this Agreement shall be based upon a partner's capital interest. The capital interest of each partner shall be adjusted according to the rules contained in Paragraph 20, below. If a transferee of a partnership interest has not been admitted as a partner, such transferee shall not be entitled to vote and its interest shall not be counted in determining the total capital interest of the partnership.

18. Division Based on Initial Capital Contribution. The partnership's profits and losses shall be shared among the partners in the same proportions as their initial capital accounts bear to each other. No other additional share of profits or losses shall inure to any partner because of fluctuations in the partners' capital accounts.

19. Distributions to Partners.

a. Annual Distributions. Each year, the partnership shall distribute 45% of its taxable income. An amount greater than 45% may be distributed upon the approval of partners holding not less than a majority of the capital interest in the partnership.

b. Partners' Drawing Accounts. Each partner shall be entitled to draw against profits such amounts as shall from time to time be agreed on by a majority in interest of the partners. These amounts shall be charged to the partners' drawing accounts as they are drawn.

c. Excessive Withdrawals as Loans. Notwithstanding the provisions of this agreement governing drawing accounts of partners, to the extent that any partner's withdrawals under those provisions during any fiscal year of the partnership exceed that partner's distributive share of the partnership's profits, the excess shall be regarded as a loan by the partnership that the partner is obligated to repay within ninety (90) days after the end of that fiscal year, with interest on the unpaid balance at a rate of eight percent (8%) per annum from the end of that fiscal year to the date of repayment.

d. Overall Limit on Distributions. Notwithstanding anything in this agreement to the contrary, the aggregate amounts distributed to the partners from the partnership's profits shall not exceed the amount of cash available for distribution, taking into account the partnership's reasonable working capital needs as determined by a majority in capital interest of the partners.

20. Accounting.

a. Fiscal Year of Partnership. The fiscal year of the partnership shall be the calendar year.

b. Accounting Method. The partnership books shall be kept on the accrual basis.

c. Capital Accounts. An individual capital account shall be maintained for each partner, and the partner's initial capital contribution in cash or property shall be credited to that account. Capital accounts shall be maintained in accordance with Treasury Regulation section 1.704-1(b)(2)(iv). No additional share of profits or losses shall inure to any partner because of changes or fluctuations in the partner's capital account.

d. Increases in Capital Accounts. The capital account for each partner shall be credited with or increased by the following:

(1) The partner's initial capital contribution to the partnership;

(2) Any additional capital contributions made by the partner from time to time as authorized by this agreement;

(3) The partner's share under this agreement of the partnership's profits; and

(4) On the partnership's dissolution and in its winding up, the credits authorized by the provisions of this agreement that relate to adjustments of capital accounts in connection with liquidation.

e. Reductions of Capital Accounts. The capital account for each partner shall be debited with or reduced by the following:

(1) Distributions to the partner of cash or property, which property shall be valued for this purpose at its fair market value;

(2) The partner's share under this agreement of the partnership's losses and of any items then required under applicable tax laws, rules, and regulations to be debited to capital accounts of partners, to the extent and in the manner so required; and

(3) On the partnership's dissolution and in its winding up, the debits authorized by the provisions of this agreement that relate to adjustments of capital accounts in connection with liquidation.

f. Capital Account Adjustments on Liquidation. In connection with the actual liquidation of the properties of the partnership on its dissolution and winding up, the capital accounts shall be adjusted to reflect the following:

(1) The results of operations for the fiscal period then ended.

(2) The results of transactions in connection with the liquidation.

(3) Unrealized gain or loss on property of the partnership that is to be or has been transferred to creditors on account of their claims or distributed to partners on account of their interests in the partnership. The amount of such unrealized gain or loss shall be computed by comparing the fair market value of any such property to its adjusted basis for federal income tax purposes. Such unrealized gain or loss shall be allocated to the partners' capital accounts in the same manner as the gain or loss from the actual sale of such property would have been allocated.

(4) The distribution of cash or property to partners made on the liquidation.

(5) If there is a deficit in any partner's capital account after the capital accounts have been adjusted as provided in this agreement in connection with the liquidation of the properties of the partnership, that partner (the partner at that time and not any predecessor) shall contribute the amount of such deficit to the partnership before the end of the taxable year of the liquidation or by such earlier date as may be required to

complete the liquidation in accordance with a duly adopted plan of liquidation. Amounts thus contributed shall be distributed to or among the creditors and partners in accordance with the then applicable provisions for distribution of partnership property on dissolution, winding up, and liquidation.

g. Determination of Profit and Loss. The partnership's net profit or net loss for each fiscal year shall be determined as soon as practicable after the close of that fiscal year in accordance with the accounting principles employed in the preparation of the federal income tax return filed by the partnership for that year, but without any special provisions for tax exempt or partially tax exempt income.

h. Definitions of Profit and Loss. "Profit" and "loss" for all purposes of this agreement shall be determined in accordance with the accounting method followed by the partnership for federal income tax purposes and otherwise in accordance with generally accepted accounting principles and procedures applied in a consistent manner. However, the calculation of profit and loss shall take into account partnership income exempt from federal income tax and partnership expenses and costs not deductible or properly chargeable to capital for federal income tax purposes. Every item of income, gain, loss, deduction, credit, or tax preference entering into the computation of profit or loss shall be considered as allocated to each partner in the same proportion as profit is allocated to that partner for any year in which the partnership operates at a profit, and in the same proportion as loss is allocated to that partner for any year in which the partnership operates at a loss. Any increase or reduction in the amount of any item of income, gain, loss, or deduction attributable to an adjustment to the basis of partnership property made pursuant to a valid election under Section 754 of the Internal Revenue Code of 1986, as amended (or any successor statute corresponding to that Section), and pursuant to the corresponding provisions of applicable state and local income tax laws, shall be charged or credited, as the case may be, and any increase or reduction in the amount of any item of credit or tax preference attributable to any such adjustment shall be allocated, to the capital accounts of those partners entitled to them under such code or laws.

21. Partnership Books. Proper and complete books of account of the partnership business shall be kept at the partnership's principal place of business and shall be open to inspection by any of the partners or their authorized representatives at any reasonable time during business hours. The accounting records shall be maintained in accordance with generally accepted bookkeeping practices for this type of business.

22. Annual Report to Partners. Within ninety (90) days after the end of each fiscal year, the partnership shall furnish to each partner an annual report consisting of at least (1) a copy of the partnership's federal income tax returns for that fiscal year, (2) a supporting statement of income or loss, (3) a balance sheet showing the partnership's financial position as of the end of that fiscal year, and (4) any additional information that the partners may require for the preparation of their individual federal and state income tax returns.

23. Control of Business. Unless reserved to a full partnership vote, each partner shall participate in the control and management of the partnership through such partner's vote for representatives on a management committee.

24. Control by Management Committee. The partners shall nominate and elect a total of three (3) members of the Partnership's Management Committee. The members of the Management Committee shall serve until replaced. The Management Committee or any member thereof may be replaced by partnership vote. Each partner's vote shall be in proportion to the partner's interest in the partnership's capital. The Management Committee shall have control over the business of the partnership and assume direction of its business operations. The Management Committee shall consult and confer as far as practicable with the nonmanaging partners, but the power of decision shall be vested in the Management Committee. The Management Committee's duties shall include control over the partnership's books and records and hiring any independent public accountants it deems necessary for this purpose. Except as otherwise expressly provided in this agreement, all things to be done by the partnership shall be done under the Management Committee's control and supervision.

25. Acts Requiring More Than 80% Consent. The following acts may be done only with the consent of more than 80% in capital interest of the partners:

a. Amendment of this agreement;

b. Admission of any new partner; or

c. Sale by the partnership of any additional partnership interest.

26. Acts Requiring Majority Consent. The following acts may be done only with the consent of a majority in capital interest of the partners:

a. Borrowing money in the partnership's name, other than in the ordinary course of the partnership's business or to finance any part of the purchase price of the partnership's properties;

b. Transferring, hypothecating, compromising, or releasing any partnership claim in excess of $25,000 except on payment in full;

c. Selling, leasing, or hypothecating any partnership property or entering into any contract for any such purpose, other than in the ordinary course of the partnership's business and other than any hypothecation of partnership property to secure a debt resulting from any transaction permitted under Section 26a;

d. Knowingly suffering or causing anything to be done whereby partnership property may be seized or attached or taken in execution, or its ownership or possession otherwise endangered;

e. Commencement of any litigation;

f. Termination of or amending any farm management contract; or

g. Electing or replacing any member of the Management Committee.

h. The early liquidation and winding-up of the partnership.

27. Management Committee Handles Funds. All partnership funds shall be deposited into the partnership's name and shall be subject to withdrawal only on the signature of persons authorized by the Management Committee.

28. Outside Activities Freely Permitted. It is understood and agreed that each partner may engage in other enterprises, including enterprises in competition with the partnership, and that the partners need not offer business opportunities to the partnership but may take advantage of those opportunities for their own accounts or for the accounts of other partnerships or enterprises with which they are associated. Neither the partnership nor any other partner shall have any right to any income or profit derived by a partner from any enterprise or opportunity permitted under this Section.

29. Partners' Salaries. No partner shall be entitled to any salary.

30. Admitting New Partners. A new partner may be admitted to the partnership but only with the written approval of more than an 80% in capital interest of the partners. Each new partner shall be admitted only if the new partner shall have executed this agreement or an appropriate supplement to it in which the new partner agrees to be

bound by the terms and provisions of this agreement as they may be modified by that supplement. Admission of a new partner shall not cause dissolution of the partnership. Furthermore, the right to engage freely in competition with the partnership as provided in Section 28 hereof shall not apply to any new partner unless said written approval expressly provides that the new partner has such rights.

31. Interest of New Partner. A newly admitted partner's capital contribution and share of the partnership's profits and losses shall be set forth in the written consents of the partners consenting to the admission of the new partner.

32. Partnership Continues. The partnership shall not dissolve or terminate on any partner's dissolution, liquidation, death, permanent physical or mental disability, or retirement or voluntary withdrawal from the partnership if, within one hundred twenty (120) days after the partnership has received notice of the partner's dissolution, liquidation, death, permanent physical or mental disability or desire to withdraw, it elects to purchase that partner's interest. If the partnership so elects, it may purchase that interest and thereafter continue and it shall not wind up its affairs or liquidate because of the dissolution, liquidation, death, disability, retirement, or withdrawal. The vote of partners holding a majority in capital interest of the partnership (excluding the interest of the dissolved, liquidated, deceased, disabled, retired, or withdrawing partner) shall be sufficient to make the election to purchase. The price to be paid for the interest of the dissolved, liquidated, deceased, disabled, retired, or withdrawing partner shall be equal to the value of that interest as determined under this agreement.

33. Partner's Bankruptcy or Insolvency. A partner shall cease to be a partner and shall have no interest in common with the remaining partners or in partnership property when the partner does any of the following:

a. Obtains or becomes subject to an order for relief under the Bankruptcy Code;

b. Obtains or becomes subject to an order or decree of insolvency under state law;

c. Makes an assignment for the benefit of creditors;

d. Consents to or suffers the appointment of a receiver or trustee to any substantial part of the partner's assets that is not vacated within One Hundred Twenty (120) days;

e. Consents to or suffers an attachment or execution on any substantial part of the partner's assets that is not released within One Hundred Twenty (120) days; or

f. Consents to or suffers a charging order against the partner's interest in the partnership that is not released or satisfied within One Hundred Twenty (120) days.

From the date of that event, the former partner shall be considered a transferee pursuant to Sections 16502 and 16503 of the Corporations Code.

34. Limited Transferability. Except in the case of a transfer of the stock of Big 4 Ranch to shareholders of Citadel Holding Corporation, which transfer is hereby approved by the partnership and partners, a partner may transfer all or part of his or her interest in the partnership only as follows:

a. To the partnership or to any other partner;

b. To an entity, if, immediately after the transfer, the partner making the transfer owns (and thereafter continues to own) all of that entity's voting equity; or

c. In the case of Visalia, transfers to James J. Cotter, and/or any one or more members of his family, and /or to any entity controlled (and thereafter continues to be controlled) by any one or more such persons, and/or to any trust of which Mr. Cotter is the trustee or of which Mr. Cotter and/or any one or more members of his family are the principal beneficiaries.

d. To any person after the partner making the transfer has first offered the other partners their rights of first refusal in accordance with the provisions of this agreement dealing with those rights of first refusal.

No such transfer shall make the transferee a partner or entitle the transferee to any of the rights of a partner, other than the right to receive as much of the transferor's share of partnership distributions as is transferred to the transferee. Until the transferee is admitted to the partnership in substitution for the transferor under the provisions of this agreement for admitting new partners, such a transfer shall not terminate any of the transferor's obligations.

NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, IT SHALL BE IMPERMISSIBLE UNDER THIS PARTNERSHIP AGREEMENT TO TRANSFER ANY PARTNERSHIP INTEREST IF, AS A RESULT OF SUCH TRANSFER, THE TRANSFEREE (OR ANY OF ITS DIRECT OR INDIRECT BENEFICIAL OWNERS) WOULD HAVE BENEFICIAL OWNERSHIP OF MORE LAND THAN WOULD QUALIFY FOR FEDERAL WATER. AS A CONDITION TO ANY TRANSFER OF ANY PARTNERSHIP INTEREST, PRIOR TO THE EFFECTIVE DATE OF ANY SUCH TRANSFER, THE PROPOSED TRANSFEREE SHALL DELIVER TO THE PARTNERSHIP AND EACH PARTNER A CERTIFICATE INDEMNIFYING THE PARTNERSHIP AND EACH PARTNER BY BOTH THE TRANSFEREE AND TRANSFEROR AGAINST ANY LOSS IN THE EVENT FEDERAL WATER IS LIMITED TO THE PARTNERSHIP OR ANY PARTNER AS A RESULT OF SUCH TRANSFER. SUCH CERTIFICATE MUST BE IN A FORM ACCEPTABLE TO PARTNERS HOLDING MORE THAN 80% OF THE CAPITAL INTEREST OF THE PARTNERSHIP.

35. Right of First Refusal. Partners or parties that are non-admitted transferees (collectively "Holders") may transfer their interest in the partnership pursuant to this paragraph to a party not described in paragraph 34 pursuant to this paragraph and for cash or cash plus a purchase money note only. In cases where any Holder receives an offer, whether or not solicited by that Holder, from a person not then a partner to purchase all or any portion of the partner's interest in the partnership, and if the Holder receiving the offer is willing to accept it, and, in cases where there has been no solicitation of an offer but the Holder desires to sell all or a portion of its interest, the Holder may transfer the interest or portion specified in the offer only after he or she has afforded the partnership and the other partners the following rights of first refusal:

a. The Holder desiring to make the transfer must first notify the partnership itself and each of the other partners in writing of the interest or portion the partner proposes to transfer, the price and terms on which it is proposed to be transferred, the identity of any proposed transferee, a contact person of any proposed transferee and a recent audited financial statement of any proposed transferee.

b. The partnership, upon the vote of a majority in capital interest (excluding the Holder's interest), shall have the option to purchase that interest or portion from the partner at the same price and, subject to the option in Section 39, same terms as those specified in the notice of the proposed transfer. The Partnership also may elect to transfer said option to any party (including partners), provided (i) more than 80% in capital interest of the partners approves the transfer (whether the proposed transferee is a third party or an existing partner) and (ii) the transferee complies with the requirements of paragraph 30. The partnership's option to purchase the interest or portion or to transfer said option to another party shall be exercised by written notice from the partnership to the partner, given within six (6) months after receipt by the partnership of the Holder's notice of his or her desire to transfer.

c. If the partnership does not exercise its option to purchase the interest or portion within the time provided, then, within six (6) months after receipt by the partnership of the Holder's notice of the proposed transfer, any of the other partners desiring to purchase all or any part of that interest or portion may deliver to the Holder who proposed to make the transfer and to each of the other partners written notice of election to purchase all or a specified part of the interest or portion.

d. If the aggregate parts of the interest or portion specified in notices of election timely made by other partners equal or exceed the entire offered interest or portion, the Holder desiring to transfer his or her interest or portion shall sell, and the partners electing to purchase shall purchase, the interest or portion at a price equal to the same price and on the same terms as those specified in the notice of the proposed transfer; provided that, if the aggregate parts of the interest specified in the notices of election timely made exceed the entire interest or portion proposed to be transferred, each partner making this election shall purchase such part of the offered interest allocable in the same proportions as such partners' capital accounts bear to each other, excluding Holder's capital account.

e. If the partnership does not exercise or assign its option to purchase the interest within the time provided, and if the aggregate parts of the interest or portion specified in the notices of election timely made by partners are less than the entire interest or portion proposed to be transferred, all of these elections shall be ineffective, and the Holder proposing to make the transfer shall not be obligated to sell, nor shall any of the other partners electing to purchase be entitled or obligated to purchase, all or any part of the offered interest or portion. In cases where the Holder has received an offer, the Holder proposing to transfer an interest or portion may then, at any time within thirty (30) days following the expiration of the six (6) month period referred to in paragraph 35(c), transfer the specified interest or portion to the transferee specified in the notice on terms no more favorable to the purchaser than the terms stated in the notice and at no lower a price than the price stated in the notice. In cases where there has been no solicitation of an offer but the Holder desires to sell all or a portion of its interest, Holder shall have a period of 1 year following the expiration of the 6 month period referred to in paragraph 35(c) in which to attempt to market its interest. If Holder finds a buyer and the terms are less favorable than those offered to the partnership pursuant to paragraph 35(a), then the Holder must given notice of the actual terms to the partnership and the partnership and partners shall have the same rights described in paragraphs 35(b), (c) and (d) with respect to such revised terms of sale, provided, however, the time periods contained in paragraphs 35(b) and 35(c) shall be changed from 6 months to 30 days. If the partnership or partners elect to purchase Holder's interest or any portion thereof, it must give notice to the Holder within the 30 day period and may have 120 days (measured from the date of notice given by the holder) in which to close the acquisition.

f. Notwithstanding any other provision contained in this agreement, if a Holder or Holders representing a majority of the capital interests of this partnership elect to sell their partnership interests to a buyer or buyers in a single or related transaction, the buyer or buyers must agree that the remaining partners may elect to sell and the buyer or buyers must agree to purchase the partnership interest of the remaining partners at the same proportionate price and on the same terms as the Holder or Holders.

g. The provisions of this Section, and Section 34, will apply to indirect as well as to direct transfers. Accordingly, in the event of a transfer (whether as the result of one or of a group of related transactions) of a majority interest (either voting or in underlying equity ownership) in any holder which is not a publicly traded company or in any parent of such Holder (again other than a parent which is a publicly traded company), the transfer of such majority interest shall be deemed to be a transfer subject to this agreement. In such event, the partnership will have an assignable right to purchase the interest of such Holder, subject to the requirements of paragraph 35b, for the fair market value of such interest, as determined pursuant to Section 37 below, and, in the event that it does not elect to purchase such interest, to approve the admission or readmission of such Holder as a partner. In the case of a Holder which is a publicly traded company, or

which is a subsidiary of a publicly traded company, the election or appointment of individuals representing a majority of the directors of such company shall also be deemed to be a transfer subject to this agreement. In such event, the partnership will likewise have an assignable right to purchase the interests of such Holder, subject to the requirements of paragraph 35b, for its fair market value as determined pursuant to Section 37, below, and, in the event that it does not elect to purchase such interest, to approve the readmission of such holder as partner who shall be deemed a proposed "new partner" requiring compliance with paragraph 30.

h. In the case of a proposed transfer, the option of the partnership to purchase pursuant to paragraph 35(b) and the options of the other partners to purchase pursuant to paragraph 35(c) may be assigned by the owners of such options ("Option Owner") to one or more third parties or, if not so assigned, after execution of their respective options, such Option Owners may name one or more third party nominees to take title to the purchased partnership interests. Provided, however, the Option Owner shall remain secondarily liable after the assignee or nominee to the Holder (i.e., selling partner) for all amounts that remain unpaid for the purchased partnership interest, including without limitation, attorneys fees incurred for collection, after the Holder has exhausted his, her or its remedies of recovery against the assignee or nominee.

36. Tax Matters Partner. The partners shall nominate and elect a Tax Matters Partner. The Tax Matters Partner shall be a member of the Management Committee and shall remain the partnership's Tax Matters Partner until replaced. The Tax Matters Partner shall be elected or replaced by an approval of partners holding more than an 80% of the capital interests in the partnership.

37. Valuation of Interest. The value of a partner's interest in the partnership for purposes of this agreement shall be determined by appraisal as follows:

Within thirty (30) days after the event described in paragraph 35(g), the partnership and Holder either (1) shall jointly appoint an appraiser for this purpose, or (2) failing this joint action, shall each separately designate an appraiser and, within thirty (30) days after their appointment, the two designated appraisers shall jointly designate a third appraiser. The failure of either the partnership or the Holder whose interest is being appraised to appoint an appraiser within the time allowed shall be deemed equivalent to appointment of the appraiser appointed by the other party. No person shall be appointed or designated an appraiser unless that person is then a member of American Society of Farm Managers and Rural Appraisers.

If, within thirty (30) days after the appointment of all appraisers, a majority of the appraisers concur on the value of the interest being appraised, that appraisal shall be binding and conclusive. If a majority of the appraisers do not concur within that period, the determination of the appraiser whose appraisal is neither highest nor lowest shall be binding and conclusive. The partnership and the Holder whose interest is to be appraised, shall share the appraisal expenses equally.

A Holder's interest in the partnership so appraised shall be based on that Holder's proportional interest in the partnership's aggregate capital.

38. Standards of Appraisal. In arriving at a valuation figure, the appraisers shall use the going-concern concept, and observe the following bases for valuation, but not be limited to them in computing the partnership's value:

a. Inventory shall be valued at the lower of cost or fair market value.

b. Buildings and land shall be valued at fair market value.

c. Machinery and equipment shall be valued at replacement cost for replacements of similar age and condition.

d. In determining fair market value, the existence of a willing purchaser shall be assumed.

e. A valuation shall be placed on items of substantial value not carried on the partnership's books.

f. Investment securities owned by the partnership for which there is an established trading market shall be valued at the market price on the effective date of valuation. For this purpose, market price means (a) for securities listed on any national securities exchange or for which sales are reported on NASDAQ, the last reported sales price on that date (or, if no sales on that date are reported, on the next preceding day for which sales were reported), and (b) for other publicly traded securities, the mean between the highest bid and lowest asked prices reported for these securities on that date (or, if no such prices are reported on that date, on the next preceding day for which such prices were reported).

g. Investment securities owned by the partnership for which there is no established trading market shall be valued at the amounts at which they are carried on the partnership's books in accordance with generally accepted accounting principles, including the equity method under Opinion 18 of the Accounting Principles Board to the extent applicable.

h. Contingent items shall not be specifically deducted from the valuation figure, but they shall be considered in assessing the value of the partnership's goodwill.

i. Goodwill, including trademarks, trade names, and other intangibles of commercial value such as patents, shall be considered in arriving at a valuation figure.

j. Past, present, and prospective earnings, including the existing and prospective economic condition of the industry, shall be considered in arriving at a valuation figure.

k. Adjustments shall be made for the federal and state income tax effect on the differences between tax bases and the market values determined by the appraisers.

39. Payment of Purchase Price. Except as otherwise provided, whenever the partnership or its assignee of its option to purchase pursuant to paragraph 35(b) is obligated or, having the right to do so, chooses to purchase a partner's interest, it shall pay for that interest, at its option, in cash or by promissory note of the partnership, or partly in cash and partly by note. Any promissory note shall be dated as of the effective date of the purchase, shall mature in not more than four (4) years, shall be payable in installments that come due not less frequently than annually, shall bear interest at the rate of the lesser of: (1) the maximum amount allowed by California law, or (2) the prime rate, as published on the day the obligation to pay the purchase price originally arises, as published by the Wall Street Journal, and may, at the partnership's option, be subordinated to existing and future debts to banks and other institutional lenders for money borrowed.

40. Assumption of Outstanding Partnership Liabilities. Except as otherwise provided, the continuing partnership shall pay, as they mature, all partnership obligations and liabilities that exist on the effective date of a partner's termination and shall hold the terminating partner harmless from any action or claim arising or alleged to arise from those obligations or from liabilities accruing after that date.

41. Disposition of Insurance Policies. On the withdrawal or termination of any partner for any reason other than his or her death, any insurance policies on that partner's life for which the partnership paid the premiums shall be delivered to that partner in specie and become his or her sole and separate property. If the policy has a cash surrender value, that amount shall be paid to the partnership by the withdrawing or terminating partner, or offset

against the partnership's obligations to the withdrawing or terminating partner. An adjustment shall be made in the distributive share of the withdrawn or terminated partner's interest, reflecting the difference between the premium rates previously paid on the policies insuring the withdrawn or terminated partner's life and the premium rates previously paid on the policies insuring the continuing partners' lives.

42. Dissolution. On any dissolution of the partnership under this agreement or applicable law, except as otherwise provided in this agreement, the continuing operation of the partnership's business shall be confined to those activities reasonably necessary to wind up the partnership's affairs, discharge its obligations, and preserve and distribute its assets. Promptly on dissolution, a notice of dissolution shall be published under California Corporations Code Section 15035.5 or any equivalent successor statute then applicable.

43. Distributions on Liquidation. On the dissolution of the partnership, its business shall be wound up and its properties liquidated, and the net proceeds of the liquidation, together with any property to be distributed in kind, shall be distributed as follows:

a. First, to the payment of the partnership's debts and obligations that are then due, including any loans or advances that may have been made by any of the partners (such debts and obligations to creditors other than partners having priority over debts and obligations to partners) and the expenses of winding up and liquidation;

b. Secondly, to the establishment of any reserves that the partners may consider necessary, appropriate, or desirable for any future, contingent, or unforeseen liabilities, obligations, or debts of the partnership, which reserves may but need not be deposited with an independent escrow holder with instructions to disburse them in payment of those liabilities, obligations, and debts and, at the expiration of such period as the partners may have specified, to distribute the balance remaining as provided in this agreement; and

c. Thirdly, to the partners in proportion to the balances in their respective capital accounts after giving effect to the adjustments of capital accounts in connection with liquidation authorized by this agreement, but if all capital accounts then have zero balances such distributions to partners shall be made in proportion to the allocation of profit from the sale of partnership property applicable under this agreement as of the date of such distributions.

44. Miscellaneous Provisions.

a. Indemnification. Each partner shall indemnify and hold harmless the partnership and each of the other partners from any and all expense and liability resulting from or arising out of any negligence or misconduct on his or her part to the extent that the amount is not covered by the applicable insurance carried by the partnership.

b. Notices. All notices, requests, demands, and other communications required to or permitted to be given under this Agreement shall be in writing and shall be conclusively deemed to have been duly given (1) when hand delivered to the other party; or (2) when received when sent by facsimile to the address and number set forth below (provided, however, that notices given by facsimile shall not be effective unless either (a) a duplicate copy of such facsimile notice is promptly sent by depositing same in a United States post office with first-class postage prepaid and addressed to the parties as set forth below, or (b) the receiving party delivers a written confirmation of receipt for such notice either by facsimile or any other method permitted under this paragraph; additionally, any notice given by facsimile shall be deemed received on the next business day if such notice is received after 5:00 p.m. (recipient's time) or on a nonbusiness day); or (3) three business days after the same have been deposited in a United States post office with first class or certified mail return receipt requested postage prepaid and addressed to the parties

as set forth below; or (4) the next business day after same have been deposited with a national overnight delivery service, postage prepaid, addressed to the parties as set forth below with next-business-day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

To: Citadel Agriculture, Inc.
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. President

To: Visalia LLC
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. Managing Director

To: Big 4 Ranch, Inc.
550 So. Hope Street - Suite 1825
Los Angeles, CA 90071
Attn. President

Each party shall make an ordinary, good faith effort to ensure that it will accept or receive notices that are given in accordance with this paragraph and that any person to be given notice actually receives such notice. A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section by giving the other party written notice of the new address in the manner set forth above.

c. Counterparts. The parties may execute this agreement in two or more counterparts, which shall, in the aggregate, be signed by all the parties; each counterpart shall be deemed an original instrument as against any party who has signed it.

d. Governing Law. This agreement is executed in and intended to be performed in the State of California, and the laws of that state (other than as to choice of laws) shall govern its interpretation and effect.

e. Successors. This agreement shall be binding upon and inure to the benefit of the respective successors, assigns, and personal representatives of the parties, except to the extent of any contrary provision in this agreement.

f. Severability. If any term, provision, covenant, or condition of this agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the rest of the agreement shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

g. Further Action. Each partner shall execute and deliver such papers, documents, and instruments, and perform such acts as are necessary or appropriate, to implement the terms of the agreement and the intent of the parties to the agreement.

h. Waiver of Action for Partition. Each of the parties to the agreement irrevocably waives, during the term of the partnership, any right that it may have to maintain any action for partition with respect to the partnership properties.

i. Construction. In construing this agreement, no consideration shall be given to the fact or presumption that any party had a greater or lesser hand in the drafting of this agreement.

j. Gender. In construing this agreement, pronouns of any gender shall be deemed to include the other gender.

k. Nonrecourse Loans. If the partnership borrows monies on a nonrecourse basis, a creditor who makes such a loan to the partnership will not have or acquire at any time as a result of making the loan, any direct or indirect interest in the profits, capital, or property of the partnership other than as a secured creditor.

l. No Election. No election shall be made by the partnership or any partner, for the partnership to be excluded from the application of the provisions of Subchapter K of the Internal Revenue Code.

m. Incorporation by Reference. Every exhibit, schedule, and other appendix attached to and referred to in this agreement is incorporated in this agreement by reference.

n. Attorney Fees. If the services of an attorney are required by any party to secure the performance of this Agreement or otherwise upon the breach or default of another party to this Agreement, or if any judicial remedy or arbitration is necessary to enforce or interpret any provision of this Agreement or the rights and duties of any person in relation thereto, the prevailing party shall be entitled to reasonable attorney fees, costs and other expenses, in addition to any other relief to which such party may be entitled. Any award of damages following judicial remedy or arbitration as a result of the breach of this Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law.

o. Entire Agreement. This instrument contains the entire agreement of the parties relating to the rights granted and obligations assumed in this instrument. Any oral representations or modifications concerning this instrument shall be of no force or effect unless contained in a subsequent written modification signed by the party to be charged.

p. Investment Letter. Each partner hereby represents and warrants to, and covenants with the partnership and each of the other partners, that (1) the interest in the partnership being acquired by that partner is being acquired for the partner's own personal account and without a view to a sale or other transfer in connection with any distribution of that interest or any portion of it, and (2) the partner has no contract, undertaking, or arrangement with any person to sell or transfer to such person or to have any person sell for that partner all or any portion of the partner's interest in the partnership, or to afford or allow any participation in that interest by any other person. The foregoing warranties and covenants do not preclude the existence of such rights, if any, as a partner's spouse may have as to the partner's partnership interest under community property laws.

q. Counting Days. If a party is required to complete the performance of an obligation under this agreement by a date certain and such date is a Saturday, Sunday, or Federal bank holiday (collectively, a Nonbusiness Day), then the date for the completion of such performance will be the next succeeding day that is not a Nonbusiness Day.

r. Execution. IN WITNESS WHEREOF, the partners of CITADEL AGRICULTURAL PARTNERS NO. 3, a California General Partnership, have executed this agreement as of the 19th DAY OF December, 1997.

Signatures of Partners

CITADEL AGRICULTURE, INC., a California corporation

By: /s/ S. Craig Tompkins

S. Craig Tompkins
Title: President

VISALIA, LLC, a California limited liability company

By: /s/ James J. Cotter

James J. Cotter
Title: Managing Director

BIG 4 RANCH, INC., a Delaware corporation

By: /s/ Edward L. Kane

Edward L. Kane
Title: President

EXHIBIT "A"

Citadel Agricultural Partners No. 3,
a California General Partnership

The partnership's initial capital shall consist of cash to be contributed by the partners in the following amounts:

Name	Amount	Percentage
Citadel		40%
Big 4 Ranch		40%
Visalia		20%
Total		100%

Each partner's contribution shall be paid in full within fifteen (15) days after the execution of this Agreement.

CONTRIBUTIONS TO PARTNERSHIP OF PROPERTY

None

FARM MANAGEMENT AGREEMENT

This Farm Management Agreement is made and entered into this 26th day of DECEMBER, 1997, by and between CITADEL AGRICULTURAL PARTNERS NO. 1, a California general partnership, (hereinafter referred to as "Owner") and BIG 4 FARMING, LLC, a California limited liability company (hereinafter referred to as the "Manager").

RECITALS:

A. Owner owns 604.299 ACRES of agricultural property, together with related water delivery systems, irrigation equipment and apparatus, and other improvements (collectively, the "Land"). The Land is located in Kern County, California and is described in Exhibit "A," and

B. The Manager is in the business of managing and conducting orchard operations of the kind desired by Owner in connection with the Land, and

C. The parties hereto desire to enter into an agreement to engage the Manager to render services in accordance with the herein stated requirements of Owner;

NOW, THEREFORE, in order to carry out their mutual intent as expressed above, and in consideration of the mutual agreement hereinafter contained and other good and valuable consideration, Owner and Manager hereby covenant and agree as follows:

1. Services of Manager. Manager shall, within the limits of the budgets and plans approved by Owner as provided in Paragraph 5 hereof, in the exercise of Manager's best judgment employing the customary standards of husbandry in the area, as are applicable to crops grown on the Land, undertake on behalf of Owner, full and complete management, supervision and control of the development and operation of the Land so as to achieve and maintain commercially reasonable economic production therefrom. Manager's specific duties shall include, without limitation, the obligation to:

a. Devote such time and attention to the management and operation of the Land as Manager reasonably determines to be necessary and desirable for efficient planting, cultivating, growing and harvesting practices in accordance with the standards set forth above.

b. Devote such time and attention as is necessary for the operation, repair and maintenance of the capital improvements located on the Land (the "Improvements"), including but not limited to the well pumps and motors, and irrigation systems and apparatus.

c. Prepare and submit to Owner operating budget and development plans in accordance with the requirements of Paragraph 5 hereof.

d. Carry out and supervise the execution of such budgets and plans and any supplemental budgets and plans approved by Owner.

e. Hire employees and such labor as may be necessary or appropriate to carry out the purposes of this Agreement. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner. In this regard, Manager agrees to use commercially reasonable efforts to have in its employ at all times a sufficient number of capable, competent and adequately trained employees to enable it to properly, adequately, safely and economically manage, operate and maintain the Land. All matters pertaining to the employment of such employees are and shall continue to be the sole concern and responsibility of the Manager, who is in all respects the employer of such employees and who agrees to comply with all applicable laws and regulations having to do with immigration and naturalization matters, workmen's compensation, social security, unemployment insurance, hours of labor, wages, OSHA rules

and regulations, working conditions, citizenship status, and like subjects affecting employers as such. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner. Under no circumstances shall any labor or employees hired by Manager be considered or deemed to be employees of Owner. This Agreement is not one of agency, except as herein provided, but one in which the Manager is engaged independently in the business of managing and operating the Land subject to the limits herein provided, and all employment arrangements are therefore solely its concern.

f. Purchase and supply such materials and supplies for the account of Owner as may be reasonably necessary or appropriate to carry out the purpose of this Agreement, subject to the Approved Budget and Owner' direction. To the extent they are not reflected in the purchase price paid for any such materials and supplies, all discounts and rebates resulting from any such purchases shall be shown as a reduction in the actual costs of operation and management of the Land. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner.

g. Use commercially reasonable efforts to secure qualified persons, contractors, or firms to perform any of the work or services required of Manager, provided however, that all persons, contractors or firms so secured shall be employees of Manager or independent contractors to Manager and not the employees of Owner or independent contractors to Owner. The cost thereof, subject to Paragraph 6 of this Agreement shall be reimbursed to Manager by Owner.

h. Except as the authority of Manager may be limited by this Agreement or by the written instructions of Owner which may be given from time to time, represent Owner as independent contract farm manager in all business transactions relating to the farming, operation and maintenance of the Land and administer the business of the Land.

i. Pay directly to Owner, at the address set out in Paragraph 18, all monies accruing to Owner from the Land and the operations thereon or with respect thereto.

j. Keep full and adequate books of account, tax records and other records relative to labor and payroll activities, in accordance with the requirements of Paragraph 3.

k. Notwithstanding the provisions of Paragraph 5 of this Agreement, take such action as may be reasonably necessary in an emergency or in other circumstances that do not permit delay to remedy the same and to protect the assets of Owner from damage or loss, provided that in each instance of action taken pursuant to this subparagraph (k), prompt notice of such action taken shall be given to Owner with respect to such emergency or other circumstances, and the cost of such action shall not exceed $5,000.

l. Obtain, at Owner's expense, such insurance as Owner may reasonably request, from time to time.

m. Open a bank account (the "Farm Account") as to which the Owner will be the beneficial owner. Manager is authorized to receive funds on behalf of Owner and shall retain such amounts as are reasonably required to pay for all costs eligible for reimbursement pursuant to Paragraph 6 of this Agreement. Any excess amounts shall be promptly remitted to Owner.

n. Review and, as appropriate, timely pay from the Farm Account vendor invoices and bills.

o. Prepare from time to time such additional reports as Owner may reasonably request.

p. Notwithstanding the above, Manager may sub-contract with Cecilia Packing or any other related entity to perform the duties contained herein, provided, however, such sub-contracting shall not relieve Manager of its obligations under this Agreement.

2. Limitations on Authority of Manager. Manager's authority hereunder shall be limited to carrying out the objectives of this Agreement and the plans and budgets approved by Owner and to do all things reasonably

necessary to carry out such objectives; provided, however, that Manager shall have no power to lease, sell convey, or encumber the Land or any part thereof or any Improvements, or take any action which is contrary to the specific directions or written instructions given to the Manager by Owner, which directions will be consistent with the objectives of this Agreement. Manager may not remove Improvements from the Land except to obtain repairs or for storage, without the written consent of Owner. For purposes of this Agreement, Owner shall appoint in writing a designated representative for purposes of communicating with Manager. Manager may rely upon the instructions of such representative and disregard the instructions of any other person purporting to speak on behalf of Owner.

3. Accounts and Information. Manager shall keep and maintain complete, legible, reproducible, accurate records of its operations on and management of the Land, including without limitation, accounting records maintained in accordance with generally accepted accounting principles as applied to the agricultural industry (subject to the written instruction of Owner to follow other procedures), sufficient records to enable Owner to comply with all applicable requirements of taxing authorities, records required by the Fair Labor Standards Act or any law applicable to farm labor employers or housing providers and employers in general, including without limit, requirements of the Occupational Health and Safety Act and the Immigration Reform and Control Act of 1986 and all records required by federal, state or local statute or ordinance pertaining to the use, storage, mixing, application, handling, transportation or disposal of motor fuels or lubricants, agricultural chemicals, fertilizers, herbicides, pesticides or other toxic or hazardous materials.

Owner shall have the right at anytime during the term hereof to review and copy any or all of the records information maintained, created or retained by Manager under this Paragraph 3 upon three (3) business day's notice, with any inspection to be performed during normal business hours and at the sole cost and expense of Owner. At the conclusion of the term hereof, Manager shall provide Owner with copies of all such records or otherwise assure Owner to its satisfaction that such records and information will be maintained and available to Owner for any period of time required by Law.

4. Title to and Disposition of Products. Any crops grown on the Land and any products or by-products derived therefrom shall remain the sole property of Owner. Manager may not enter into contracts for the sale of such products, unless such contracts are approved in advance in writing by Owner.

5. Budget and Development Plan. On or about October 1st of each year during the term of this Agreement, Manger shall prepare and submit to Owner for its approval for the next succeeding crop year (i) a budget for the operation and management of the Land, (ii) a capital improvement plan setting forth proposed improvements, if any, to be made to the Land, (iii) a cropping plan for the Land, (iv) a statement of funding requirements to carry out the budget and any development plan including a monthly breakdown of funding needs for such purposes for the applicable crop year (collectively hereinafter referred to as a "Proposed Budget"), and (v) a statement (Schedule D) that supports the annual budget and development plan regarding; labor categories and applicable hourly and or monthly rates, all calculations detailing labor benefits and payroll burdens, and all farming equipment charges either per hour or per acre. From time to time throughout the crop year, Manager may be requested to prepare and submit to Owner an update to the Approved Budget then in effect to reflect the actual costs of operation and management during that part of the year that has expired.

The term crop year for the purposes of this Agreement shall commence November 1st, and terminate October 31st in any given year.

Each proposed Budget shall be prepared in a satisfactory manner, shall employ the Budget Categories attached hereto as Exhibit "B," and shall set forth on a monthly basis, Manager's best judgment of operational and developmental costs and expenses to be incurred by Manager in the operation and management of the Land during the crop year for which such Proposed Budget is submitted. Owner shall have 30 days from date of receipt to either approve or revise such Proposed budget. Such Approved Proposed Budget shall govern the management and operation of the Land by Manager for the crop year and shall be referred to collectively as the "Approved Budget." The Approved Budget shall not be modified or changed except by prior written approval of Owner.

Manager shall use commercially reasonable efforts to operate and manage the Land within the scope of the Approved Budget and to timely pay vendor bills and invoices from the Farm Account in accordance with the Approved Budget; however, Owner and Manager recognize that the actual costs of operation and management of the Land may vary from those set forth in an Approved Budget and agree that the Manager may, without prior written approval of Owner, exceed any single Budget Category as shown in the Approved Budget by an amount not to exceed 10% (ten percent) of such Budget Category or $5,000.00 (five thousand dollars and 00/100 cents) whichever is less, so long as the Approved Budget is not exceeded in the aggregate by more than five percent (5%) after taking into account all previous single Budget Category changes.

Manager shall not incur for Owner's account, nor shall Manager make any disbursement from the Farm Account or be reimbursed for (1) any cost incurred for any single line item that exceeds the amount shown in the Approved Budget for such Budget Category by 10% (ten percent) thereof or $5,000.00, (five thousand dollars and 00/100 cents) whichever is less or (2) any cost incurred which, when aggregated with all previous single Budget Category changes, exceeds five percent (5%) of the Approved Budget, in either case unless:

a. The prior written approval of Owner is obtained before such cost is incurred; or,

b. The following conditions shall have been satisfied with respect to such excess:

(1) Manager shall have notified Owner in writing of such anticipated excess cost and either (a) Manager mailing of such notice in the manner provided in Paragraph 18 hereof; or (b) Manager shall have received the written approval of the incurring of such anticipated excess costs from Owner; or

(2) Manager shall have notified Owner orally or in writing of the existence of an emergency situation which requires that an excess cost be incurred and either (a) shall not have received an oral or written objection to the occurrence thereof from Owner within 24 hours after the transmission of such notice; or (b) shall have received oral or written approval of the incurring thereof. In the case of any oral communications made pursuant to this paragraph, the party initiating the communication shall promptly follow such communication with written confirmation thereof.

The Budget Categories shown m the Approved Budget for any given crop year, prior to any updating to reflect actual costs of operation and management, shall be used for purposes of determining whether Manager has exceeded the budget overrun limitations contained in this Paragraph 5.

6. Reimbursement of Manager. Manager shall submit to Owner quarterly (i) a statement of fees due Manager and of all costs, expenses and payments, if any, incurred or made by Manager, in farming the Land pursuant to this Agreement ("Statement of Expenses"), (ii) a reconciliation with supporting evidence and detail of all money received and paid from the Farm Account established to fund operations for the Land, and (iii) any other evidence, including paid invoices, receipts and the like, reasonably required by Owner to verify the costs, expenses and payments for which Manager seeks reimbursement. The quarterly reconciliation and supporting evidence shall be prepared and sent to Owner so as to coincide with specified dates in Owner' normal accounting cycle in order that Owner may review the reconciliation in a timely manner.

Within thirty (30) days of receipt of a Statement of Expenses, Owner shall reimburse Manager all amounts set forth in such statement incurred in accordance with this Agreement which have not been previously reimbursed or paid directly by Manager through the Farm Account or by Owner. Under no circumstances shall Owner be obligated to reimburse Manager for any costs, fees, expenses or payments not incurred or made pursuant to this Agreement. Owner shall deliver written notice to Manager of any items set forth in the Statement of Expenses which Owner objects to and, upon receipt of such notice, Manager shall furnish Owner with such additional information concerning the disputed items(s) as may be reasonably necessary to determine whether such item(s) is reimbursable under the terms of this Agreement. If, after review of such information, Owner believes that such

item(s) is not reimbursable under this Agreement, such claim shall be submitted to arbitration pursuant to this Agreement. Notwithstanding the foregoing, if any disputed amount is an amount payable to a third party due to services rendered or materials supplied for the benefit of the Land, such amounts shall be considered reimbursable and Owner may pursue an arbitration claim against Manager for reimbursement of the expense if disputed by Owner.

7. Financing. Owner shall be solely responsible for obtaining all financing and furnishing to Manager all funds necessary for Manager to operate and maintain the orchard and to perform its obligations hereunder as provided in the Approved Budget. Manager shall have no obligation to advance or expend any funds or incur any obligations for its account in connection with the operation or maintenance of the orchard or the performance of its obligation hereunder except as expressly provided herein.

8. Care and Management Fee. Owner shall pay Manager a Care and Management Fee for Manager's Services rendered hereunder (the "Care and Management Fee") in the amount of 5% of the gross receipts of sale of citrus after deduction for picking, packing and hauling.

9. Harvesting and Marketing the Crop. Manager shall be responsible for marketing the citrus crop produced on the Land in consultation with the Owner. Manager shall oversee and manage the harvest of the crop.

10. Liability of and Indemnification by Manager. Manager shall perform its obligations with diligence, good faith and consistent with customary agricultural and farming practices employed in the general geographical vicinity of the Land. However, it is understood by Owner that the result of agricultural operations cannot be predicted with certainty. Manager shall not be liable for any loss of, or damage to the real or personal property, including permanent and other growing crops an the Land, resulting from acts of God or other hazards of farming, including without limitation, rain, hail, frost, flooding, wind storms, disease, insects and theft of materials and supplies, or other causes except to the extent that such loss or damage is caused by Manager's negligence or willful misconduct.

Manager agrees to indemnify, defend and hold Owner, their officers, agents and employees and the Land free and harmless from any and all suits, actions, causes of action, claims, losses, expense, liability and damages, including reasonable attorneys' fees and disbursements, arising from Manager's breach of this Agreement and from the negligent acts or omissions of the Manager or any of its agents or employees, but only to the extent of Manager's liability insurance coverage and its net assets. Owner hereby waives any claim to consequential or punitive damages.

11. Chemical and Other Substances. No fertilizer, herbicide, pesticide, poison, chemical, or other foreign substance except those approved by the United States Department of Agriculture and by the California Department of Food and Agriculture and any other relevant governmental agency or authority, shall be applied by the Manager or any employee or agent or person acting on its behalf to the Land or crops growing thereon or brought onto or stored on the Land. The use of any such approved substance by the Manager shall be in conformity with the manufacturer's instructions and all governmental restrictions respecting the manner and timing of application thereof. No experimental fertilizer, chemical, pesticide or herbicide shall be applied to the Land or to the crops growing thereon except with Owner' prior written consent. Manager shall maintain records in accordance with sound business practices and all pertinent governmental regulations respecting the time, place, quality, quantity, kind, and method of application of all such substances as may be utilized by the Manager, and shall furnish to Owner, upon request, true and correct copies thereof. All such pesticides, fertilizers, herbicides or other toxic or hazardous materials and containers in which they are shipped, stored or mixed shall be used, stored, handled and disposed in strict compliance with all applicable statutes and governmental regulations. Manager hereby expressly indemnifies and holds Owner and the Land, harmless from and against all loss, cost, damage, claims, expense or liability, including reasonable attorneys' fees and disbursements, arising from or related to its or any of its employees' or agents' use, handling, mixing, storing or disposing of any such materials except as permitted in this paragraph. Owner shall have the right to inspect the Land from time to time to ensure Manager's compliance with this paragraph. Owner hereby waives any claim to consequential or punitive damages.

12. Labor Matters. Manager hereby represents to Owner that it is not a party to a labor union contract or collective bargaining agreement, nor will it seek to become a party to any such agreement during the term of this Agreement which in any manner binds Owner as a party or successor or obligates Owner or any subsequent owner of the Land to bargain with any union or labor organization as a successor in interest to Manager. Manager will indemnify and hold Owner and the Land harmless from and against any and all loss, cost, damage, claim, liability or expense that it may incur as a result of Manager's breach of this Paragraph 12. This section is not intended to cause Manager to refuse to bargain in good faith in accordance with law, nor will its provisions result in liability against Manager for actions by its employees beyond its control.

13. Relationship of Parties. Nothing contained in this Agreement, nor any act of the parties, shall be deemed or construed by the parties or by any third person to create a partnership, a joint venture or any other relationship between Owner and Manager other than the relationship of independent contractor. This Agreement is not one of agency, except as herein expressly provided, but solely one in which the Manager is hired as an independent contractor engaged independently in the business of managing and operating the Land on its own behalf.

14. The Owner's Right of Entry. Owner and persons designated by it, shall have the right to enter upon the Land at any time.

15. No Restrictions. Nothing contained in this Agreement shall be construed so as to prohibit either party or any firm or corporation in any way affiliated with either of them from owning, operating, or investing in any agricultural, ranching, farming or any other type of real estate development either in the state where the Land is located or elsewhere, provided such activities do not interfere with the affected party's ability to properly perform its obligations under this Agreement.

16. Term. The term of this Agreement shall be for 2 years, commencing on the first day of November, 1997 and, unless otherwise terminated pursuant to Paragraphs 17 and 18, shall renew for additional one year terms on November 1, 1999, and each November 1 thereafter.

17. Termination.

a. In the event either party shall be in default in the performance of such party's obligations under this Agreement and such default is not cured within 5 days after written notice thereof by the other party, then this Agreement shall terminate, provided, however, if such default by its nature cannot be cured completely within such 5 day period, this Agreement shall not terminate provided the defaulting party, within said 5 day period, commenced and proceeds with diligence and in good faith to remedy such default. Owner's obligation to reimburse Manager for Reimbursable Expenses incurred prior to termination and to pay the Management Fee to the extent attributed to the period prior to termination, and Manager's obligations to defend and indemnify as provided in Paragraph 10 and 11 as to events, acts or omissions taking place prior to the termination, shall survive the termination of this Agreement.

b. Owner or Manager may terminate this Agreement without cause, effective on October 31 of the year in which the termination is to occur, by giving the other party written notice of termination at least 1 year prior to the proposed termination date.

18. Termination in Event of Sale. In the event all or a portion of the Land is sold, Owner may terminate this Agreement as to all or the portion sold upon thirty (30) days notice to Manager. If only a portion of the Land is sold resulting in termination of this Agreement as to the portion sold then Reimbursable Expenses, charges and fees as provided in Paragraph 6 of this Agreement and any other expenses, charges and fees payable to Manger and based upon per acre and/or per month rates under this Agreement shall be reduced by the appropriate amounts and the Care and Management Fee shall be adjusted on a pro-rata basis based upon the estimated Care and Management fee.

19. Cure Period. Owner shall give Manager written notice of any breaches of this Agreement. Manager shall have a commercially reasonable time to cure any breach, taking any consideration the condition of the crop and weather conditions.

20. Arbitration. Owner and Manager shall submit any dispute concerning the interpretation of or the enforcement of rights and duties under this Agreement to final and binding arbitration pursuant to the rules of the American Arbitration Association. Owner and Manager agree that discovery may be conducted pursuant to Section 1283.05 of the California Code of Civil Procedure.

21. Notice. All statements, notices, demands, requests and payments form one party to another shall, unless otherwise specified herein, be delivered personally or sent by mail, postage prepaid, to the addresses stated below:

OWNER: Citadel Agricultural Partners No. 1
550 Hope Street - Suite 1825
Los Angles, CA 90071
Attn. Mr. S. Craig Tompkins

MANAGER: Big 4 Farming LLC
550 Hope Street - Suite 1825
Los Angles, CA 90071
Attn. Mr. S. Craig Tompkins

or such other addresses as the parties may hereafter designate to each other in writing.

22. Choice of Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California within which the Land is located.

23. Interpretation. The parties agree that each has reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any revisions or amendments hereto.

24. Captions. In this Agreement, captions of the sections and paragraphs are for convenience and reference only, and the words contained therein shall in no way be held to explain, modify, amplify or aid in interpretations, construction or meaning of the provisions hereof.

25. Assignment The rights and obligations of the other party under this Agreement shall not be assigned without the prior written consent of the other party.

26. Counting Days. If a party is required to complete the performance of an obligation under this Agreement by a date certain and such date is a Saturday, Sunday, or Federal bank holiday (collectively, a Nonbusiness Day), then the date for the completion of such performance will be the next succeeding day that is not a Nonbusiness Day.

27. Counterparts. This Agreement may be executed in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

28. Operation in Accordance with the Law. Manager shall, at all times, use commercially reasonable efforts to apprise itself of all Federal, State and other governmental laws and regulations applicable to its operations hereunder, including, without limitation, all applicable requirements of the Immigration Reform and Control Act of 1986, the Fair Labor Standards Act, as amended, and all regulations and orders of the United States Department of Labor issued thereunder, and all other governmental agencies or departments with jurisdiction over Manager, the Land or the operation thereof, and all laws, ordinances and regulations relating to the use, storage, mixing, handling, disposal or application of all insecticides, herbicides, pesticides or other hazardous or toxic materials on or about the Land and any containers in which they are shipped, handled, mixed or stored and after having been so apprised, to use commercially reasonable efforts to comply with all applicable Federal, State and governmental laws and regulations. Manager shall maintain workmen's compensation insurance, insuring its employees engaged on the land with a company legally authorized to write such insurance in the state in which the Land is located, and the Manager shall furnish Owner upon demand with a certificate of said insurance.

29. Amendment. This Agreement shall not be amended, modified or changed except in writing and signed by the parties hereto.

30. Attorneys' Fees. In the event a legal proceeding is instituted to enforce any provision hereof or rights granted hereby, including the recovery of damage or enforcement of the right of indemnification, the party prevailing in such action may recover its costs thus incurred, including reasonable legal fees.

IN WITNESS WHEREOF, the parties hereto have executed this Farm Management Agreement, as of the day and year first above written.

"Owner

Citadel Agricultural Partners No. 1
a California general partnership
By Citadel Agricultural, Inc.
a California corporation and General Partner

By: /s/ S. Craig Tompkins
S. Craig Tompkins
Title: President

"Manager
"
Big 4 Farming, LLC
a California limited liability company

By: /s/ S. Craig Tompkins
S. Craig Tompkins
Title: President

EXHIBIT"B"
BUDGET CATEGORIES

Care and Management Fees

Soil Amendments

Pest and Disease Control

Growth Regulators

Pruning

Tree Removal and Replanting

Water and Power

Repairs and Maintenance

Frost Protection

Miscellaneous

Capital Expenditures

FARM MANAGEMENT AGREEMENT

This Farm Management Agreement is made and entered into this 26th day of DECEMBER, 1997, by and between CITADEL AGRICULTURAL PARTNERS NO. 2, a California general partnership, (hereinafter referred to as "Owner") and BIG 4 FARMING, LLC, a California limited liability company (hereinafter referred to as the "Manager").

RECITALS:

A. Owner owns 590 ACRES of agricultural property, together with related water delivery systems, irrigation equipment and apparatus, and other improvements (collectively, the "Land"). The Land is located in Kern County, California and is described in Exhibit "A," and

B. The Manager is in the business of managing and conducting orchard operations of the kind desired by Owner in connection with the Land, and

C. The parties hereto desire to enter into an agreement to engage the Manager to render services in accordance with the herein stated requirements of' Owner;

NOW, THEREFORE, in order to carry out their mutual intent as expressed above, and in consideration of the mutual agreement hereinafter contained and other good and valuable consideration, Owner and Manager hereby covenant and agree as follows:

1. Services of Manager. Manager shall, within the limits of the budgets and plans approved by Owner as provided in Paragraph 5 hereof, in the exercise of Manager's best judgment employing the customary standards of husbandry in the area, as are applicable to crops grown on the Land, undertake on behalf of Owner, full and complete management, supervision and control of the development and operation of the Land so as to achieve and maintain commercially reasonable economic production therefrom. Manager's specific duties shall include, without limitation, the obligation to:

a. Devote such time and attention to the management and operation of the Land as Manager reasonably determines to be necessary and desirable for efficient planting, cultivating, growing and harvesting practices in accordance with the standards set forth above.

b. Devote such time and attention as is necessary for the operation, repair and maintenance of the capital improvements located on the Land (the "Improvements"), including but not limited to the well pumps and motors, and irrigation systems and apparatus.

c. Prepare and submit to Owner operating budget and development plans in accordance with the requirements of Paragraph 5 hereof.

d. Carry out and supervise the execution of such budgets and plans and any supplemental budgets and plans approved by Owner.

e. Hire employees and such labor as may be necessary or appropriate to carry out the purposes of this Agreement. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner. In this regard, Manager agrees to use commercially reasonable efforts to have in its employ at all times a sufficient number of capable, competent and adequately trained employees to enable it to properly, adequately, safely and economically manage, operate and maintain the Land. All matters pertaining to the employment of such employees are and shall continue to be the sole concern and responsibility of the Manager, who is in all respects the employer of such employees and who agrees to comply with all applicable laws and regulations having to do with immigration and naturalization matters, workmen's compensation, social security, unemployment insurance, hours of labor, wages, OSHA rules

and regulations, working conditions, citizenship status, and like subjects affecting employers as such. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner. Under no circumstances shall any labor or employees hired by Manager be considered or deemed to be employees of Owner. This Agreement is not one of agency, except as herein provided, but one in which the Manager is engaged independently in the business of managing and operating the Land subject to the limits herein provided, and all employment arrangements are therefore solely its concern.

f. Purchase and supply such materials and supplies for the account of Owner as may be reasonably necessary or appropriate to carry out the purpose of this Agreement, subject to the Approved Budget and Owner' direction. To the extent they are not reflected in the purchase price paid for any such materials and supplies, all discounts and rebates resulting from any such purchases shall be shown as a reduction in the actual costs of operation and management of the Land. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner.

g. Use commercially reasonable efforts to secure qualified persons, contractors, or firms to perform any of the work or services required of Manager, provided however, that all persons, contractors or firms so secured shall be employees of Manager or independent contractors to Manager and not the employees of Owner or independent contractors to Owner. The cost thereof, subject to Paragraph 6 of this Agreement shall be reimbursed to Manager by Owner.

h. Except as the authority of Manager may be limited by this Agreement or by the written instructions of Owner which may be given from time to time, represent Owner as independent contract farm manager in all business transactions relating to the farming, operation and maintenance of the Land and administer the business of the Land.

i. Pay directly to Owner, at the address set out in Paragraph 18, all monies accruing to Owner from the Land and the operations thereon or with respect thereto.

j. Keep full and adequate books of account, tax records and other records relative to labor and payroll activities, in accordance with the requirements of Paragraph 3.

k. Notwithstanding the provisions of Paragraph 5 of this Agreement, take such action as may be reasonably necessary in an emergency or in other circumstances that do not permit delay to remedy the same and to protect the assets of Owner from damage or loss, provided that in each instance of action taken pursuant to this subparagraph (k), prompt notice of such action taken shall be given to Owner with respect to such emergency or other circumstances, and the cost of such action shall not exceed $5,000.

l. Obtain, at Owner's expense, such insurance as Owner may reasonably request, from time to time.

m. Open a bank account (the "Farm Account") as to which the Owner will be the beneficial owner. Manager is authorized to receive funds on behalf of Owner and shall retain such amounts as are reasonably required to pay for all costs eligible for reimbursement pursuant to Paragraph 6 of this Agreement. Any excess amounts shall be promptly remitted to Owner.

n. Review and, as appropriate, timely pay from the Farm Account vendor invoices and bills.

o. Prepare from time to time such additional reports as Owner may reasonably request.

p. Notwithstanding the above, Manager may sub-contract with Cecilia Packing or any other related entity to perform the duties contained herein, provided, however, such sub-contracting shall not relieve Manager of its obligations under this Agreement.

2. Limitations on Authority of Manager. Manager's authority hereunder shall be limited to carrying out the objectives of this Agreement and the plans and budgets approved by Owner and to do all things reasonably

necessary to carry out such objectives; provided, however, that Manager shall have no power to lease, sell convey, or encumber the Land or any part thereof or any Improvements, or take any action which is contrary to the specific directions or written instructions given to the Manager by Owner, which directions will be consistent with the objectives of this Agreement. Manager may not remove Improvements from the Land except to obtain repairs or for storage, without the written consent of Owner. For purposes of this Agreement, Owner shall appoint in writing a designated representative for purposes of communicating with Manager. Manager may rely upon the instructions of such representative and disregard the instructions of any other person purporting to speak on behalf of Owner.

3. Accounts and Information. Manager shall keep and maintain complete, legible, reproducible, accurate records of its operations on and management of the Land, including without limitation, accounting records maintained in accordance with generally accepted accounting principles as applied to the agricultural industry (subject to the written instruction of Owner to follow other procedures), sufficient records to enable Owner to comply with all applicable requirements of taxing authorities, records required by the Fair Labor Standards Act or any law applicable to farm labor employers or housing providers and employers in general, including without limit, requirements of the Occupational Health and Safety Act and the Immigration Reform and Control Act of 1986 and all records required by federal, state or local statute or ordinance pertaining to the use, storage, mixing, application, handling, transportation or disposal of motor fuels or lubricants, agricultural chemicals, fertilizers, herbicides, pesticides or other toxic or hazardous materials.

Owner shall have the right at anytime during the term hereof to review and copy any or all of the records information maintained, created or retained by Manager under this Paragraph 3 upon three (3) business day's notice, with any inspection to be performed during normal business hours and at the sole cost and expense of Owner. At the conclusion of the term hereof, Manager shall provide Owner with copies of all such records or otherwise assure Owner to its satisfaction that such records and information will be maintained and available to Owner for any period of time required by Law.

4. Title to and Disposition of Products. Any crops grown on the Land and any products or by-products derived therefrom shall remain the sole property of Owner. Manager may not enter into contracts for the sale of such products, unless such contracts are approved in advance in writing by Owner.

5. Budget and Development Plan. On or about October 1st of each year during the term of this Agreement, Manger shall prepare and submit to Owner for its approval for the next succeeding crop year (i) a budget for the operation and management of the Land, (ii) a capital improvement plan setting forth proposed improvements, if any, to be made to the Land, (iii) a cropping plan for the Land, (iv) a statement of funding requirements to carry out the budget and any development plan including a monthly breakdown of funding needs for such purposes for the applicable crop year (collectively hereinafter referred to as a "Proposed Budget"), and (v) a statement (Schedule D) that supports the annual budget and development plan regarding; labor categories and applicable hourly and or monthly rates, all calculations detailing labor benefits and payroll burdens, and all farming equipment charges either per hour or per acre. From time to time throughout the crop year, Manager may be requested to prepare and submit to Owner an update to the Approved Budget then in effect to reflect the actual costs of operation and management during that part of the year that has expired.

The term crop year for the purposes of this Agreement shall commence November 1st, and terminate October 31st in any given year.

Each proposed Budget shall be prepared in a satisfactory manner, shall employ the Budget Categories attached hereto as Exhibit "B," and shall set forth on a monthly basis, Manager's best judgment of operational and developmental costs and expenses to be incurred by Manager in the operation and management of the Land during the crop year for which such Proposed Budget is submitted. Owner shall have 30 days from date of receipt to either approve or revise such Proposed budget. Such Approved Proposed Budget shall govern the management and operation of the Land by Manager for the crop year and shall be referred to collectively as the "Approved Budget." The Approved Budget shall not be modified or changed except by prior written approval of Owner.

Manager shall use commercially reasonable efforts to operate and manage the Land within the scope of the Approved Budget and to timely pay vendor bills and invoices from the Farm Account in accordance with the Approved Budget; however, Owner and Manager recognize that the actual costs of operation and management of the Land may vary from those set forth in an Approved Budget and agree that the Manager may, without prior written approval of Owner, exceed any single Budget Category as shown in the Approved Budget by an amount not to exceed 10% (ten percent) of such Budget Category or $5,000.00 (five thousand dollars and 00/100 cents) whichever is less, so long as the Approved Budget is not exceeded in the aggregate by more than five percent (5%) after taking into account all previous single Budget Category changes.

Manager shall not incur for Owner's account, nor shall Manager make any disbursement from the Farm Account or be reimbursed for (1) any cost incurred for any single line item that exceeds the amount shown in the Approved Budget for such Budget Category by 10% (ten percent) thereof or $5,000.00, (five thousand dollars and 00/100 cents) whichever is less or (2) any cost incurred which, when aggregated with all previous single Budget Category changes, exceeds five percent (5%) of the Approved Budget, in either case unless:

a. The prior written approval of Owner is obtained before such cost is incurred; or,

b. The following conditions shall have been satisfied with respect to such excess:

(1) Manager shall have notified Owner in writing of such anticipated excess cost and either (a) Manager mailing of such notice in the manner provided in Paragraph 18 hereof; or (b) Manager shall have received the written approval of the incurring of such anticipated excess costs from Owner; or

(2) Manager shall have notified Owner orally or in writing of the existence of an emergency situation which requires that an excess cost be incurred and either (a) shall not have received an oral or written objection to the occurrence thereof from Owner within 24 hours after the transmission of such notice; or (b) shall have received oral or written approval of the incurring thereof. In the case of any oral communications made pursuant to this paragraph, the party initiating the communication shall promptly follow such communication with written confirmation thereof.

The Budget Categories shown m the Approved Budget for any given crop year, prior to any updating to reflect actual costs of operation and management, shall be used for purposes of determining whether Manager has exceeded the budget overrun limitations contained in this Paragraph 5.

6. Reimbursement of Manager. Manager shall submit to Owner quarterly (i) a statement of fees due Manager and of all costs, expenses and payments, if any, incurred or made by Manager, in farming the Land pursuant to this Agreement ("Statement of Expenses"), (ii) a reconciliation with supporting evidence and detail of all money received and paid from the Farm Account established to fund operations for the Land, and (iii) any other evidence, including paid invoices, receipts and the like, reasonably required by Owner to verify the costs, expenses and payments for which Manager seeks reimbursement. The quarterly reconciliation and supporting evidence shall be prepared and sent to Owner so as to coincide with specified dates in Owner' normal accounting cycle in order that Owner may review the reconciliation in a timely manner.

Within thirty (30) days of receipt of a Statement of Expenses, Owner shall reimburse Manager all amounts set forth in such statement incurred in accordance with this Agreement which have not been previously reimbursed or paid directly by Manager through the Farm Account or by Owner. Under no circumstances shall Owner be obligated to reimburse Manager for any costs, fees, expenses or payments not incurred or made pursuant to this Agreement. Owner shall deliver written notice to Manager of any items set forth in the Statement of Expenses which Owner objects to and, upon receipt of such notice, Manager shall furnish Owner with such additional information concerning the disputed items(s) as may be reasonably necessary to determine whether such item(s) is reimbursable under the terms of this Agreement. If, after review of such information, Owner believes that such

item(s) is not reimbursable under this Agreement, such claim shall be submitted to arbitration pursuant to this Agreement. Notwithstanding the foregoing, if any disputed amount is an amount payable to a third party due to services rendered or materials supplied for the benefit of the Land, such amounts shall be considered reimbursable and Owner may pursue an arbitration claim against Manager for reimbursement of the expense if disputed by Owner.

7. Financing. Owner shall be solely responsible for obtaining all financing and furnishing to Manager all funds necessary for Manager to operate and maintain the orchard and to perform its obligations hereunder as provided in the Approved Budget. Manager shall have no obligation to advance or expend any funds or incur any obligations for its account in connection with the operation or maintenance of the orchard or the performance of its obligation hereunder except as expressly provided herein.

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Manager agrees to indemnify, defend and hold Owner, their officers, agents and employees and the Land free and harmless from any and all suits, actions, causes of action, claims, losses, expense, liability and damages, including reasonable attorneys' fees and disbursements, arising from Manager's breach of this Agreement and from the negligent acts or omissions of the Manager or any of its agents or employees, but only to the extent of Manager's liability insurance coverage and its net assets. Owner hereby waives any claim to consequential or punitive damages.

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12. Labor Matters. Manager hereby represents to Owner that it is not a party to a labor union contract or collective bargaining agreement, nor will it seek to become a party to any such agreement during the term of this Agreement which in any manner binds Owner as a party or successor or obligates Owner or any subsequent owner of the Land to bargain with any union or labor organization as a successor in interest to Manager. Manager will indemnify and hold Owner and the Land harmless from and against any and all loss, cost, damage, claim, liability or expense that it may incur as a result of Manager's breach of this Paragraph 12. This section is not intended to cause Manager to refuse to bargain in good faith in accordance with law, nor will its provisions result in liability against Manager for actions by its employees beyond its control.

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b. Owner or Manager may terminate this Agreement without cause, effective on October 31 of the year in which the termination is to occur, by giving the other party written notice of termination at least 1 year prior to the proposed termination date.

18. Termination in Event of Sale. In the event all or a portion of the Land is sold, Owner may terminate this Agreement as to all or the portion sold upon thirty (30) days notice to Manager. If only a portion of the Land is sold resulting in termination of this Agreement as to the portion sold then Reimbursable Expenses, charges and fees as provided in Paragraph 6 of this Agreement and any other expenses, charges and fees payable to Manger and based upon per acre and/or per month rates under this Agreement shall be reduced by the appropriate amounts and the Care and Management Fee shall be adjusted on a pro-rata basis based upon the estimated Care and Management fee.

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Attn. Mr. S. Craig Tompkins

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550 Hope Street - Suite 1825
Los Angles, CA 90071
Attn. Mr. S. Craig Tompkins

or such other addresses as the parties may hereafter designate to each other in writing.

22. Choice of Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California within which the Land is located.

23. Interpretation. The parties agree that each has reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any revisions or amendments hereto.

24. Captions. In this Agreement, captions of the sections and paragraphs are for convenience and reference only, and the words contained therein shall in no way be held to explain, modify, amplify or aid in interpretations, construction or meaning of the provisions hereof.

25. Assignment The rights and obligations of the other party under this Agreement shall not be assigned without the prior written consent of the other party.

26. Counting Days. If a party is required to complete the performance of an obligation under this Agreement by a date certain and such date is a Saturday, Sunday, or Federal bank holiday (collectively, a Nonbusiness Day), then the date for the completion of such performance will be the next succeeding day that is not a Nonbusiness Day.

27. Counterparts. This Agreement may be executed in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

28. Operation in Accordance with the Law. Manager shall, at all times, use commercially reasonable efforts to apprise itself of all Federal, State and other governmental laws and regulations applicable to its operations hereunder, including, without limitation, all applicable requirements of the Immigration Reform and Control Act of 1986, the Fair Labor Standards Act, as amended, and all regulations and orders of the United States Department of Labor issued thereunder, and all other governmental agencies or departments with jurisdiction over Manager, the Land or the operation thereof, and all laws, ordinances and regulations relating to the use, storage, mixing, handling, disposal or application of all insecticides, herbicides, pesticides or other hazardous or toxic materials on or about the Land and any containers in which they are shipped, handled, mixed or stored and after having been so apprised, to use commercially reasonable efforts to comply with all applicable Federal, State and governmental laws and regulations. Manager shall maintain workmen's compensation insurance, insuring its employees engaged on the land with a company legally authorized to write such insurance in the state in which the Land is located, and the Manager shall furnish Owner upon demand with a certificate of said insurance.

29. Amendment. This Agreement shall not be amended, modified or changed except in writing and signed by the parties hereto.

30. Attorneys' Fees. In the event a legal proceeding is instituted to enforce any provision hereof or rights granted hereby, including the recovery of damage or enforcement of the right of indemnification, the party prevailing in such action may recover its costs thus incurred, including reasonable legal fees.

IN WITNESS WHEREOF, the parties hereto have executed this Farm Management Agreement, as of the day and year first above written.

"Owner"

Citadel Agricultural Partners No. 2
a California general partnership
By Citadel Agricultural, Inc.
a Califonnia corporation and General Partner

By: /s/ S. Craig Tompkins
S. Craig Tompkins
Title: President

"Manager"

Big 4 Farming, LLC
a California limited liability company

By: /s/ S. Craig Tompkins
S. Craig Tompkins
Title: President

EXHIBIT"B"
BUDGET CATEGORIES

Care and Management Fees

Soil Amendments

Pest and Disease Control

Growth Regulators

Pruning

Tree Removal and Replanting

Water and Power

Repairs and Maintenance

Frost Protection

Miscellaneous

Capital Expenditures

FARM MANAGEMENT AGREEMENT

This Farm Management Agreement is made and entered into this 26th day of DECEMBER, 1997, by and between CITADEL AGRICULTURAL PARTNERS NO. 3, a California general partnership, (hereinafter referred to as "Owner") and BIG 4 FARMING, LLC, a California limited liability company (hereinafter referred to as the "Manager").

RECITALS:

A. Owner owns 375.82 ACRES of agricultural property, together with related water delivery systems, irrigation equipment and apparatus, and other improvements (collectively, the "Land"). The Land is located in Kern County, California and is described in Exhibit "A," and

B. The Manager is in the business of managing and conducting orchard operations of the kind desired by Owner in connection with the Land, and

C. The parties hereto desire to enter into an agreement to engage the Manager to render services in accordance with the herein stated requirements of Owner;

NOW, THEREFORE, in order to carry out their mutual intent as expressed above, and in consideration of the mutual agreement hereinafter contained and other good and valuable consideration, Owner and Manager hereby covenant and agree as follows:

1. Services of Manager. Manager shall, within the limits of the budgets and plans approved by Owner as provided in Paragraph 5 hereof, in the exercise of Manager's best judgment employing the customary standards of husbandry in the area, as are applicable to crops grown on the Land, undertake on behalf of Owner, full and complete management, supervision and control of the development and operation of the Land so as to achieve and maintain commercially reasonable economic production therefrom. Manager's specific duties shall include, without limitation, the obligation to:

a. Devote such time and attention to the management and operation of the Land as Manager reasonably determines to be necessary and desirable for efficient planting, cultivating, growing and harvesting practices in accordance with the standards set forth above.

b. Devote such time and attention as is necessary for the operation, repair and maintenance of the capital improvements located on the Land (the "Improvements"), including but not limited to the well pumps and motors, and irrigation systems and apparatus.

c. Prepare and submit to Owner operating budget and development plans in accordance with the requirements of Paragraph 5 hereof.

d. Carry out and supervise the execution of such budgets and plans and any supplemental budgets and plans approved by Owner.

e. Hire employees and such labor as may be necessary or appropriate to carry out the purposes of this Agreement. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner. In this regard, Manager agrees to use commercially reasonable efforts to have in its employ at all times a sufficient number of capable, competent and adequately trained employees to enable it to properly, adequately, safely and economically manage, operate and maintain the Land. All matters pertaining to the employment of such employees are and shall continue to be the sole concern and responsibility of the Manager, who is in all respects the employer of such employees and who agrees to comply with all applicable laws and regulations having to do with immigration and naturalization matters, workmen's compensation, social security, unemployment insurance, hours of labor, wages, OSHA rules

and regulations, working conditions, citizenship status, and like subjects affecting employers as such. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner. Under no circumstances shall any labor or employees hired by Manager be considered or deemed to be employees of Owner. This Agreement is not one of agency, except as herein provided, but one in which the Manager is engaged independently in the business of managing and operating the Land subject to the limits herein provided, and all employment arrangements are therefore solely its concern.

f. Purchase and supply such materials and supplies for the account of Owner as may be reasonably necessary or appropriate to carry out the purpose of this Agreement, subject to the Approved Budget and Owner' direction. To the extent they are not reflected in the purchase price paid for any such materials and supplies, all discounts and rebates resulting from any such purchases shall be shown as a reduction in the actual costs of operation and management of the Land. The cost thereof, subject to Paragraph 6 of this Agreement, shall be reimbursed to Manager by Owner.

g. Use commercially reasonable efforts to secure qualified persons, contractors, or firms to perform any of the work or services required of Manager, provided however, that all persons, contractors or firms so secured shall be employees of Manager or independent contractors to Manager and not the employees of Owner or independent contractors to Owner. The cost thereof, subject to Paragraph 6 of this Agreement shall be reimbursed to Manager by Owner.

h. Except as the authority of Manager may be limited by this Agreement or by the written instructions of Owner which may be given from time to time, represent Owner as independent contract farm manager in all business transactions relating to the farming, operation and maintenance of the Land and administer the business of the Land.

i. Pay directly to Owner, at the address set out in Paragraph 18, all monies accruing to Owner from the Land and the operations thereon or with respect thereto.

j. Keep full and adequate books of account, tax records and other records relative to labor and payroll activities, in accordance with the requirements of Paragraph 3.

k. Notwithstanding the provisions of Paragraph 5 of this Agreement, take such action as may be reasonably necessary in an emergency or in other circumstances that do not permit delay to remedy the same and to protect the assets of Owner from damage or loss, provided that in each instance of action taken pursuant to this subparagraph (k), prompt notice of such action taken shall be given to Owner with respect to such emergency or other circumstances, and the cost of such action shall not exceed $5,000.

l. Obtain, at Owner's expense, such insurance as Owner may reasonably request, from time to time.

m. Open a bank account (the "Farm Account") as to which the Owner will be the beneficial owner. Manager is authorized to receive funds on behalf of Owner and shall retain such amounts as are reasonably required to pay for all costs eligible for reimbursement pursuant to Paragraph 6 of this Agreement. Any excess amounts shall be promptly remitted to Owner.

n. Review and, as appropriate, timely pay from the Farm Account vendor invoices and bills.

o. Prepare from time to time such additional reports as Owner may reasonably request.

p. Notwithstanding the above, Manager may sub-contract with Cecilia Packing or any other related entity to perform the duties contained herein, provided, however, such sub-contracting shall not relieve Manager of its obligations under this Agreement.

2. Limitations on Authority of Manager. Manager's authority hereunder shall be limited to carrying out the objectives of this Agreement and the plans and budgets approved by Owner and to do all things reasonably

necessary to carry out such objectives; provided, however, that Manager shall have no power to lease, sell convey, or encumber the Land or any part thereof or any Improvements, or take any action which is contrary to the specific directions or written instructions given to the Manager by Owner, which directions will be consistent with the objectives of this Agreement. Manager may not remove Improvements from the Land except to obtain repairs or for storage, without the written consent of Owner. For purposes of this Agreement, Owner shall appoint in writing a designated representative for purposes of communicating with Manager. Manager may rely upon the instructions of such representative and disregard the instructions of any other person purporting to speak on behalf of Owner.

3. Accounts and Information. Manager shall keep and maintain complete, legible, reproducible, accurate records of its operations on and management of the Land, including without limitation, accounting records maintained in accordance with generally accepted accounting principles as applied to the agricultural industry (subject to the written instruction of Owner to follow other procedures), sufficient records to enable Owner to comply with all applicable requirements of taxing authorities, records required by the Fair Labor Standards Act or any law applicable to farm labor employers or housing providers and employers in general, including without limit, requirements of the Occupational Health and Safety Act and the Immigration Reform and Control Act of 1986 and all records required by federal, state or local statute or ordinance pertaining to the use, storage, mixing, application, handling, transportation or disposal of motor fuels or lubricants, agricultural chemicals, fertilizers, herbicides, pesticides or other toxic or hazardous materials.

Owner shall have the right at anytime during the term hereof to review and copy any or all of the records information maintained, created or retained by Manager under this Paragraph 3 upon three (3) business day's notice, with any inspection to be performed during normal business hours and at the sole cost and expense of Owner. At the conclusion of the term hereof, Manager shall provide Owner with copies of all such records or otherwise assure Owner to its satisfaction that such records and information will be maintained and available to Owner for any period of time required by Law.

4. Title to and Disposition of Products. Any crops grown on the Land and any products or by-products derived therefrom shall remain the sole property of Owner. Manager may not enter into contracts for the sale of such products, unless such contracts are approved in advance in writing by Owner.

5. Budget and Development Plan. On or about October 1st of each year during the term of this Agreement, Manger shall prepare and submit to Owner for its approval for the next succeeding crop year (i) a budget for the operation and management of the Land, (ii) a capital improvement plan setting forth proposed improvements, if any, to be made to the Land, (iii) a cropping plan for the Land, (iv) a statement of funding requirements to carry out the budget and any development plan including a monthly breakdown of funding needs for such purposes for the applicable crop year (collectively hereinafter referred to as a "Proposed Budget"), and (v) a statement (Schedule D) that supports the annual budget and development plan regarding; labor categories and applicable hourly and or monthly rates, all calculations detailing labor benefits and payroll burdens, and all farming equipment charges either per hour or per acre. From time to time throughout the crop year, Manager may be requested to prepare and submit to Owner an update to the Approved Budget then in effect to reflect the actual costs of operation and management during that part of the year that has expired.

The term crop year for the purposes of this Agreement shall commence November 1st, and terminate October 31st in any given year.

Each proposed Budget shall be prepared in a satisfactory manner, shall employ the Budget Categories attached hereto as Exhibit "B," and shall set forth on a monthly basis, Manager's best judgment of operational and developmental costs and expenses to be incurred by Manager in the operation and management of the Land during the crop year for which such Proposed Budget is submitted. Owner shall have 30 days from date of receipt to either approve or revise such Proposed budget. Such Approved Proposed Budget shall govern the management and operation of the Land by Manager for the crop year and shall be referred to collectively as the "Approved Budget." The Approved Budget shall not be modified or changed except by prior written approval of Owner.

Manager shall use commercially reasonable efforts to operate and manage the Land within the scope of the Approved Budget and to timely pay vendor bills and invoices from the Farm Account in accordance with the Approved Budget; however, Owner and Manager recognize that the actual costs of operation and management of the Land may vary from those set forth in an Approved Budget and agree that the Manager may, without prior written approval of Owner, exceed any single Budget Category as shown in the Approved Budget by an amount not to exceed 10% (ten percent) of such Budget Category or $5,000.00 (five thousand dollars and 00/100 cents) whichever is less, so long as the Approved Budget is not exceeded in the aggregate by more than five percent (5%) after taking into account all previous single Budget Category changes.

Manager shall not incur for Owner's account, nor shall Manager make any disbursement from the Farm Account or be reimbursed for (1) any cost incurred for any single line item that exceeds the amount shown in the Approved Budget for such Budget Category by 10% (ten percent) thereof or $5,000.00, (five thousand dollars and 00/100 cents) whichever is less or (2) any cost incurred which, when aggregated with all previous single Budget Category changes, exceeds five percent (5%) of the Approved Budget, in either case unless:

a. The prior written approval of Owner is obtained before such cost is incurred; or,

b. The following conditions shall have been satisfied with respect to such excess:

(1) Manager shall have notified Owner in writing of such anticipated excess cost and either (a) Manager mailing of such notice in the manner provided in Paragraph 18 hereof; or (b) Manager shall have received the written approval of the incurring of such anticipated excess costs from Owner; or

(2) Manager shall have notified Owner orally or in writing of the existence of an emergency situation which requires that an excess cost be incurred and either (a) shall not have received an oral or written objection to the occurrence thereof from Owner within 24 hours after the transmission of such notice; or (b) shall have received oral or written approval of the incurring thereof. In the case of any oral communications made pursuant to this paragraph, the party initiating the communication shall promptly follow such communication with written confirmation thereof.

The Budget Categories shown m the Approved Budget for any given crop year, prior to any updating to reflect actual costs of operation and management, shall be used for purposes of determining whether Manager has exceeded the budget overrun limitations contained in this Paragraph 5.

6. Reimbursement of Manager. Manager shall submit to Owner quarterly (i) a statement of fees due Manager and of all costs, expenses and payments, if any, incurred or made by Manager, in farming the Land pursuant to this Agreement ("Statement of Expenses"), (ii) a reconciliation with supporting evidence and detail of all money received and paid from the Farm Account established to fund operations for the Land, and (iii) any other evidence, including paid invoices, receipts and the like, reasonably required by Owner to verify the costs, expenses and payments for which Manager seeks reimbursement. The quarterly reconciliation and supporting evidence shall be prepared and sent to Owner so as to coincide with specified dates in Owner' normal accounting cycle in order that Owner may review the reconciliation in a timely manner.

Within thirty (30) days of receipt of a Statement of Expenses, Owner shall reimburse Manager all amounts set forth in such statement incurred in accordance with this Agreement which have not been previously reimbursed or paid directly by Manager through the Farm Account or by Owner. Under no circumstances shall Owner be obligated to reimburse Manager for any costs, fees, expenses or payments not incurred or made pursuant to this Agreement. Owner shall deliver written notice to Manager of any items set forth in the Statement of Expenses which Owner objects to and, upon receipt of such notice, Manager shall furnish Owner with such additional information concerning the disputed items(s) as may be reasonably necessary to determine whether such item(s) is reimbursable under the terms of this Agreement. If, after review of such information, Owner believes that such

item(s) is not reimbursable under this Agreement, such claim shall be submitted to arbitration pursuant to this Agreement. Notwithstanding the foregoing, if any disputed amount is an amount payable to a third party due to services rendered or materials supplied for the benefit of the Land, such amounts shall be considered reimbursable and Owner may pursue an arbitration claim against Manager for reimbursement of the expense if disputed by Owner.

7. Financing. Owner shall be solely responsible for obtaining all financing and furnishing to Manager all funds necessary for Manager to operate and maintain the orchard and to perform its obligations hereunder as provided in the Approved Budget. Manager shall have no obligation to advance or expend any funds or incur any obligations for its account in connection with the operation or maintenance of the orchard or the performance of its obligation hereunder except as expressly provided herein.

8. Care and Management Fee. Owner shall pay Manager a Care and Management Fee for Manager's Services rendered hereunder (the "Care and Management Fee") in the amount of 5% of the gross receipts of sale of citrus after deduction for picking, packing and hauling.

9. Harvesting and Marketing the Crop. Manager shall be responsible for marketing the citrus crop produced on the Land in consultation with the Owner. Manager shall oversee and manage the harvest of the crop.

10. Liability of and Indemnification by Manager. Manager shall perform its obligations with diligence, good faith and consistent with customary agricultural and farming practices employed in the general geographical vicinity of the Land. However, it is understood by Owner that the result of agricultural operations cannot be predicted with certainty. Manager shall not be liable for any loss of, or damage to the real or personal property, including permanent and other growing crops an the Land, resulting from acts of God or other hazards of farming, including without limitation, rain, hail, frost, flooding, wind storms, disease, insects and theft of materials and supplies, or other causes except to the extent that such loss or damage is caused by Manager's negligence or willful misconduct.

Manager agrees to indemnify, defend and hold Owner, their officers, agents and employees and the Land free and harmless from any and all suits, actions, causes of action, claims, losses, expense, liability and damages, including reasonable attorneys' fees and disbursements, arising from Manager's breach of this Agreement and from the negligent acts or omissions of the Manager or any of its agents or employees, but only to the extent of Manager's liability insurance coverage and its net assets. Owner hereby waives any claim to consequential or punitive damages.

11. Chemical and Other Substances. No fertilizer, herbicide, pesticide, poison, chemical, or other foreign substance except those approved by the United States Department of Agriculture and by the California Department of Food and Agriculture and any other relevant governmental agency or authority, shall be applied by the Manager or any employee or agent or person acting on its behalf to the Land or crops growing thereon or brought onto or stored on the Land. The use of any such approved substance by the Manager shall be in conformity with the manufacturer's instructions and all governmental restrictions respecting the manner and timing of application thereof. No experimental fertilizer, chemical, pesticide or herbicide shall be applied to the Land or to the crops growing thereon except with Owner' prior written consent. Manager shall maintain records in accordance with sound business practices and all pertinent governmental regulations respecting the time, place, quality, quantity, kind, and method of application of all such substances as may be utilized by the Manager, and shall furnish to Owner, upon request, true and correct copies thereof. All such pesticides, fertilizers, herbicides or other toxic or hazardous materials and containers in which they are shipped, stored or mixed shall be used, stored, handled and disposed in strict compliance with all applicable statutes and governmental regulations. Manager hereby expressly indemnifies and holds Owner and the Land, harmless from and against all loss, cost, damage, claims, expense or liability, including reasonable attorneys' fees and disbursements, arising from or related to its or any of its employees' or agents' use, handling, mixing, storing or disposing of any such materials except as permitted in this paragraph. Owner shall have the right to inspect the Land from time to time to ensure Manager's compliance with this paragraph. Owner hereby waives any claim to consequential or punitive damages.

12. Labor Matters. Manager hereby represents to Owner that it is not a party to a labor union contract or collective bargaining agreement, nor will it seek to become a party to any such agreement during the term of this Agreement which in any manner binds Owner as a party or successor or obligates Owner or any subsequent owner of the Land to bargain with any union or labor organization as a successor in interest to Manager. Manager will indemnify and hold Owner and the Land harmless from and against any and all loss, cost, damage, claim, liability or expense that it may incur as a result of Manager's breach of this Paragraph 12. This section is not intended to cause Manager to refuse to bargain in good faith in accordance with law, nor will its provisions result in liability against Manager for actions by its employees beyond its control.

13. Relationship of Parties. Nothing contained in this Agreement, nor any act of the parties, shall be deemed or construed by the parties or by any third person to create a partnership, a joint venture or any other relationship between Owner and Manager other than the relationship of independent contractor. This Agreement is not one of agency, except as herein expressly provided, but solely one in which the Manager is hired as an independent contractor engaged independently in the business of managing and operating the Land on its own behalf.

14. The Owner's Right of Entry. Owner and persons designated by it, shall have the right to enter upon the Land at any time.

15. No Restrictions. Nothing contained in this Agreement shall be construed so as to prohibit either party or any firm or corporation in any way affiliated with either of them from owning, operating, or investing in any agricultural, ranching, farming or any other type of real estate development either in the state where the Land is located or elsewhere, provided such activities do not interfere with the affected party's ability to properly perform its obligations under this Agreement.

16. Term. The term of this Agreement shall be for 2 years, commencing on the first day of November, 1997 and, unless otherwise terminated pursuant to Paragraphs 17 and 18, shall renew for additional one year terms on November 1, 1999, and each November 1 thereafter.

17. Termination.

a. In the event either party shall be in default in the performance of such party's obligations under this Agreement and such default is not cured within 5 days after written notice thereof by the other party, then this Agreement shall terminate, provided, however, if such default by its nature cannot be cured completely within such 5 day period, this Agreement shall not terminate provided the defaulting party, within said 5 day period, commenced and proceeds with diligence and in good faith to remedy such default. Owner's obligation to reimburse Manager for Reimbursable Expenses incurred prior to termination and to pay the Management Fee to the extent attributed to the period prior to termination, and Manager's obligations to defend and indemnify as provided in Paragraph 10 and 11 as to events, acts or omissions taking place prior to the termination, shall survive the termination of this Agreement.

b. Owner or Manager may terminate this Agreement without cause, effective on October 31 of the year in which the termination is to occur, by giving the other party written notice of termination at least 1 year prior to the proposed termination date.

18. Termination in Event of Sale. In the event all or a portion of the Land is sold, Owner may terminate this Agreement as to all or the portion sold upon thirty (30) days notice to Manager. If only a portion of the Land is sold resulting in termination of this Agreement as to the portion sold then Reimbursable Expenses, charges and fees as provided in Paragraph 6 of this Agreement and any other expenses, charges and fees payable to Manger and based upon per acre and/or per month rates under this Agreement shall be reduced by the appropriate amounts and the Care and Management Fee shall be adjusted on a pro-rata basis based upon the estimated Care and Management fee.

19. Cure Period. Owner shall give Manager written notice of any breaches of this Agreement. Manager shall have a commercially reasonable time to cure any breach, taking any consideration the condition of the crop and weather conditions.

20. Arbitration. Owner and Manager shall submit any dispute concerning the interpretation of or the enforcement of rights and duties under this Agreement to final and binding arbitration pursuant to the rules of the American Arbitration Association. Owner and Manager agree that discovery may be conducted pursuant to Section 1283.05 of the California Code of Civil Procedure.

21. Notice. All statements, notices, demands, requests and payments form one party to another shall, unless otherwise specified herein, be delivered personally or sent by mail, postage prepaid, to the addresses stated below:

OWNER: Citadel Agricultural Partners No. 3
550 Hope Street - Suite 1825
Los Angles, CA 90071
Attn. Mr. S. Craig Tompkins

MANAGER: Big 4 Farming LLC
550 Hope Street - Suite 1825
Los Angles, CA 90071
Attn. Mr. S. Craig Tompkins

or such other addresses as the parties may hereafter designate to each other in writing.

22. Choice of Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California within which the Land is located.

23. Interpretation. The parties agree that each has reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any revisions or amendments hereto.

24. Captions. In this Agreement, captions of the sections and paragraphs are for convenience and reference only, and the words contained therein shall in no way be held to explain, modify, amplify or aid in interpretations, construction or meaning of the provisions hereof.

25. Assignment The rights and obligations of the other party under this Agreement shall not be assigned without the prior written consent of the other party.

26. Counting Days. If a party is required to complete the performance of an obligation under this Agreement by a date certain and such date is a Saturday, Sunday, or Federal bank holiday (collectively, a Nonbusiness Day), then the date for the completion of such performance will be the next succeeding day that is not a Nonbusiness Day.

27. Counterparts. This Agreement may be executed in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

28. Operation in Accordance with the Law. Manager shall, at all times, use commercially reasonable efforts to apprise itself of all Federal, State and other governmental laws and regulations applicable to its operations hereunder, including, without limitation, all applicable requirements of the Immigration Reform and Control Act of 1986, the Fair Labor Standards Act, as amended, and all regulations and orders of the United States Department of Labor issued thereunder, and all other governmental agencies or departments with jurisdiction over Manager, the Land or the operation thereof, and all laws, ordinances and regulations relating to the use, storage, mixing, handling, disposal or application of all insecticides, herbicides, pesticides or other hazardous or toxic materials on or about the Land and any containers in which they are shipped, handled, mixed or stored and after having been so apprised, to use commercially reasonable efforts to comply with all applicable Federal, State and governmental laws and regulations. Manager shall maintain workmen's compensation insurance, insuring its employees engaged on the land with a company legally authorized to write such insurance in the state in which the Land is located, and the Manager shall furnish Owner upon demand with a certificate of said insurance.

29. Amendment. This Agreement shall not be amended, modified or changed except in writing and signed by the parties hereto.

30. Attorneys' Fees. In the event a legal proceeding is instituted to enforce any provision hereof or rights granted hereby, including the recovery of damage or enforcement of the right of indemnification, the party prevailing in such action may recover its costs thus incurred, including reasonable legal fees.

IN WITNESS WHEREOF, the parties hereto have executed this Farm Management Agreement, as of the day and year first above written.

"Owner

Citadel Agricultural Partners No. 3
a California general partnership
By Citadel Agricultural, Inc.
a Califonnia corporation and General Partner

By: /s/ S. Craig Tompkins
S. Craig Tompkins
Title: President

"Manager
"
Big 4 Farming, LLC
a California limited liability company

By: /s/ S. Craig Tompkins
S. Craig Tompkins
Title: President

EXHIBIT"B"
BUDGET CATEGORIES

Care and Management Fees

Soil Amendments

Pest and Disease Control

Growth Regulators

Pruning

Tree Removal and Replanting

Water and Power

Repairs and Maintenance

Frost Protection

Miscellaneous

Capital Expenditures

EXHIBIT 10.70

LINE OF CREDIT

BUSINESS LOAN AGREEMENT

BORROWER: BIG 4 RANCH, INC.
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

LENDER: CITADEL HOLDING CORPORATION
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

THIS LINE OF CREDIT BUSINESS LOAN AGREEMENT between BIG 4 RANCH, INC., a Delaware corporation ("Borrower"), and CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender"), is made and executed on the following terms and conditions. All such loans and financial accommodations, together with all future loans and financial accommodations from Lender to Borrower, are referred to in this Agreement individually as the "Loan" and collectively as the "Loans." Borrower understands and agrees that: (a) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; (b) the granting, renewing, or extending of any Loan by Lender at all limes shall be subject to Lender's sole judgment and discretion; and (c) all such Loans shall be and shall remain subject to the following terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of the 29th day of DECEMBER, 1997 and shall continue thereafter until all Indebtedness of Borrower to Lender has been performed in full and the parties terminate this Agreement in writing.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

AGREEMENT. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

BORROWER. The word "Borrower" means BIG 4 RANCH, INC., a Delaware corporation.

EVENT OF DEFAULT. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "EVENTS OF DEFAULT."

INDEBTEDNESS. The word "Indebtedness" means and includes the Line of Credit Promissory Note executed at even date herewith, together with all other obligations, debts, liabilities, extensions or renewals thereof.

LENDER. The word "Lender" means CITADEL HOLDING CORPORATION, its successors and assigns.

LOAN. The word "Loan" or "Loans" means and includes without limitation any and all Indebtedness.

NOTE. The word "Note" means and includes without limitation The Line of Credit Promissory Note and Borrower's other promissory notes, if any, evidencing Borrower's Loan obligations in favor of Lender, as well as any substitute, replacement or refinancing note or notes therefor.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds

of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender as of the date of this Agreement and as of the date of each disbursement of Loan proceeds:

ORGANIZATION. Borrower is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of Delaware. Borrower has the full power and authority to transact the businesses in which it is presently engaged or presently proposes to engage.

AUTHORIZATION. The execution, delivery, and performance of this Agreement and all Related Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary action by Borrower; do not require the consent or approval of any other person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Borrower or (b) any law, governmental regulation, court decree, or order applicable to Borrower.

FINANCIAL INFORMATION. Each financial statement of Borrower supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

LEGAL EFFECT. This Agreement constitutes, and any instrument or agreement required hereunder to be given by Borrower when delivered will constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

LITIGATION AND CLAIMS. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

BINDING EFFECT. This Agreement and the Note are binding upon Borrower as well as upon Borrower's successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

COMMERCIAL PURPOSES. Borrower intends to use the Loan proceeds solely for business or commercial related purposes.

INFORMATION. All information heretofore or contemporaneously herewith furnished by Borrower to Lender for the purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower to Lender will be, true and accurate in every material respect on the date as of which such information is dated or certified; and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading.

SURVIVAL OF REPRESENTATION AND WARRANTIES. Borrower understands and agrees that Lender is relying upon the above representations and warranties in extending Loan disbursements to Borrower. Borrower further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Borrower's Loan and Note shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, while this Agreement is in effect, Borrower will:

REPAYMENT. Repay the Note in accordance with its terms and the terms of this Agreement.

LITIGATION. Promptly inform Lender of (a) all material adverse changes in Borrower's financial condition, and (b) all litigation and claims and all threatened litigation and claims affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

FINANCIAL RECORDS. Maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis ("GAAP"), and permit Lender to examine and audit Borrower's books and records at all reasonable times.

ADDITIONAL INFORMATION. Furnish such additional information and statements, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets, forecasts, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may request from time to time.

INSURANCE. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including confirmations that coverages will not expire or be canceled or diminished without at least thirty (30) days' prior written notes to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such loss payable or other endorsements as Lender may require.

INSURANCE REPORTS. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the properties insured; (e) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (f) the expiration date of the policy.

OTHER AGREEMENTS. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

LOAN PROCEEDS. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

TAXES, CHARGES AND LIENS. Pay and discharge when due all of its Indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies, and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP. Borrower, upon demand of Lender, will furnish to Lender evidence of payment of assessments, taxes, charges, levies, liens, and claims and will authorize the appropriate governmental official to deliver to Lender at any time a written statement of any assessments, taxes, charges, levies, liens, and claims against Borrower's properties, income, or profits.

PERFORMANCE. Perform and comply with all terms, conditions, and provisions set forth in this Agreement and in all other instruments and agreements between Borrower and Lender in a timely manner, and promptly notify Lender if Borrower learns of the occurrence of any event which constitutes an Event of Default under this Agreement.

OPERATIONS. Substantially maintain its present executive and management personnel; and conduct its business affairs in a reasonable and prudent manner and in compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations respecting its properties, charters, businesses and operations.

INSPECTION. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

ADDITIONAL ASSURANCES. Make, execute and deliver to Lender such promissory notes, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence the Loans.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

CONTINUITY OF OPERATIONS. (a) Engage in any business activities substantially different than those in which Borrower is presently engaged or, (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, dissolve or transfer or sell any of its properties or assets out of the ordinary course of business.

DISTRIBUTIONS AND CORPORATE ORGANIZATION. Borrower shall make no distributions of any kind to shareholders, including without limitation dividends in cash, stock or other forms, shall make no loan or extend any credit to shareholders, shall not permit or consent to shareholders pledging or otherwise encumbering their shares of stock in Borrower or the right to receive dividends in the future, shall not repurchase any of Borrower's outstanding shares of stock, and shall not modify or amend Borrower's Certificate of Incorporation or Borrower's By-Laws.

INDEBTEDNESS AND LIENS. (a) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases; (b) except as allowed as a Permitted Lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets; or (c) sell with recourse any of Borrower's accounts, except to Lender.

OTHER BORROWINGS. Borrow from any person or entity other than Lender, whether such borrowing is secured or unsecured.

CESSATION OF DISBURSEMENTS. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan disbursements or to disburse Loan proceeds if: (a) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (b) Borrower becomes insolvent files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (c) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; (d) any Guarantor seeks, claims or otherwise attempts to limit modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (e) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

DEFAULT ON INDEBTEDNESS. Failure of Borrower to make any payment when due on the Loans.

OTHER DEFAULTS. Failure of Borrower or any Grantor to comply with or to perform when due any other term contained in this Agreement or in any of the Related Documents, or failure of Borrower to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

DEFAULT IN FAVOR OF THIRD PARTIES. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

FALSE STATEMENT. Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

DEFECTIVE COLLATERALIZATION. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Security Agreement to create a valid and perfected Security Interest) at any time and for any reason.

INSOLVENCY. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

CREDITOR OR FORFEITURE PROCEEDINGS. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower, any creditor of any Grantor against any collateral securing the Indebtedness, or by any governmental agency.

EVENTS AFFECTING GUARANTOR. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or such Guarantor dies or becomes incompetent or any Guarantor revokes any guaranty of the Indebtedness.

CHANGE IN OWNERSHIP OR CONTROL. Any change in ownership of twenty-five percent (25%) or more of the ownership of Borrower, or if the majority of Borrower's directors are persons other than those nominated by the Board of Directors.

FARMING PARTNERSHIPS. The sale, transfer or liquidation of Borrower's interest in those certain partnerships now known as Citadel Agricultural Partners No. 1, Citadel Agricultural Partners No. 2, or Citadel Agricultural Partners No. 3 (individually, "Farm Partnership" and collectively, the "Farm Partnerships"); the cessation of the Farm Partnerships to engage actively in the citrus crop cultivation business; the cessation of the Farm Partnerships to own any of the real property on which said partnerships are engaged in the citrus crop cultivation business; or Borrower fails to pay to Lender any cash distributions Borrower receives from the Farm Partnerships, except that Borrower may, upon Lender's approval, retain a portion of such cash distributions to cover Borrower's tax liability relating solely to such distributions.

ADVERSE CHANGE. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

TERMINATION OF FARM MANAGEMENT AGREEMENT. The termination or expiration of that certain Farm Management Agreement, between Borrower and Big 4 Farming, LLC, for any reason or no reason whatsoever, whether by operation of Law, default by any party to such agreement, by mutual agreement between said parties or otherwise.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make Loan advances or disbursements), and, at Lender's option, all Loans immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

AMENDMENTS. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

APPLICABLE LAW. This Agreement has been delivered to Lender and accepted by Lender in the State of California. If either party brings any action against the other for the enforcement, interpretation or otherwise arising out of this Note, then, unless subject matter jurisdiction or venue vest exclusively in a different court, said action shall be filed and prosecuted in the Superior (or Municipal) Court of Los Angeles County, State of California, and Borrower hereby consents to the exclusive jurisdiction and venue of said court. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

CAPTION HEADINGS. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the Provisions of this Agreement.

FURTHER ASSURANCES. From and after the date of this Agreement, Lender and Borrower shall do such things, perform such acts, and make, execute, acknowledge and deliver such documents as may be reasonably necessary or proper and usual to carry out the purpose of this Agreement in accordance with its terms.

JURY TRIAL WAIVER. In the event that any controversy or claim between or among the parties arising from or relating to this Agreement, the Related Documents, the Loan, or any Indebtedness shall become the subject of a judicial action, each party hereby waives its respective right to trial by jury of the controversy or claim.

COSTS AND EXPENSES. Borrower agrees to pay upon demand all of Lender's out-of-pocket expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement and collection of this Agreement or in connection with the Loans made pursuant to this Agreement. Lender may pay someone else to help collect the Loans and to enforce this Agreement, and Borrower will pay that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

NOTICES. All notices required to be given under this Agreement shall be given in writing and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notice under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Borrower, notice to any Borrower will constitute notice to all Borrowers. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current addresses.

SEVERABILITY. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

SUCCESSORS AND ASSIGNS. All covenants and agreements contained by or on behalf of Borrower shall bind its successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower shall not, however, have the right to assign its rights under this Agreement or any interest therein, without the prior written consent of Lender.

SURVIVAL. All warranties, representations, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement shall be considered to have been relied upon by Lender and will survive the making of the Loan and delivery to Lender of the Related Documents, regardless of any investigation made by Lender or on Lender's behalf.

LIMITATIONS AND TIME. Borrower's right to plead the statute of limitations as a defense to any and all of the obligations contained herein or secured hereby is waived to the full extent permitted by law. Time and exactitude of each of the terms, obligations, covenants and conditions are hereby declared to be the essence hereof.

WAIVER. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any obligations of Borrower or of any Grantor as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent in subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the sole discretion of Lender.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT, AND BORROWER AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AS OF DECEMBER ___, 1997.

BORROWER:

BIG 4 RANCH, INC., a Delaware corporation

/s/ Edward L. Kane
By: _____
Edward L. Kane
Title: President

LENDER:

CITADEL HOLDING CORPORATION,
a California corporation

By: _____
Steve Wesson
Title: President

LINE OF CREDIT PROMISSORY NOTE

PRINCIPAL AMOUNT: $200,000.00 DATE: DECEMBER 29, 1997

BIG 4 RANCH, INC., a Delaware corporation ("Borrower"), promises to pay to CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender"), or order, in lawful money of the United States of America, the principal amount of Two Hundred Thousand & 00/100 Dollars ($200,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance.

DRAW DOWN PERIOD. Provided Borrower is otherwise in compliance with the terms and conditions of this Line of Credit Promissory Note ("Note") and the additional loan documents executed now or in the future in connection with this Note, Borrower may draw against this Note from time to time in such amounts as Borrower desires up to a maximum of Two hundred Thousand Dollars ($200,000) from the date hereof to and including the THIRD (3RD) ANNIVERSARY DATE of this Note ("DRAW DOWN PERIOD").

PAYMENT. Borrower will pay all outstanding principal plus all accrued unpaid interest under this Note on the FIFTH (5TH) ANNIVERSARY DATE hereof (" "). In addition, prior to the Maturity Date, Borrower shall make annual payments of accrued interest in arrears on the outstanding principal balance, beginning on January 1, 1999, and continuing thereafter on the same day of each year until the this Note is paid in full on the Maturity Date. Interest on this Note (i) shall be calculated based on the Interest Rate, as hereinafter defined, (ii) shall commence on the date of the first disbursement of funds under this Note, and (iii) shall continue to accrue until all amounts due hereunder have been paid in full. Borrower will pay Lender at Lender's address or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to any unpaid collection costs and any late charges, then to any unpaid interest, and any remaining amount to principal.

INTEREST RATE. The Interest Rate on this Note is a fluctuating rate based on changes in the prime rate published from time to time by the Wall Street Journal (the "Index"). The Interest Rate to be applied to the outstanding principal balance of this Note means the rate equal to two (2) percentage (200 basis) points in excess of the Index. Interest shall be computed on the basis of a three-hundred sixty (360) day year and the actual number of days the outstanding principal, as the same may vary, remains unpaid. The Interest Rate shall change on the day the Wall Street Journal publishes a change in the Index. If the Index becomes unavailable during the term of this Note, Lender may designate a substitute index after notifying Borrower. Lender will advise Borrower of the then current Index rate upon Borrower's request. Anything to the contrary in this Note notwithstanding, interest shall not be charged or paid hereunder at a rate in excess of the maximum rate permitted by law, and in the event the Interest Rate exceeds the maximum rate permitted by law, the same shall be deemed to be a reduction of principal and shall be credited against the outstanding principal balance or refunded to Borrower at the option of Lender.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of this Note and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due ("Early Payments"). Early Payments will not, unless Lender agrees in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest or such other payments as may become due under this Note. Rather, Early Payments will reduce the then outstanding principal balance.

LATE CHARGE. If any payment is not made within ten (10) days of the due date therefor, Borrower shall be charged and shall pay a late charge equal to FIVE PERCENT (5%) of the unpaid portion of such payment.

LENDER'S RIGHTS. In the event Borrow fails to pay any installment on the due date therefor, Lender shall have the right to declare the unpaid principal balance on this Note and all accrued unpaid interest immediately due, without prior notice, and Borrower shall forthwith pay all amounts due hereunder. In the event Borrower fails to pay any amounts due hereunder, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable Interest Rate on this Note

to FIVE (5) percentage points over the Index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Lender may hire or pay someone else to help collect this Note if Borrower does not pay, and Borrower also will pay Lender all costs or expenses associated therewith. Such costs include, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not a lawsuit if commenced, including attorneys' fees and legal expenses incurred in any bankruptcy proceedings affecting Borrower (including any action by Lender to modify or vacate any automatic stay or injunction), appeals, and any post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the State of California. If either party brings any action against the other for the enforcement, interpretation or otherwise arising out of this Note, then, unless subject matter jurisdiction or venue vest exclusively in a different court, said action shall be filed and prosecuted in the Superior (or Municipal) Court of Los Angeles County, State of California, and Borrower hereby consents to the exclusive jurisdiction and venue of said court. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, cross-complaint or counterclaim brought by either Lender or Borrower against the other. This Note shall be governed by and construed in accordance with the laws of the State of California.

LINE OF CREDIT. This Note evidences a revolving line of credit. Disbursements under this Note may be requested either orally or in writing by any person designated by Borrower to have such authority. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instruction, or directions by telephone or otherwise to Lender are to be directed to the telephone number and address designated by Lender in writing. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records. Lender will have no obligation to disburse funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has used funds disbursed pursuant to this Note for purposes other than those authorized by Lender. Lender hereby authorizes and limits the moneys disbursed under this Note for use only in connection with Borrower's farm management business.

GENERAL PROVISIONS. No forbearance, delay or failure to act by Lender shall constitute a wavier of any powers, rights or remedies of Lender under this Note. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waives any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this Note, or release any party or guarantor or collateral without releasing any other party, guarantor or collateral. All such parties also agree that Lender may modify this Note without the consent of or notice to anyone other than the party with whom the modification is made.

BORROWER:

BIG 4 RANCH, INC.,
a Delaware corporation

/s/ Edward L. Kane
By: _____
Edward L. Kane
Title: President

EXHIBIT 10.71

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT, ("Agreement") is entered into as of this 26th day of DECEMBER, 1997, by and between BIG 4 FARMING, LLC ("Farming") and CECELIA PACKING CORPORATION ("Cecelia"), with reference to the following facts:.

WHEREAS, Farming has entered into a series of farming contracts (the "Farming Contracts") with respect to the farming of certain property located in Kern County commonly known as the Big 4 Ranch (the "Property") for the benefit of three general partnerships (the "Partnerships") each of which owns fee title to a separate and distinct portion of such Property (each of such separate properties being referred to herein as without differentiation as a "Partnership Property");

WHEREAS, Cecelia is experienced in the management of farming operations with respect to properties similar to the Property, and has an existing management and bookkeeping staff with the experience, capability and resources to assist Farming with respect to the management and bookkeeping support required in order for Farming to satisfy its obligations under the Farming Contracts;

WHEREAS, Farming desires Cecelia to perform such services and Cecelia is willing to perform such services,

NOW THEREFORE, the parties hereto do hereby agree as follows:

1. Services:

1.1. Management Consulting Services: Cecelia will provide, as reasonably requested by Farming from time to time, management consulting with respect to the following matters:

a Cultural practices;
b. Selection of, negotiations with and evaluation of the performance of packing houses for the handling of fruit under the Farming Contracts;
c. Cultivation and improvement of open portions of the Property;
d. Hiring and evaluation of employees, consultants and contractors;
e. Apportionment of crops between domestic and export markets; and
f. Such other matters as the parties may from time to time agree.

Such services will be performed by experienced individuals reasonably acceptable to Farming, including, at least initially, Mr. David R. Smith and Mr. James J. Cotter; provided that it is understood that the unavailability of such individuals will not be a breach of this Agreement, so long as their services are replaced with the services of one or more similarly qualified individuals.

1.2. Bookkeeping Services: Cecelia will provide, as reasonably requested by Farming from time to time, the following bookkeeping services:

a. Administration of such bank accounts as may be established from time to time by Farming for the benefit of any one or more of the Partnerships (which accounts will be in the name of and owned by such Partnership(s)) including (i) the deposit therein of all checks and other items drawn to the order of the Partnership(s) having an ownership interest in such account, (ii) the drafting and delivery of such checks and other items as may be authorized from time to time by a duly designated agent of Farming, and (iii) the monthly reconciliation of all such accounts;

b. Administration of such bank accounts as may be established from time to time by Farming with respect to the services provided by Farming under the Farming Contracts, including (i) the deposit there in of all checks and other items specified from time to time, (ii) the drafting and delivery of all checks and other items as may be authorized from time to time and (iii) the monthly reconciliation of all such accounts;

c. Maintenance of books and records on a Partnership Property by Partnership Property basis, showing all receipts, disbursements and commitments with respect to such Partnership Properties, and the retention of all such books and records for a period of six years or such lesser period of time as Farming may approve;

d. Cooperate with and assist Farming and its consultants and advisors in the preparation of monthly, quarterly and annual financial reports with respect to Farming and each of the Partnership Properties;

e. Cooperate with and assist Farming and the auditors from time to time of Farming and/or the Partnerships with respect to the annual audit of Farming and of each of the Partnership Properties;

f. Cooperate with Farming and/or such tax advisors as may be retained from time to time by Farming and/or the Partnerships with respect to the preparation of tax returns pertaining to operations on the Partnership Properties, including, without limitation, those pertaining to the calculation and payment of estimated taxes;

g. Administration of Farming payroll, withholding and workers compensation responsibilities; and

h. The preparation for review by Farming and filing of such governmental and agency reports as may be required from time to time with respect to the farming of the Partnership Properties, including, without limitation, those pertaining to environmental, crop, labor and/or immigration matters.

1.3 Purchasing Services: Cecelia will provide purchasing and buying services to Farming. Whenever possible said services shall be employed to provide Farming with the economics of scale that result from Cecelia purchasing supplies and equipment for Farming as part of purchases by Cecelia for other clients or Cecelia's own operations and the benefit of Cecelia's experience and relationships in the marketplace. If Cecelia receives a discount or rebate that is not reflected on the invoice for items purchased for Farming, Cecelia shall disclose to Farming and credit Farming for such rebates and discounts. It is the intent of the parties that Farming enjoy the lowest prices and best terms that are available to Cecelia.

1.4. Certain Disbursements: Farming will provide to Cecelia from time to time a list of periodic disbursements, which list will be approved and executed by each of the relevant Partnerships (the "Scheduled Disbursements"). Cecelia will be authorized and obligated to cause each of such Scheduled Disbursements to be timely made from funds available in the bank account to which such Scheduled Disbursements List pertains. Scheduled Disbursements will include payments such as, by way of example a) insurance, b) mortgage payments, c) utilities, d) equipment lease payments, and e) payroll. If there are insufficient funds in the bank account, or if Cecelia believes that there are likely to be insufficient funds in the relevant bank account, it will give prompt notice of such fact to Farming. Under no circumstances will Cecelia be under any obligation to advance any funds to cover such insufficiency or to permit the timely payment of Scheduled Disbursements or any other amounts.

2. Nature of Relationship: The services hereunder are being performed on an independent contractor basis. Farming acknowledges and agrees that Cecelia is not a fiduciary to Farming or to any of the Partnerships or to any of the partners of any of the Partnerships. No partnership or joint venture relationship exists between Cecelia and Farming, or between Cecelia and any of the Partnerships or any of the partners of any of the Partnerships.

3. Reimbursement and Compensation:

3.1. Reimbursement of Certain Costs and Expenses: Farming will promptly, and in any event within 30 days of receipt of invoice from Cecelia, reimburse Cecelia for its out-of-pocket costs in providing services under this Agreement. Where a precise apportionment is not possible, a representative of each of Farming and Cecelia will meet and confer periodically to determine a reasonable apportionment. Reimbursable costs will not include, however, general overhead items such as employee salaries, rent and utilities (other than telephone and other communications type utilities), compensation for such items being included within the fee specified below.

3.2. Fee: In consideration of its management consulting services and bookkeeping services, Cecelia will be entitled to a monthly fee of $6,000, payable in advance commencing January 1, 1998, provided that such fee will also include a prorated amount for any services provided prior to January 1, 1998, if any. The parties agree that the amount of acreage initially subject to this Agreement is 940 acres. The amount of acreage may increase or decrease each year, as determined by Farming, and as open land is, over time, improved with additional citrus trees.

3.3. Agreement Interest Rate: Any payment not timely made will accrue interest at that fluctuating rate equal from time to time to the prime rate as published in the Wall Street Journal (or such other equivalent published index as the parties may from time to time select) plus 200 basis points, or the maximum amount permitted by law, whichever is less.

4. Term:

This contract will have an initial term of 2 years and thereafter will continue on a year to year basis unless terminated by either party on not less than 6 months notice. Either party may terminate this Agreement on 30 days notice for default, provided that the party alleged to have been in default does not cure such default within such period.

5. Indemnification:

Farming agrees to indemnify Cecelia, its officers, directors, employees and contractors, against any and all liabilities arising out of or relating to this Agreement or from the performance by Cecelia and/or such other persons, of services under this Agreement, except where such liability was the direct and proximate result of willful misconduct or gross negligence on the part of the person seeking such indemnity. This indemnity obligation includes, without limitation, the obligation to advance all reasonable attorneys fees and other costs incurred by any person indemnified under this Agreement in defending any action or proceeding resulting from the performance of services under this Agreement and/or in investigation of any claim by any person threatening any such action or proceeding; provided , however, that such indemnified party will be obligated to repay such advances, together with interest at the Agreement Interest Rate, in the event that a court of competent jurisdiction ultimately determines in a final and unappealable judgment that such liability was the direct and proximate result of willful misconduct or gross negligence on the part of such person.

6. Packing Services:

In the event that Farming should select Cecelia to provide packing and marketing services, such services will be provided to Farming and the Partnerships on a most favored nations basis.

7. Miscellaneous:

7.1. Governing Law: Venue: This Agreement is to be governed by the laws of the State of California as such laws pertain to contracts made and to be performed entirely within such state. Any action brought under this Agreement may be brought only in the Federal District Court or the California Superior (or Municipal) Court sitting in Los Angeles County, California. Each of the parties hereto consent to the jurisdiction and venue of such courts.

7.2. Notices: Any notice to be given under this Agreement must be in writing, and will be deemed given when actually delivered, in the case of Cecelia, to the President or any Vice President or Secretary of that company, and in the case of Farming, to any member of the management committee of such limited liability company.

7.3. No Third Party Beneficiaries: There are no third party beneficiaries to this Agreement. The indemnity provisions set forth hereinabove may be asserted by individuals other than Cecelia only with the written approval of Cecelia, which may be given or withheld in the absolute and sole discretion of Cecelia.

7.4. Amendment: This Agreement can only be amended by a writing making specific reference to this Agreement and signed by both of the parties hereto.

7.5. Successors and Assigns: This Agreement will be binding upon any corporate successor to Cecelia and/or Farming, as the case may be; provided, however, that the benefits and burdens of this Agreement can only be assigned in connection with a merger or sale of all or substantially all of the assets of the transferor (and then only provided that the transferee agrees in writing addressed to the nontransfering party hereunder to be bound by this Agreement) or otherwise with the written approval of the other party to this Agreement, such approval not to be unreasonably withheld or delayed. Upon such transfer and agreement of such approval, the obligations of the transferor hereunder will terminate.

7.6. Interpretation: This Agreement is to be interpreted in an even handed manner and without reference to any rule of construction providing for interpretation for or against the drafter hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first set forth above.

BIG 4 FARMING, LLC
a California limited liability company

/s/ S. Craig Tompkins
By:_____
S. Craig Tompkins
Title: President

CECELIA PACKING CORPORATION

/s/ Margaret Cotter
By_____
Margaret Cotter
Title: Vice President

EXHIBIT 10.72

AGRICULTURAL LOAN AGREEMENT

Borrower: CITADEL AGRICULTURAL PARTNERS N0. 1
a California general partnership

Lender: CITADEL HOLDING CORPORATION,
a Delaware corporation

THIS AGRICULTURAL LOAN AGREEMENT between CITADEL AGRICULTURAL PARTNERS N0. 1, a California general partnership ("Borrower"), and CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender"), is made and executed on the following terms and conditions. Borrower has applied to Lender for an agricultural loan as described below. Such loan and any future loans and financial accommodations from Lender to Borrower are referred to in this Agreement individually as the "Loan" and collectively as the "Loans." Borrower understands and agrees that: (a) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; (b) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (c) all such Loans shall be and shall remain subject to the following terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of DECEMBER 29, 1997, and shall continue thereafter until all Indebtedness of Borrower to Lender has been performed in full and the parties terminate this Agreement in writing.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the California Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

AGREEMENT. The word "Agreement" means this Agricultural Loan Agreement, as this Agricultural Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Agricultural Loan Agreement from time to time.

BORROWER. The word "Borrower" means CITADEL AGRICULTURAL PARTNERS N0. 3, a California general partnership. The word "Borrower" also includes, as applicable, all subsidiaries and affiliates of Borrower as provided below in the paragraph titled "Subsidiaries and Affiliates."

BUDGET. The word "Budget" means Borrower's expense and income forecast operating budgets for the Current Crop Year which Lender may require that Borrower submit to Lender for review and approval in connection with Borrower's request for a Loan as described herein from Lender.

CERCLA. The word "CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

COLLATERAL. The word "Collateral" means and includes without limitation all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

CURRENT CROP YEAR. The words "Current Crop Year" mean the current crop production year.

ERISA. The word "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

EVENT OF DEFAULT. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "EVENTS OF DEFAULT."

GRANTOR. The word "Grantor" means and includes without limitation each and all of the persons or entities granting a Security Interest in any Collateral for the Indebtedness, including without limitation all Borrowers granting such a Security Interest

GUARANTOR. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with any Indebtedness.

INDEBTEDNESS. The word "Indebtedness" means and includes without limitation all Loans, together with all other obligations, debts and liabilities of Borrower to Lender, or any one or more of them, as well as all claims by Lender against Borrower, or any one or more of them; whether now or hereafter existing, voluntary or involuntary, due or not due, absolute or contingent, liquidated or unliquidated; whether Borrower may be liable individually or jointly with others; whether Borrower may be obligated as a guarantor, surety, or otherwise; whether recovery upon such Indebtedness may be or hereafter may become barred by any statute of limitations; and whether such Indebtedness may be or hereafter may become otherwise unenforceable.

LENDER. The word "Lender" means CITADEL HOLDING CORPORATION, a Delaware corporation, its successors and assigns.

LOAN. The word "Loan" or "Loans" means and includes without limitation any and all commercial loans and financial accommodations from Lender to Borrower, whether now or hereafter existing, and however evidenced, including without limitation the loan described below in the Section titled "The Loan."

NOTE. The word "Note" means and includes without limitation Borrower's promissory note or notes, if any, evidencing Borrower's Loan obligations in favor of Lender, as well as any substitute, replacement or refinancing note or notes therefor, including without limitation the Note described below in the Section titled "The Loan."

PERMITTED LIENS. The words "Permitted Liens" mean: (a) liens and security interests securing Indebtedness owed by Borrower to Lender; (b) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (c) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (d) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (e) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (f) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

SECURITY AGREEMENT. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

SECURITY INTEREST. The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

SARA. The word "SARA" means the Superfund Amendments and Reauthorization Act of 1986 as now or hereafter amended.

APPLICATION FOR AND PURPOSE OF THE LOAN. Borrower has applied to Lender and now renews Borrower's application for a Loan in the aggregate principal amount of ONE MILLION TWO HUNDRED THOUSAND & 00/100 DOLLARS ($1,200,000) for the following purposes:

FARM PRODUCTION LOAN. A farm production loan for the purpose of financing Borrower's farm production costs for the Current Crop Year.

RESTRICTION ON DRAWS. Borrower acknowledges that Lender has agreed to extend a line of credit with a maximum draw down of One Million Two Hundred Thousand Dollars ($1,200,00) ("Credit Line Limit") in the aggregate to Borrower and two other separate entities, Citadel Agricultural Partners No. 2 and Citadel Agricultural Partners No. 3, and that the amounts disbursed to Borrower are subject to the Credit Line Limit. Accordingly, the amount that Borrower may draw shall at all times be limited by the amount of the Credit Line Limit then outstanding, and Lender does not guarantee that Borrower will be able to draw down any particular minimum amount under this Loan.

THE LOAN. The following terms and conditions apply to the Loan:

THE LOAN COMMITMENT. On and after December 30, 1997 or such earlier date as Lender and Borrower may agree, Lender will lend to Borrower the Loan Amount which will be used for financing Borrower's farm production costs for the Current Crop Year and which Lender will loan to Borrower from time to time, but only in accordance with the terms hereof and the Related Documents.

THE LOAN DOCUMENTS. The Loan will be evidenced by a promissory note in the form of an exhibit attached to and made a part of this Agreement, or if no exhibit is attached hereto, then in form and substance satisfactory to Lender (the "Note"), together with such Related Documents as Lender may require for the Loan, all in form and substance satisfactory to Lender.

LOAN DISBURSEMENTS. Loan disbursements will be made at times and in amounts as provided in a draw down request provided by Borrower and acceptable to Lender upon Borrower's completing and delivering to Lender for each disbursement a disbursement request on Lender's form. Lender in its sole discretion and upon Borrower's request may make loan disbursements at times and in amounts and for purposes different than such schedule. In no event, however, will Lender be required to make any Loan disbursements after July 1, 1998 (the "Expiration Date").

DISBURSEMENTS OF PROCEEDS. Any Loan disbursement made under this Agreement shall be conclusively presumed to have been made to and for the benefit of Borrower whenever the proceeds of such disbursement are either (a) disbursed in accordance with the terms of this Agreement, (b) disbursed in accordance with instructions from Borrower or any of Borrower's authorized employees or agents, or (c) deposited into any demand, savings, or other account maintained by Borrower with Lender.

EXPIRATION DATE. Unless earlier terminated in accordance with the terms of this Agreement, Lender's commitment to make disbursements to Borrower under this Agreement shall automatically expire on the "Expiration Date" and Lender shall be under no further obligation to disbursement any Loan funds thereafter.

NO RENEWAL OR FUTURE LOAN OBLIGATION. Lender has not committed, and is not committing at this time, to finance Borrower's next year's farm loan requirements. Any such future loan or loans may be made solely at the option of Lender and on such terms and conditions as Lender may then require. Borrower understands that no prior course of dealing, no usage of trade, no oral statements or comments by Lender or it's employees or other agents will be deemed to be a commitment by Lender to lend money to Borrower or to any other person, unless the same is reduced to writing and signed by an authorized representative of Lender.

SALE OF COLLATERAL AND APPLICATION OF PROCEEDS. The following terms and conditions relate to any Collateral for the Loan and the application of proceeds of Collateral:

SALE OF COLLATERAL. Borrower may sell or otherwise dispose of Collateral only if (a) the proceeds of the sale are listed as income on the Budget, (b) Borrower delivers the proceeds to Lender, and (c) Borrower complies with the other terms of this Agreement. If either the proceeds of the Collateral are not listed as an income item in the Budget or Borrower wants to use proceeds for other than delivery to Lender, Borrower may not sell the Collateral without Lender's prior written consent.

BUYERS, CONSIGNEES, AND OTHER TRANSFEREES. The following provisions relate to any sale, consignment or transfer of crops, or other farm products included as all or a part of the Collateral:

(a) To induce Lender to extend the Loan, Borrower represents and warrants to Lender that it will sell, consign or transfer the Collateral only to those persons whose names and addresses have been set forth on sales schedules delivered to Lender. Each schedule shall be in such form as Lender may require, including identification of each type of Collateral. Borrower also shall notify Lender of the name and address of each additional person to whom or through whom the Collateral may be sold, consigned or transferred. All such schedules and notifications shall be in writing and shall be delivered to Lender not less than seven (7) days prior to any such sale, consignment or transfer of the Collateral.

(b) Borrower acknowledges that if the Collateral is sold, consigned, or transferred to any person not listed on a schedule delivered to Lender as provided above, and if Lender has not received an accounting (including the proceeds) of such sale, consignment or transfer within ten (10) days of the sale, consignment or transfer, then UNDER FEDERAL LAW, GRANTOR SHALL BE SUBJECT TO A FINE WHICH IS THE GREATER OF $5,000 OR 15% OF THE VALUE OR BENEFIT RECEIVED FROM THE SALE, CONSIGNMENT OF TRANSFER TO AN UNLISTED BUYER, CONSIGNEE OR TRANSFEREE.

DELIVERY OF PROCEEDS AND PAYMENTS. Borrower will immediately deliver or otherwise make available to Lender all proceeds of any sale, consignment or other transfer of the Collateral and in a form jointly payable to Borrower and Lender. All chattel paper, contracts, warehouse receipts, documents of title, or other evidences of ownership or obligations, whether issued by a co-op, grain elevator, or other warehouse or marketing entity, and all accounts receivable and other non-cash proceeds shall be endorsed, assigned and delivered immediately to Lender as security for the Loan. All the proceeds of any such disposition of the Collateral, when and if received by Lender, may at Lender's option be applied to the Loan. In addition, Lender may at any time collect the proceeds of any or all such accounts or other non-cash proceeds of any sale without notice to Borrower.

APPLICATION OF PROCEEDS AND PAYMENTS. Lender, in its sole discretion, may apply proceeds and payments of Collateral and any other payments Borrower may make on the Loan to either (a) accrued unpaid

interest owing on the Note, (b) outstanding principal on the Note, or (c) any other amounts owing by Borrower to Lender in connection with the Loan.

CONDITIONS PRECEDENT TO EACH DISBURSEMENT. Lender's obligation to make the initial Loan disbursement and each subsequent Loan disbursement under this Agreement shall be subject to the fulfillment to Lenders satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

LOAN DOCUMENTS. Borrower shall provide to Lender in form satisfactory to Lender the following documents for the Loan, unless Lender waives the requirement therefor: (a) the Note, (b) Security Agreements granting to Lender security interests in the Collateral, (c) Financing Statements perfecting Lender's Security Interests; (d) evidence of insurance as required below; (e) effective Financing Statements as required by any applicable state central filing system giving notice of Lender's security interests to prospective purchasers of Borrower's farm products; (f) if requested by Lender, a subordination agreement in form acceptable to Lender from the holder of any senior encumbrance; and (g) any other documents required under this Agreement or by Lender or its counsel, including without limitation any guaranties described below.

BUDGET AND SCHEDULE OF ESTIMATED DISBURSEMENTS. Lender shall have approved the Budget, if required by Lender, and a schedule of the estimated amount and time of each Loan disbursements.

BORROWER'S AUTHORIZATION. Borrower shall have provided in form and substance satisfactory to Lender such authorizations and other documents and instruments as Lender or its counsel, in their sole discretion, may require.

PAYMENT OF FEES AND EXPENSES. Borrower shall have paid to Lender all fees, charges, and other expenses that are then due and payable as specified in this Agreement or any Related Document.

REPRESENTATIONS AND WARRANTIES. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

NO EVENT OF DEFAULT. There shall not exist at the time of any disbursement a condition that would constitute an Event of Default under this Agreement.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of Loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

ORGANIZATION. Borrower is a general partnership which is duly organized, validly existing, and in good standing under the laws of the State of California and is a validly existing and in good standing in all states in which Borrower is doing business. Borrower has the full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage.

AUTHORIZATION. The execution, delivery, and performance of this Agreement and all Related Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary action by Borrower, do not require the consent or approval of any other person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its partnership agreement or any agreement or other instrument binding upon Borrower or (b) any law, governmental regulation, court decree, or order applicable to Borrower.

FINANCIAL INFORMATION. Each financial statement of Borrower supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial

statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

LEGAL EFFECT. This Agreement constitutes, and any instrument or agreement required hereunder to be given by Borrower when delivered will constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

PROPERTIES. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any Security Agreement or Financing Statements relating to such properties.

HAZARDOUS SUBSTANCES. The terms "hazardous waste,' "hazardous substance," "disposal," "release," and "threatened release," as used in this Agreement, shall have the same meanings as set forth in the "CERCLA," "SARA," the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant to any of the foregoing. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (a) During the period of Borrower's ownership of the properties, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, about or from any of the properties. (b) Except as disclosed in writing to Lender, Borrower has no knowledge of, or reason to believe that there has been (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance on, under, about or from the properties by any prior owners or occupants of any of the properties, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters. (c) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the properties shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, about or from any of the properties; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation those laws, regulations and ordinances described above. Borrower authorizes Lender and its agents to enter upon the properties to make such inspections and tests as Lender may deem appropriate to determine compliance of the properties with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the properties for hazardous waste and hazardous substances. Borrower hereby (a) releases and waives any future claims against Lender for indemnify or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release occurring prior to Borrower's ownership or interest in the properties, whether or not the same was or should have been known to Borrower. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive any termination of this Agreement.

LITIGATION AND CLAIMS. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

BINDING EFFECT. This Agreement, the Note, all Security Agreements directly or indirectly securing repayment of Borrower's Loan and Note and all of the Related Documents are binding upon Borrower as well as upon Borrower's successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

LOCATION OF BORROWER'S OFFICES AND RECORDS. Borrower's place of business, or Borrower's Chief Executive Office, if Borrower has more than one place of business, is located at 24780 East South Avenue, Orange Cove, California 93648. Unless Borrower has designated otherwise in writing this location is also the office where Borrower keeps its records concerning the Collateral.

INFORMATION. All information heretofore or contemporaneously herewith furnished by Borrower to Lender for the purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower to Lender will be, true and accurate in every material fact necessary to make such information not misleading.

SURVIVAL OF REPRESENTATIONS AND WARRANTIES. Borrower understands and agrees that Lender, without independent investigation, is relying upon the above representations and warranties in extending Loan disbursements to Borrower. Borrower further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, while this Agreement is in effect, Borrower will:

REPAYMENT. Repay the Note in accordance with its terms and the terms of this Agreement.

LITIGATION. Promptly inform Lender in writing of (a) all material adverse changes in Borrower's financial condition, and (b) all existing and threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

FINANCIAL RECORDS. Maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis ("GAAP"), and permit Lender to examine and audit Borrower's books and records at all reasonable times.

ADDITIONAL INFORMATION. Furnish such additional information and statements, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets, forecasts, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may request from time to time.

INSURANCE. Maintain fire and other risk insurance, hail, federal crop insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender including stipulations that coverages will not expire or be canceled or diminished without at least thirty (30) days' prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower shall provide Lender with such loss payable or other endorsements as Lender may require.

INSURANCE REPORTS. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitations the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the properties insured; (e) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (f) the expiration date of the policy.

OTHER AGREEMENTS. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

LOAN PROCEEDS. Use all Loan proceeds solely for the following specific purposes: Crop production.

TAXES, CHARGES AND LIENS. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP. Borrower, upon demand of Lender, will furnish to Lender evidence of payment of the assessments, taxes, charges, levies, liens and claims and will authorize the appropriate governmental official to deliver to Lender at any time a written statement of any assessments, taxes, charges, levies, liens and claims against Borrower's properties, income, or profits.

PERFORMANCE. Perform and comply with all terms, conditions, and provisions set forth in this Agreement and in the Related Documents in a timely manner, and promptly notify Lender if Borrower learns of the occurrence of any event which constitutes an Event of Default under this Agreement or under any of the Related Documents.

OPERATIONS. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; and conduct its business affairs in a reasonable and prudent manner and in compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations respecting its properties, businesses and operations.

INSPECTION. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

ENVIRONMENTAL COMPLIANCE AND REPORTS. Borrower shall comply in all respects with all environmental protection federal, state and local laws, statutes, regulations and ordinances; shall not cause or permit to exist, as a result of an intentional or unintentional action or omission on its part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; and shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in

connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

ADDITIONAL ASSURANCES. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall now, without the prior written consent of Lender:

INDEBTEDNESS AND LIENS. (a) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases; (b) except as allowed as a Permitted Lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets; or (c) sell with recourse any of Borrower's accounts, except to Lender.

CONTINUITY OF OPERATIONS. (a) Engage in any business activities substantially different than those in which Borrower is presently engaged; (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business; or (c) make any distributions to any of its partners, provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from any such distributions, Borrower may pay cash distributions to its partners from time to time in amounts necessary to enable the partners to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as partners in Borrower.

LOANS, ACQUISITIONS AND GUARANTIES. (a) Loan, invest in or advance money or assets; (b) purchase, create or acquire any interest in any other enterprise or entity; or (c) incur any obligation as surety or guarantor other than in the ordinary course of business.

OTHER BORROWINGS. Borrow from any person or entity other than Lender, whether such borrowing is secured or unsecured.

CESSATION OF DISBURSEMENTS. Lender shall have no obligation to make Loan disbursements or to disburse Loan proceeds under this Agreement or under any other agreement if: (a) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (b) Borrower or any Guarantor becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (c) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (d) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

DEFAULT ON INDEBTEDNESS. Failure of Borrower to make any payment when due on the Loans.

OTHER DEFAULTS. Failure of Borrower or any Grantor to comply with or to perform when due any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents, or failure of Borrower to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

DEFAULT IN FAVOR OF THIRD PARTIES. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

FALSE STATEMENTS. Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower or any Grantor under this Agreement or the Related Documents is false or misleading in any material respect at the time made or furnished, or becomes false or misleading at any time thereafter.

DEFECTIVE COLLATERALIZATION. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Security Agreement to create a valid and perfected Security Interest) at any time and for any reason.

INSOLVENCY. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

CREDITOR OR FORFEITURE PROCEEDINGS. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower, any creditor of any Grantor against any collateral securing the Indebtedness, or by any governmental agency.

EVENTS AFFECTING GUARANTOR. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

CHANGE IN OWNERSHIP. Any change in ownership of twenty-five percent (25%) or more of the ownership of Borrower.

ADVERSE CHANGE. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except
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where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make Loan disbursements or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of
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this Agreement:

AMENDMENTS. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

APPLICABLE LAW. This Agreement has been delivered to Lender and accepted by Lender In the State of California. If there is a lawsuit Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Los Angeles County, the State of California. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

CAPTION HEADINGS. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

FURTHER ASSURANCES. From and after the date of this Agreement, Lender and Borrower shall do such things, perform such acts, and make, execute, acknowledge and deliver such documents as may be reasonably necessary or proper and usual to carry out the purpose of this Agreement in accordance with its terms.

JURY TRIAL WAIVER. In the event that any controversy or claim between or among the parties arising from or relating to this Agreement, the Related Documents, the Loan, or any Indebtedness shall become the subject of a judicial action, each party hereby waives its respective right to trial by jury of the controversy or claim.

MULTIPLE PARTIES. All obligations of Borrower under this Agreement shall be joint and several, and all references to Borrower shall mean each and every Borrower. This means that each of the persons signing below on behalf of Borrower (except in the capacity as an officer of a corporation) is responsible for all obligations of Borrower under this Agreement.

COSTS AND EXPENSES. Borrower agrees to pay upon demand all of Lender's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or the Related Documents or in connection with the Loans made pursuant to this Agreement. Lender may pay someone else to help collect the Loans and to enforce this Agreement or the Related Documents, and Borrower will also pay Lender all costs or expenses associated therewith. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

NOTICES. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower will keep Lender informed at all times of Borrower's current addresses.

SEVERABILITY. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

SUBSIDIARIES AND AFFILIATES OF BORROWER. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used herein shall include all subsidiaries and affiliates of Borrower. Notwithstanding the

foregoing, however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any subsidiary or affiliate of Borrower.

SUCCESSORS AND ASSIGNS. All covenants and agreements herein contained by or on behalf of Borrower shall bind its successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower shall not, however, have the right to assign its rights under this Agreement or any interest therein, without the prior written consent of Lender.

SURVIVAL. All warranties, representations, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement shall be considered to have been relied upon by Lender and will survive the making of the Loan and delivery to Lender, of the Related Documents, regardless of any investigation made by Lender or on Lender's behalf.

LIMITATIONS AND TIME. Borrower's right to plead the statute of limitations as a defense to any and all of the obligations contained herein or secured hereby is waived to the full extent permitted by law. Time and exactitude of each of the terms, obligations, covenants and conditions are hereby declared to be the essence hereof.

WAIVER. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any obligations of Borrower or of any Grantor as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent in subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the sole discretion of Lender.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGRICULTURAL LOAN AGREEMENT, AND BORROWER AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AS OF DECEMBER 29, 1997.

BORROWER:

CITADEL AGRICULTURAL PARTNERS N0. 1,
a California general partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

By: /s/ S. Craig Tompkins
S. Craig Tompkins, President

LENDER:

CITADEL HOLDING CORPORATION,
a Delaware corporation

By: _____
Steve Wesson, Title: President

AGRICULTURAL LOAN AGREEMENT

Borrower: CITADEL AGRICULTURAL PARTNERS N0. 2
a California general partnership

Lender: CITADEL HOLDING CORPORATION,
a Delaware corporation

THIS AGRICULTURAL LOAN AGREEMENT between CITADEL AGRICULTURAL PARTNERS N0. 2, a California general partnership ("Borrower"), and CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender"), is made and executed on the following terms and conditions. Borrower has applied to Lender for an agricultural loan as described below. Such loan and any future loans and financial accommodations from Lender to Borrower are referred to in this Agreement individually as the "Loan" and collectively as the "Loans." Borrower understands and agrees that: (a) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; (b) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (c) all such Loans shall be and shall remain subject to the following terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of DECEMBER 29, 1997, and shall continue thereafter until all Indebtedness of Borrower to Lender has been performed in full and the parties terminate this Agreement in writing.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the California Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

AGREEMENT. The word "Agreement" means this Agricultural Loan Agreement, as this Agricultural Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Agricultural Loan Agreement from time to time.

BORROWER. The word "Borrower" means CITADEL AGRICULTURAL PARTNERS N0. 3, a California general partnership. The word "Borrower" also includes, as applicable, all subsidiaries and affiliates of Borrower as provided below in the paragraph titled "Subsidiaries and Affiliates."

BUDGET. The word "Budget" means Borrower's expense and income forecast operating budgets for the Current Crop Year which Lender may require that Borrower submit to Lender for review and approval in connection with Borrower's request for a Loan as described herein from Lender.

CERCLA. The word "CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

COLLATERAL. The word "Collateral" means and includes without limitation all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

CURRENT CROP YEAR. The words "Current Crop Year" mean the current crop production year.

ERISA. The word "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

EVENT OF DEFAULT. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "EVENTS OF DEFAULT."

GRANTOR. The word "Grantor" means and includes without limitation each and all of the persons or entities granting a Security Interest in any Collateral for the Indebtedness, including without limitation all Borrowers granting such a Security Interest

GUARANTOR. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with any Indebtedness.

INDEBTEDNESS. The word "Indebtedness" means and includes without limitation all Loans, together with all other obligations, debts and liabilities of Borrower to Lender, or any one or more of them, as well as all claims by Lender against Borrower, or any one or more of them; whether now or hereafter existing, voluntary or involuntary, due or not due, absolute or contingent, liquidated or unliquidated; whether Borrower may be liable individually or jointly with others; whether Borrower may be obligated as a guarantor, surety, or otherwise; whether recovery upon such Indebtedness may be or hereafter may become barred by any statute of limitations; and whether such Indebtedness may be or hereafter may become otherwise unenforceable.

LENDER. The word "Lender" means CITADEL HOLDING CORPORATION, a Delaware corporation, its successors and assigns.

LOAN. The word "Loan" or "Loans" means and includes without limitation any and all commercial loans and financial accommodations from Lender to Borrower, whether now or hereafter existing, and however evidenced, including without limitation the loan described below in the Section titled "The Loan."

NOTE. The word "Note" means and includes without limitation Borrower's promissory note or notes, if any, evidencing Borrower's Loan obligations in favor of Lender, as well as any substitute, replacement or refinancing note or notes therefor, including without limitation the Note described below in the Section titled "The Loan."

PERMITTED LIENS. The words "Permitted Liens" mean: (a) liens and security interests securing Indebtedness owed by Borrower to Lender; (b) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (c) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (d) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (e) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (f) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

SECURITY AGREEMENT. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

SECURITY INTEREST. The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

SARA. The word "SARA" means the Superfund Amendments and Reauthorization Act of 1986 as now or hereafter amended.

APPLICATION FOR AND PURPOSE OF THE LOAN. Borrower has applied to Lender and now renews Borrower's application for a Loan in the aggregate principal amount of ONE MILLION TWO HUNDRED THOUSAND & 00/100 DOLLARS ($1,200,000) for the following purposes:

FARM PRODUCTION LOAN. A farm production loan for the purpose of financing Borrower's farm production costs for the Current Crop Year.

RESTRICTION ON DRAWS. Borrower acknowledges that Lender has agreed to extend a line of credit with a maximum draw down of One Million Two Hundred Thousand Dollars ($1,200,00) ("Credit Line Limit") in the aggregate to Borrower and two other separate entities, Citadel Agricultural Partners No. 1 and Citadel Agricultural Partners No. 3, and that the amounts disbursed to Borrower are subject to the Credit Line Limit. Accordingly, the amount that Borrower may draw shall at all times be limited by the amount of the Credit Line Limit then outstanding, and Lender does not guarantee that Borrower will be able to draw down any particular minimum amount under this Loan.

THE LOAN. The following terms and conditions apply to the Loan:

THE LOAN COMMITMENT. On and after December 30, 1997 or such earlier date as Lender and Borrower may agree, Lender will lend to Borrower the Loan Amount which will be used for financing Borrower's farm production costs for the Current Crop Year and which Lender will loan to Borrower from time to time, but only in accordance with the terms hereof and the Related Documents.

THE LOAN DOCUMENTS. The Loan will be evidenced by a promissory note in the form of an exhibit attached to and made a part of this Agreement, or if no exhibit is attached hereto, then in form and substance satisfactory to Lender (the "Note"), together with such Related Documents as Lender may require for the Loan, all in form and substance satisfactory to Lender.

LOAN DISBURSEMENTS. Loan disbursements will be made at times and in amounts as provided in a draw down request provided by Borrower and acceptable to Lender upon Borrower's completing and delivering to Lender for each disbursement a disbursement request on Lender's form. Lender in its sole discretion and upon Borrower's request may make loan disbursements at times and in amounts and for purposes different than such schedule. In no event, however, will Lender be required to make any Loan disbursements after July 1, 1998 (the "Expiration Date").

DISBURSEMENTS OF PROCEEDS. Any Loan disbursement made under this Agreement shall be conclusively presumed to have been made to and for the benefit of Borrower whenever the proceeds of such disbursement are either (a) disbursed in accordance with the terms of this Agreement, (b) disbursed in accordance with instructions from Borrower or any of Borrower's authorized employees or agents, or (c) deposited into any demand, savings, or other account maintained by Borrower with Lender.

EXPIRATION DATE. Unless earlier terminated in accordance with the terms of this Agreement, Lender's commitment to make disbursements to Borrower under this Agreement shall automatically expire on the "Expiration Date" and Lender shall be under no further obligation to disbursement any Loan funds thereafter.

NO RENEWAL OR FUTURE LOAN OBLIGATION. Lender has not committed, and is not committing at this time, to finance Borrower's next year's farm loan requirements. Any such future loan or loans may be made solely at the option of Lender and on such terms and conditions as Lender may then require. Borrower understands that no prior course of dealing, no usage of trade, no oral statements or comments by Lender or it's employees or other agents will be deemed to be a commitment by Lender to lend money to Borrower or to any other person, unless the same is reduced to writing and signed by an authorized representative of Lender.

SALE OF COLLATERAL AND APPLICATION OF PROCEEDS. The following terms and conditions relate to any Collateral for the Loan and the application of proceeds of Collateral:

SALE OF COLLATERAL. Borrower may sell or otherwise dispose of Collateral only if (a) the proceeds of the sale are listed as income on the Budget, (b) Borrower delivers the proceeds to Lender, and (c) Borrower complies with the other terms of this Agreement. If either the proceeds of the Collateral are not listed as an income item in the Budget or Borrower wants to use proceeds for other than delivery to Lender, Borrower may not sell the Collateral without Lender's prior written consent.

BUYERS, CONSIGNEES, AND OTHER TRANSFEREES. The following provisions relate to any sale, consignment or transfer of crops, or other farm products included as all or a part of the Collateral:

(a) To induce Lender to extend the Loan, Borrower represents and warrants to Lender that it will sell, consign or transfer the Collateral only to those persons whose names and addresses have been set forth on sales schedules delivered to Lender. Each schedule shall be in such form as Lender may require, including identification of each type of Collateral. Borrower also shall notify Lender of the name and address of each additional person to whom or through whom the Collateral may be sold, consigned or transferred. All such schedules and notifications shall be in writing and shall be delivered to Lender not less than seven (7) days prior to any such sale, consignment or transfer of the Collateral.

(b) Borrower acknowledges that if the Collateral is sold, consigned, or transferred to any person not listed on a schedule delivered to Lender as provided above, and if Lender has not received an accounting (including the proceeds) of such sale, consignment or transfer within ten (10) days of the sale, consignment or transfer, then UNDER FEDERAL LAW, GRANTOR SHALL BE SUBJECT TO A FINE WHICH IS THE GREATER OF $5,000 OR 15% OF THE VALUE OR BENEFIT RECEIVED FROM THE SALE, CONSIGNMENT OF TRANSFER TO AN UNLISTED BUYER, CONSIGNEE OR TRANSFEREE.

DELIVERY OF PROCEEDS AND PAYMENTS. Borrower will immediately deliver or otherwise make available to Lender all proceeds of any sale, consignment or other transfer of the Collateral and in a form jointly payable to Borrower and Lender. All chattel paper, contracts, warehouse receipts, documents of title, or other evidences of ownership or obligations, whether issued by a co-op, grain elevator, or other warehouse or marketing entity, and all accounts receivable and other non-cash proceeds shall be endorsed, assigned and delivered immediately to Lender as security for the Loan. All the proceeds of any such disposition of the Collateral, when and if received by Lender, may at Lender's option be applied to the Loan. In addition, Lender may at any time collect the proceeds of any or all such accounts or other non-cash proceeds of any sale without notice to Borrower.

APPLICATION OF PROCEEDS AND PAYMENTS. Lender, in its sole discretion, may apply proceeds and payments of Collateral and any other payments Borrower may make on the Loan to either (a) accrued unpaid

interest owing on the Note, (b) outstanding principal on the Note, or (c) any other amounts owing by Borrower to Lender in connection with the Loan.

CONDITIONS PRECEDENT TO EACH DISBURSEMENT. Lender's obligation to make the initial Loan disbursement and each subsequent Loan disbursement under this Agreement shall be subject to the fulfillment to Lenders satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

LOAN DOCUMENTS. Borrower shall provide to Lender in form satisfactory to Lender the following documents for the Loan, unless Lender waives the requirement therefor: (a) the Note, (b) Security Agreements granting to Lender security interests in the Collateral, (c) Financing Statements perfecting Lender's Security Interests; (d) evidence of insurance as required below; (e) effective Financing Statements as required by any applicable state central filing system giving notice of Lender's security interests to prospective purchasers of Borrower's farm products; (f) if requested by Lender, a subordination agreement in form acceptable to Lender from the holder of any senior encumbrance; and (g) any other documents required under this Agreement or by Lender or its counsel, including without limitation any guaranties described below.

BUDGET AND SCHEDULE OF ESTIMATED DISBURSEMENTS. Lender shall have approved the Budget, if required by Lender, and a schedule of the estimated amount and time of each Loan disbursements.

BORROWER'S AUTHORIZATION. Borrower shall have provided in form and substance satisfactory to Lender such authorizations and other documents and instruments as Lender or its counsel, in their sole discretion, may require.

PAYMENT OF FEES AND EXPENSES. Borrower shall have paid to Lender all fees, charges, and other expenses that are then due and payable as specified in this Agreement or any Related Document.

REPRESENTATIONS AND WARRANTIES. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

NO EVENT OF DEFAULT. There shall not exist at the time of any disbursement a condition that would constitute an Event of Default under this Agreement.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of Loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

ORGANIZATION. Borrower is a general partnership which is duly organized, validly existing, and in good standing under the laws of the State of California and is a validly existing and in good standing in all states in which Borrower is doing business. Borrower has the full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage.

AUTHORIZATION. The execution, delivery, and performance of this Agreement and all Related Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary action by Borrower, do not require the consent or approval of any other person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its partnership agreement or any agreement or other instrument binding upon Borrower or (b) any law, governmental regulation, court decree, or order applicable to Borrower.

FINANCIAL INFORMATION. Each financial statement of Borrower supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial

statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

LEGAL EFFECT. This Agreement constitutes, and any instrument or agreement required hereunder to be given by Borrower when delivered will constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

PROPERTIES. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any Security Agreement or Financing Statements relating to such properties.

HAZARDOUS SUBSTANCES. The terms "hazardous waste,' "hazardous substance," "disposal," "release," and "threatened release," as used in this Agreement, shall have the same meanings as set forth in the "CERCLA," "SARA," the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant to any of the foregoing. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (a) During the period of Borrower's ownership of the properties, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, about or from any of the properties. (b) Except as disclosed in writing to Lender, Borrower has no knowledge of, or reason to believe that there has been (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance on, under, about or from the properties by any prior owners or occupants of any of the properties, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters. (c) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the properties shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, about or from any of the properties; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation those laws, regulations and ordinances described above. Borrower authorizes Lender and its agents to enter upon the properties to make such inspections and tests as Lender may deem appropriate to determine compliance of the properties with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the properties for hazardous waste and hazardous substances. Borrower hereby (a) releases and waives any future claims against Lender for indemnify or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release occurring prior to Borrower's ownership or interest in the properties, whether or not the same was or should have been known to Borrower. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive any termination of this Agreement.

LITIGATION AND CLAIMS. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

BINDING EFFECT. This Agreement, the Note, all Security Agreements directly or indirectly securing repayment of Borrower's Loan and Note and all of the Related Documents are binding upon Borrower as well as upon Borrower's successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

LOCATION OF BORROWER'S OFFICES AND RECORDS. Borrower's place of business, or Borrower's Chief Executive Office, if Borrower has more than one place of business, is located at 24780 East South Avenue, Orange Cove, California 93648. Unless Borrower has designated otherwise in writing this location is also the office where Borrower keeps its records concerning the Collateral.

INFORMATION. All information heretofore or contemporaneously herewith furnished by Borrower to Lender for the purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower to Lender will be, true and accurate in every material fact necessary to make such information not misleading.

SURVIVAL OF REPRESENTATIONS AND WARRANTIES. Borrower understands and agrees that Lender, without independent investigation, is relying upon the above representations and warranties in extending Loan disbursements to Borrower. Borrower further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, while this Agreement is in effect, Borrower will:

REPAYMENT. Repay the Note in accordance with its terms and the terms of this Agreement.

LITIGATION. Promptly inform Lender in writing of (a) all material adverse changes in Borrower's financial condition, and (b) all existing and threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

FINANCIAL RECORDS. Maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis ("GAAP"), and permit Lender to examine and audit Borrower's books and records at all reasonable times.

ADDITIONAL INFORMATION. Furnish such additional information and statements, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets, forecasts, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may request from time to time.

INSURANCE. Maintain fire and other risk insurance, hail, federal crop insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender including stipulations that coverages will not expire or be canceled or diminished without at least thirty (30) days' prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower shall provide Lender with such loss payable or other endorsements as Lender may require.

INSURANCE REPORTS. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitations the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the properties insured; (e) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (f) the expiration date of the policy.

OTHER AGREEMENTS. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

LOAN PROCEEDS. Use all Loan proceeds solely for the following specific purposes: Crop production.

TAXES, CHARGES AND LIENS. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP. Borrower, upon demand of Lender, will furnish to Lender evidence of payment of the assessments, taxes, charges, levies, liens and claims and will authorize the appropriate governmental official to deliver to Lender at any time a written statement of any assessments, taxes, charges, levies, liens and claims against Borrower's properties, income, or profits.

PERFORMANCE. Perform and comply with all terms, conditions, and provisions set forth in this Agreement and in the Related Documents in a timely manner, and promptly notify Lender if Borrower learns of the occurrence of any event which constitutes an Event of Default under this Agreement or under any of the Related Documents.

OPERATIONS. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; and conduct its business affairs in a reasonable and prudent manner and in compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations respecting its properties, businesses and operations.

INSPECTION. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

ENVIRONMENTAL COMPLIANCE AND REPORTS. Borrower shall comply in all respects with all environmental protection federal, state and local laws, statutes, regulations and ordinances; shall not cause or permit to exist, as a result of an intentional or unintentional action or omission on its part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; and shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in

connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

ADDITIONAL ASSURANCES. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall now, without the prior written consent of Lender:

INDEBTEDNESS AND LIENS. (a) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases; (b) except as allowed as a Permitted Lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets; or (c) sell with recourse any of Borrower's accounts, except to Lender.

CONTINUITY OF OPERATIONS. (a) Engage in any business activities substantially different than those in which Borrower is presently engaged; (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business; or (c) make any distributions to any of its partners, provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from any such distributions, Borrower may pay cash distributions to its partners from time to time in amounts necessary to enable the partners to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as partners in Borrower.

LOANS, ACQUISITIONS AND GUARANTIES. (a) Loan, invest in or advance money or assets; (b) purchase, create or acquire any interest in any other enterprise or entity; or (c) incur any obligation as surety or guarantor other than in the ordinary course of business.

OTHER BORROWINGS. Borrow from any person or entity other than Lender, whether such borrowing is secured or unsecured.

CESSATION OF DISBURSEMENTS . Lender shall have no obligation to make Loan disbursements or to disburse Loan proceeds under this Agreement or under any other agreement if: (a) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (b) Borrower or any Guarantor becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (c) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (d) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

DEFAULT ON INDEBTEDNESS. Failure of Borrower to make any payment when due on the Loans.

OTHER DEFAULTS. Failure of Borrower or any Grantor to comply with or to perform when due any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents, or failure of Borrower to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

DEFAULT IN FAVOR OF THIRD PARTIES. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

FALSE STATEMENTS. Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower or any Grantor under this Agreement or the Related Documents is false or misleading in any material respect at the time made or furnished, or becomes false or misleading at any time thereafter.

DEFECTIVE COLLATERALIZATION. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Security Agreement to create a valid and perfected Security Interest) at any time and for any reason.

INSOLVENCY. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

CREDITOR OR FORFEITURE PROCEEDINGS. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower, any creditor of any Grantor against any collateral securing the Indebtedness, or by any governmental agency.

EVENTS AFFECTING GUARANTOR. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

CHANGE IN OWNERSHIP. Any change in ownership of twenty-five percent (25%) or more of the ownership of Borrower.

ADVERSE CHANGE. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except
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where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make Loan disbursements or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of
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this Agreement:

AMENDMENTS. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

APPLICABLE LAW. This Agreement has been delivered to Lender and accepted by Lender In the State of California. If there is a lawsuit Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Los Angeles County, the State of California. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

CAPTION HEADINGS. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

FURTHER ASSURANCES. From and after the date of this Agreement, Lender and Borrower shall do such things, perform such acts, and make, execute, acknowledge and deliver such documents as may be reasonably necessary or proper and usual to carry out the purpose of this Agreement in accordance with its terms.

JURY TRIAL WAIVER. In the event that any controversy or claim between or among the parties arising from or relating to this Agreement, the Related Documents, the Loan, or any Indebtedness shall become the subject of a judicial action, each party hereby waives its respective right to trial by jury of the controversy or claim.

MULTIPLE PARTIES. All obligations of Borrower under this Agreement shall be joint and several, and all references to Borrower shall mean each and every Borrower. This means that each of the persons signing below on behalf of Borrower (except in the capacity as an officer of a corporation) is responsible for all obligations of Borrower under this Agreement.

COSTS AND EXPENSES. Borrower agrees to pay upon demand all of Lender's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or the Related Documents or in connection with the Loans made pursuant to this Agreement. Lender may pay someone else to help collect the Loans and to enforce this Agreement or the Related Documents, and Borrower will also pay Lender all costs or expenses associated therewith. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

NOTICES. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower will keep Lender informed at all times of Borrower's current addresses.

SEVERABILITY. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

SUBSIDIARIES AND AFFILIATES OF BORROWER. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used herein shall include all subsidiaries and affiliates of Borrower. Notwithstanding the

foregoing, however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any subsidiary or affiliate of Borrower.

SUCCESSORS AND ASSIGNS. All covenants and agreements herein contained by or on behalf of Borrower shall bind its successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower shall not, however, have the right to assign its rights under this Agreement or any interest therein, without the prior written consent of Lender.

SURVIVAL. All warranties, representations, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement shall be considered to have been relied upon by Lender and will survive the making of the Loan and delivery to Lender, of the Related Documents, regardless of any investigation made by Lender or on Lender's behalf.

LIMITATIONS AND TIME. Borrower's right to plead the statute of limitations as a defense to any and all of the obligations contained herein or secured hereby is waived to the full extent permitted by law. Time and exactitude of each of the terms, obligations, covenants and conditions are hereby declared to be the essence hereof.

WAIVER. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any obligations of Borrower or of any Grantor as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent in subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the sole discretion of Lender.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGRICULTURAL LOAN AGREEMENT, AND BORROWER AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AS OF DECEMBER 29, 1997.

BORROWER:

CITADEL AGRICULTURAL PARTNERS N0. 2,
a California general partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General
Partner

By: /s/ S. Craig Tompkins

S. Craig Tompkins, President

LENDER:

CITADEL HOLDING CORPORATION,
a Delaware corporation

By: _____

Steve Wesson, Title: President

EXHIBIT 10.74

AGRICULTURAL LOAN AGREEMENT

Borrower: CITADEL AGRICULTURAL PARTNERS N0. 3
a California general partnership

Lender: CITADEL HOLDING CORPORATION,
a Delaware corporation

THIS AGRICULTURAL LOAN AGREEMENT between CITADEL AGRICULTURAL PARTNERS N0. 3, a California general partnership ("Borrower"), and CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender"), is made and executed on the following terms and conditions. Borrower has applied to Lender for an agricultural loan as described below. Such loan and any future loans and financial accommodations from Lender to Borrower are referred to in this Agreement individually as the "Loan" and collectively as the "Loans." Borrower understands and agrees that: (a) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; (b) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (c) all such Loans shall be and shall remain subject to the following terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of DECEMBER 29, 1997, and shall continue thereafter until all Indebtedness of Borrower to Lender has been performed in full and the parties terminate this Agreement in writing.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the California Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

AGREEMENT. The word "Agreement" means this Agricultural Loan Agreement, as this Agricultural Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Agricultural Loan Agreement from time to time.

BORROWER. The word "Borrower" means CITADEL AGRICULTURAL PARTNERS N0. 3, a California general partnership. The word "Borrower" also includes, as applicable, all subsidiaries and affiliates of Borrower as provided below in the paragraph titled "Subsidiaries and Affiliates."

BUDGET. The word "Budget" means Borrower's expense and income forecast operating budgets for the Current Crop Year which Lender may require that Borrower submit to Lender for review and approval in connection with Borrower's request for a Loan as described herein from Lender.

CERCLA. The word "CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

COLLATERAL. The word "Collateral" means and includes without limitation all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

CURRENT CROP YEAR. The words "Current Crop Year" mean the current crop production year.

ERISA. The word "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

EVENT OF DEFAULT. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "EVENTS OF DEFAULT."

GRANTOR. The word "Grantor" means and includes without limitation each and all of the persons or entities granting a Security Interest in any Collateral for the Indebtedness, including without limitation all Borrowers granting such a Security Interest

GUARANTOR. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with any Indebtedness.

INDEBTEDNESS. The word "Indebtedness" means and includes without limitation all Loans, together with all other obligations, debts and liabilities of Borrower to Lender, or any one or more of them, as well as all claims by Lender against Borrower, or any one or more of them; whether now or hereafter existing, voluntary or involuntary, due or not due, absolute or contingent, liquidated or unliquidated; whether Borrower may be liable individually or jointly with others; whether Borrower may be obligated as a guarantor, surety, or otherwise; whether recovery upon such Indebtedness may be or hereafter may become barred by any statute of limitations; and whether such Indebtedness may be or hereafter may become otherwise unenforceable.

LENDER. The word "Lender" means CITADEL HOLDING CORPORATION, a Delaware corporation, its successors and assigns.

LOAN. The word "Loan" or "Loans" means and includes without limitation any and all commercial loans and financial accommodations from Lender to Borrower, whether now or hereafter existing, and however evidenced, including without limitation the loan described below in the Section titled "The Loan."

NOTE. The word "Note" means and includes without limitation Borrower's promissory note or notes, if any, evidencing Borrower's Loan obligations in favor of Lender, as well as any substitute, replacement or refinancing note or notes therefor, including without limitation the Note described below in the Section titled "The Loan."

PERMITTED LIENS. The words "Permitted Liens" mean: (a) liens and security interests securing Indebtedness owed by Borrower to Lender; (b) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (c) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (d) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (e) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (f) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

SECURITY AGREEMENT. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

SECURITY INTEREST. The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

SARA. The word "SARA" means the Superfund Amendments and Reauthorization Act of 1986 as now or hereafter amended.

APPLICATION FOR AND PURPOSE OF THE LOAN. Borrower has applied to Lender and now renews Borrower's application for a Loan in the aggregate principal amount of ONE MILLION TWO HUNDRED THOUSAND & 00/100 DOLLARS ($1,200,000) for the following purposes:

FARM PRODUCTION LOAN. A farm production loan for the purpose of financing Borrower's farm production costs for the Current Crop Year.

RESTRICTION ON DRAWS. Borrower acknowledges that Lender has agreed to extend a line of credit with a maximum draw down of One Million Two Hundred Thousand Dollars ($1,200,00) ("Credit Line Limit") in the aggregate to Borrower and two other separate entities, Citadel Agricultural Partners No. 1 and Citadel Agricultural Partners No. 2, and that the amounts disbursed to Borrower are subject to the Credit Line Limit. Accordingly, the amount that Borrower may draw shall at all times be limited by the amount of the Credit Line Limit then outstanding, and Lender does not guarantee that Borrower will be able to draw down any particular minimum amount under this Loan.

THE LOAN. The following terms and conditions apply to the Loan:

THE LOAN COMMITMENT. On and after December 30, 1997 or such earlier date as Lender and Borrower may agree, Lender will lend to Borrower the Loan Amount which will be used for financing Borrower's farm production costs for the Current Crop Year and which Lender will loan to Borrower from time to time, but only in accordance with the terms hereof and the Related Documents.

THE LOAN DOCUMENTS. The Loan will be evidenced by a promissory note in the form of an exhibit attached to and made a part of this Agreement, or if no exhibit is attached hereto, then in form and substance satisfactory to Lender (the "Note"), together with such Related Documents as Lender may require for the Loan, all in form and substance satisfactory to Lender.

LOAN DISBURSEMENTS. Loan disbursements will be made at times and in amounts as provided in a draw down request provided by Borrower and acceptable to Lender upon Borrower's completing and delivering to Lender for each disbursement a disbursement request on Lender's form. Lender in its sole discretion and upon Borrower's request may make loan disbursements at times and in amounts and for purposes different than such schedule. In no event, however, will Lender be required to make any Loan disbursements after July 1, 1998 (the "Expiration Date").

DISBURSEMENTS OF PROCEEDS. Any Loan disbursement made under this Agreement shall be conclusively presumed to have been made to and for the benefit of Borrower whenever the proceeds of such disbursement are either (a) disbursed in accordance with the terms of this Agreement, (b) disbursed in accordance with instructions from Borrower or any of Borrower's authorized employees or agents, or (c) deposited into any demand, savings, or other account maintained by Borrower with Lender.

EXPIRATION DATE. Unless earlier terminated in accordance with the terms of this Agreement, Lender's commitment to make disbursements to Borrower under this Agreement shall automatically expire on the "Expiration Date" and Lender shall be under no further obligation to disbursement any Loan funds thereafter.

NO RENEWAL OR FUTURE LOAN OBLIGATION. Lender has not committed, and is not committing at this time, to finance Borrower's next year's farm loan requirements. Any such future loan or loans may be made solely at the option of Lender and on such terms and conditions as Lender may then require. Borrower understands that no prior course of dealing, no usage of trade, no oral statements or comments by Lender or it's employees or other agents will be deemed to be a commitment by Lender to lend money to Borrower or to any other person, unless the same is reduced to writing and signed by an authorized representative of Lender.

SALE OF COLLATERAL AND APPLICATION OF PROCEEDS. The following terms and conditions relate to any Collateral for the Loan and the application of proceeds of Collateral:

SALE OF COLLATERAL. Borrower may sell or otherwise dispose of Collateral only if (a) the proceeds of the sale are listed as income on the Budget, (b) Borrower delivers the proceeds to Lender, and (c) Borrower complies with the other terms of this Agreement. If either the proceeds of the Collateral are not listed as an income item in the Budget or Borrower wants to use proceeds for other than delivery to Lender, Borrower may not sell the Collateral without Lender's prior written consent.

BUYERS, CONSIGNEES, AND OTHER TRANSFEREES. The following provisions relate to any sale, consignment or transfer of crops, or other farm products included as all or a part of the Collateral:

(a) To induce Lender to extend the Loan, Borrower represents and warrants to Lender that it will sell, consign or transfer the Collateral only to those persons whose names and addresses have been set forth on sales schedules delivered to Lender. Each schedule shall be in such form as Lender may require, including identification of each type of Collateral. Borrower also shall notify Lender of the name and address of each additional person to whom or through whom the Collateral may be sold, consigned or transferred. All such schedules and notifications shall be in writing and shall be delivered to Lender not less than seven (7) days prior to any such sale, consignment or transfer of the Collateral.

(b) Borrower acknowledges that if the Collateral is sold, consigned, or transferred to any person not listed on a schedule delivered to Lender as provided above, and if Lender has not received an accounting (including the proceeds) of such sale, consignment or transfer within ten (10) days of the sale, consignment or transfer, then UNDER FEDERAL LAW, GRANTOR SHALL BE SUBJECT TO A FINE WHICH IS THE GREATER OF $5,000 OR 15% OF THE VALUE OR BENEFIT RECEIVED FROM THE SALE, CONSIGNMENT OF TRANSFER TO AN UNLISTED BUYER, CONSIGNEE OR TRANSFEREE.

DELIVERY OF PROCEEDS AND PAYMENTS. Borrower will immediately deliver or otherwise make available to Lender all proceeds of any sale, consignment or other transfer of the Collateral and in a form jointly payable to Borrower and Lender. All chattel paper, contracts, warehouse receipts, documents of title, or other evidences of ownership or obligations, whether issued by a co-op, grain elevator, or other warehouse or marketing entity, and all accounts receivable and other non-cash proceeds shall be endorsed, assigned and delivered immediately to Lender as security for the Loan. All the proceeds of any such disposition of the Collateral, when and if received by Lender, may at Lender's option be applied to the Loan. In addition, Lender may at any time collect the proceeds of any or all such accounts or other non-cash proceeds of any sale without notice to Borrower.

APPLICATION OF PROCEEDS AND PAYMENTS. Lender, in its sole discretion, may apply proceeds and payments of Collateral and any other payments Borrower may make on the Loan to either (a) accrued unpaid

interest owing on the Note, (b) outstanding principal on the Note, or (c) any other amounts owing by Borrower to Lender in connection with the Loan.

CONDITIONS PRECEDENT TO EACH DISBURSEMENT. Lender's obligation to make the initial Loan disbursement and each subsequent Loan disbursement under this Agreement shall be subject to the fulfillment to Lenders satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

LOAN DOCUMENTS. Borrower shall provide to Lender in form satisfactory to Lender the following documents for the Loan, unless Lender waives the requirement therefor: (a) the Note, (b) Security Agreements granting to Lender security interests in the Collateral, (c) Financing Statements perfecting Lender's Security Interests; (d) evidence of insurance as required below; (e) effective Financing Statements as required by any applicable state central filing system giving notice of Lender's security interests to prospective purchasers of Borrower's farm products; (f) if requested by Lender, a subordination agreement in form acceptable to Lender from the holder of any senior encumbrance; and (g) any other documents required under this Agreement or by Lender or its counsel, including without limitation any guaranties described below.

BUDGET AND SCHEDULE OF ESTIMATED DISBURSEMENTS. Lender shall have approved the Budget, if required by Lender, and a schedule of the estimated amount and time of each Loan disbursements.

BORROWER'S AUTHORIZATION. Borrower shall have provided in form and substance satisfactory to Lender such authorizations and other documents and instruments as Lender or its counsel, in their sole discretion, may require.

PAYMENT OF FEES AND EXPENSES. Borrower shall have paid to Lender all fees, charges, and other expenses that are then due and payable as specified in this Agreement or any Related Document.

REPRESENTATIONS AND WARRANTIES. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

NO EVENT OF DEFAULT. There shall not exist at the time of any disbursement a condition that would constitute an Event of Default under this Agreement.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of Loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

ORGANIZATION. Borrower is a general partnership which is duly organized, validly existing, and in good standing under the laws of the State of California and is a validly existing and in good standing in all states in which Borrower is doing business. Borrower has the full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage.

AUTHORIZATION. The execution, delivery, and performance of this Agreement and all Related Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary action by Borrower, do not require the consent or approval of any other person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its partnership agreement or any agreement or other instrument binding upon Borrower or (b) any law, governmental regulation, court decree, or order applicable to Borrower.

FINANCIAL INFORMATION. Each financial statement of Borrower supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial

statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

LEGAL EFFECT. This Agreement constitutes, and any instrument or agreement required hereunder to be given by Borrower when delivered will constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

PROPERTIES. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any Security Agreement or Financing Statements relating to such properties.

HAZARDOUS SUBSTANCES. The terms "hazardous waste,' "hazardous substance," "disposal," "release," and "threatened release," as used in this Agreement, shall have the same meanings as set forth in the "CERCLA," "SARA," the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant to any of the foregoing. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (a) During the period of Borrower's ownership of the properties, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, about or from any of the properties. (b) Except as disclosed in writing to Lender, Borrower has no knowledge of, or reason to believe that there has been (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance on, under, about or from the properties by any prior owners or occupants of any of the properties, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters. (c) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the properties shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, about or from any of the properties; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation those laws, regulations and ordinances described above. Borrower authorizes Lender and its agents to enter upon the properties to make such inspections and tests as Lender may deem appropriate to determine compliance of the properties with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the properties for hazardous waste and hazardous substances. Borrower hereby (a) releases and waives any future claims against Lender for indemnify or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release occurring prior to Borrower's ownership or interest in the properties, whether or not the same was or should have been known to Borrower. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive any termination of this Agreement.

LITIGATION AND CLAIMS. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

BINDING EFFECT. This Agreement, the Note, all Security Agreements directly or indirectly securing repayment of Borrower's Loan and Note and all of the Related Documents are binding upon Borrower as well as upon Borrower's successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

LOCATION OF BORROWER'S OFFICES AND RECORDS. Borrower's place of business, or Borrower's Chief Executive Office, if Borrower has more than one place of business, is located at 24780 East South Avenue, Orange Cove, California 93648. Unless Borrower has designated otherwise in writing this location is also the office where Borrower keeps its records concerning the Collateral.

INFORMATION. All information heretofore or contemporaneously herewith furnished by Borrower to Lender for the purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower to Lender will be, true and accurate in every material fact necessary to make such information not misleading.

SURVIVAL OF REPRESENTATIONS AND WARRANTIES. Borrower understands and agrees that Lender, without independent investigation, is relying upon the above representations and warranties in extending Loan disbursements to Borrower. Borrower further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, while this Agreement is in effect, Borrower will:

REPAYMENT. Repay the Note in accordance with its terms and the terms of this Agreement.

LITIGATION. Promptly inform Lender in writing of (a) all material adverse changes in Borrower's financial condition, and (b) all existing and threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

FINANCIAL RECORDS. Maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis ("GAAP"), and permit Lender to examine and audit Borrower's books and records at all reasonable times.

ADDITIONAL INFORMATION. Furnish such additional information and statements, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets, forecasts, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may request from time to time.

INSURANCE. Maintain fire and other risk insurance, hail, federal crop insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender including stipulations that coverages will not expire or be canceled or diminished without at least thirty (30) days' prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower shall provide Lender with such loss payable or other endorsements as Lender may require.

INSURANCE REPORTS. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitations the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the properties insured; (e) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (f) the expiration date of the policy.

OTHER AGREEMENTS. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

LOAN PROCEEDS. Use all Loan proceeds solely for the following specific purposes: Crop production.

TAXES, CHARGES AND LIENS. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP. Borrower, upon demand of Lender, will furnish to Lender evidence of payment of the assessments, taxes, charges, levies, liens and claims and will authorize the appropriate governmental official to deliver to Lender at any time a written statement of any assessments, taxes, charges, levies, liens and claims against Borrower's properties, income, or profits.

PERFORMANCE. Perform and comply with all terms, conditions, and provisions set forth in this Agreement and in the Related Documents in a timely manner, and promptly notify Lender if Borrower learns of the occurrence of any event which constitutes an Event of Default under this Agreement or under any of the Related Documents.

OPERATIONS. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; and conduct its business affairs in a reasonable and prudent manner and in compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations respecting its properties, businesses and operations.

INSPECTION. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

ENVIRONMENTAL COMPLIANCE AND REPORTS. Borrower shall comply in all respects with all environmental protection federal, state and local laws, statutes, regulations and ordinances; shall not cause or permit to exist, as a result of an intentional or unintentional action or omission on its part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; and shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in

connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

ADDITIONAL ASSURANCES. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall now, without the prior written consent of Lender:

INDEBTEDNESS AND LIENS. (a) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases; (b) except as allowed as a Permitted Lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets; or (c) sell with recourse any of Borrower's accounts, except to Lender.

CONTINUITY OF OPERATIONS. (a) Engage in any business activities substantially different than those in which Borrower is presently engaged; (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business; or (c) make any distributions to any of its partners, provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from any such distributions, Borrower may pay cash distributions to its partners from time to time in amounts necessary to enable the partners to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as partners in Borrower.

LOANS, ACQUISITIONS AND GUARANTIES. (a) Loan, invest in or advance money or assets; (b) purchase, create or acquire any interest in any other enterprise or entity; or (c) incur any obligation as surety or guarantor other than in the ordinary course of business.

OTHER BORROWINGS. Borrow from any person or entity other than Lender, whether such borrowing is secured or unsecured.

CESSATION OF DISBURSEMENTS. Lender shall have no obligation to make Loan disbursements or to disburse Loan proceeds under this Agreement or under any other agreement if: (a) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (b) Borrower or any Guarantor becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (c) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (d) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

DEFAULT ON INDEBTEDNESS. Failure of Borrower to make any payment when due on the Loans.

OTHER DEFAULTS. Failure of Borrower or any Grantor to comply with or to perform when due any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents, or failure of Borrower to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

DEFAULT IN FAVOR OF THIRD PARTIES. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

FALSE STATEMENTS. Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower or any Grantor under this Agreement or the Related Documents is false or misleading in any material respect at the time made or furnished, or becomes false or misleading at any time thereafter.

DEFECTIVE COLLATERALIZATION. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Security Agreement to create a valid and perfected Security Interest) at any time and for any reason.

INSOLVENCY. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

CREDITOR OR FORFEITURE PROCEEDINGS. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower, any creditor of any Grantor against any collateral securing the Indebtedness, or by any governmental agency.

EVENTS AFFECTING GUARANTOR. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

CHANGE IN OWNERSHIP. Any change in ownership of twenty-five percent (25%) or more of the ownership of Borrower.

ADVERSE CHANGE. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except
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where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make Loan disbursements or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of
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this Agreement:

AMENDMENTS. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

APPLICABLE LAW. This Agreement has been delivered to Lender and accepted by Lender In the State of California. If there is a lawsuit Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Los Angeles County, the State of California. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

CAPTION HEADINGS. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

FURTHER ASSURANCES. From and after the date of this Agreement, Lender and Borrower shall do such things, perform such acts, and make, execute, acknowledge and deliver such documents as may be reasonably necessary or proper and usual to carry out the purpose of this Agreement in accordance with its terms.

JURY TRIAL WAIVER. In the event that any controversy or claim between or among the parties arising from or relating to this Agreement, the Related Documents, the Loan, or any Indebtedness shall become the subject of a judicial action, each party hereby waives its respective right to trial by jury of the controversy or claim.

MULTIPLE PARTIES. All obligations of Borrower under this Agreement shall be joint and several, and all references to Borrower shall mean each and every Borrower. This means that each of the persons signing below on behalf of Borrower (except in the capacity as an officer of a corporation) is responsible for all obligations of Borrower under this Agreement.

COSTS AND EXPENSES. Borrower agrees to pay upon demand all of Lender's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or the Related Documents or in connection with the Loans made pursuant to this Agreement. Lender may pay someone else to help collect the Loans and to enforce this Agreement or the Related Documents, and Borrower will also pay Lender all costs or expenses associated therewith. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

NOTICES. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower will keep Lender informed at all times of Borrower's current addresses.

SEVERABILITY. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

SUBSIDIARIES AND AFFILIATES OF BORROWER. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used herein shall include all subsidiaries and affiliates of Borrower. Notwithstanding the

foregoing, however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any subsidiary or affiliate of Borrower.

SUCCESSORS AND ASSIGNS. All covenants and agreements herein contained by or on behalf of Borrower shall bind its successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower shall not, however, have the right to assign its rights under this Agreement or any interest therein, without the prior written consent of Lender.

SURVIVAL. All warranties, representations, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement shall be considered to have been relied upon by Lender and will survive the making of the Loan and delivery to Lender, of the Related Documents, regardless of any investigation made by Lender or on Lender's behalf.

LIMITATIONS AND TIME. Borrower's right to plead the statute of limitations as a defense to any and all of the obligations contained herein or secured hereby is waived to the full extent permitted by law. Time and exactitude of each of the terms, obligations, covenants and conditions are hereby declared to be the essence hereof.

WAIVER. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any obligations of Borrower or of any Grantor as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent in subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the sole discretion of Lender.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGRICULTURAL LOAN AGREEMENT, AND BORROWER AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AS OF DECEMBER 29, 1997.

BORROWER:

CITADEL AGRICULTURAL PARTNERS N0. 3,
a California general partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

/s/ S. Craig Tompkins
By:_____
S. Craig Tompkins, President

LENDER:

CITADEL HOLDING CORPORATION,
a Delaware corporation

By:_____
Steve Wesson, Title: President

EXHIBIT 10.75

PROMISSORY NOTE

Date: December 29, 1997 Amount: $1,200,000

BORROWER: CITADEL AGRICULTURAL PARTNERS NO. 1
a California general partnership

LENDER: CITADEL HOLDING CORPORATION,
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

PROMISE TO PAY. CITADEL AGRICULTURAL PARTNERS NO. 1, a California general partnership ("Borrower'), promises to pay to CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender'), or order, in lawful money of the United States of America, the principal amount of One Million Two Hundred Thousand Dollars ($1,200,000) or so much as may be outstanding as set forth from time to time in Schedule 1 hereto, together with interest on the unpaid outstanding principal balance.

RESTRICTION ON DRAWS. Borrower acknowledges that Lender has agreed to extend a line of credit with a maximum draw down of One Million Two Hundred Thousand Dollars ($1,200,00) ("Credit Line Limit") in the aggregate to Borrower and two other separate entities, Citadel Agricultural Partners No. 2 and Citadel Agricultural Partners No. 3, and that this Note is subject to that Credit Line Limit. According, the amount that Borrower may draw shall at all times be limited by the amount of the Credit Line Limit then outstanding, and Lender does not guarantee that Borrower will be able to draw down any particular minimum amount under this Loan.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on August 1, 1998 ("Maturity Date"). Interest on this Note (i) shall be calculated based on the Interest Rate, as hereinafter defined, (ii) shall commence on the date of the first disbursement of funds under this Note, and (iii) shall continue to accrue until all amounts due hereunder have been paid in full. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to any unpaid collection costs and any late charges, then to any unpaid interest, and any remaining amount to principal.

VARIABLE INTEREST RATE. The Interest Rate on this Note is a fluctuating rate based on changes in the prime rate published from time to time by the Wall Street Journal (the "Index"). The Interest Rate to be applied to the outstanding principal balance of this Note means the rate equal to one (1) percentage (100 basis) point in excess of the Index. Interest shall be computed on the basis of a three-hundred sixty (360) day year and the actual number of days the outstanding principal, as the same may vary, remains unpaid. The Interest Rate shall change on the day the Wall Street Journal publishes a change in the Index. If the Index becomes unavailable during the term of this Note, Lender may designate a substitute index after notifying Borrower. Lender will advise Borrower of the current Index rate upon Borrower's request.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of this Note and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due ("Early Payments"). Early Payments will not, unless Lender agrees in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest or such other

payments as may become due under this Note. Rather, Early Payments will reduce the then outstanding principal balance.

LATE CHARGE. If any payment is not made within ten (10) days of the due date therefor, Borrower shall be charged and shall pay a late charge equal to six percent (6%) of the unpaid portion of such payment.

LENDER'S RIGHTS. Upon Lender's demand, at any time, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without prior notice, and Borrower shall forthwith pay all amounts due hereunder. Upon Borrower's failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable Interest Rate on this Note to six percentage (6%) points over the Index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Lender may hire or pay someone else to help collect this Note if Borrower does not pay, and Borrower also will pay Lender all costs or expenses associated therewith. Such costs include, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not a lawsuit if commenced, including attorneys' fees and legal expenses incurred in any bankruptcy proceedings affecting Borrower (including any action by Lender to modify or vacate any automatic stay or injunction), appeals, and any post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the State of California. If either party brings any action against the other for the enforcement, interpretation or otherwise arising out of this Note, then, unless subject matter jurisdiction or venue vest exclusively in a different court, said action shall be filed and prosecuted in the Superior (or Municipal) Court of Los Angeles County, State of California, and Borrower hereby consents to the exclusive jurisdiction and venue of said court. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, cross-complaint or counterclaim brought by either Lender or Borrower against the other. This Note shall be governed by and construed in accordance with the laws of the State of California.

LINE OF CREDIT. This Note evidences a revolving line of credit. Disbursements under this Note may be requested either orally or in writing by any person designated by Borrower to have such authority. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instruction, or directions by telephone or otherwise to Lender are to be directed to the telephone number and address designated by Lender in writing. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records. Lender will have no obligation to disburse funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has used funds disbursed pursuant to this Note for purposes other than those authorized by Lender. Lender hereby authorizes and limits the moneys disbursed under this Note for use only in connection with Borrower's farm management business.

NO USURY VIOLATION. Anything to the contrary in this Note notwithstanding, no interest or fee shall be charged or paid hereunder (including under the Variable Interest Rate or the Lender's Rights provisions above) at a rate or in an amount in excess of the maximum rate permitted by law, and in the event the Interest Rate, the addition of any unpaid accrued interest to principal or any other charge or assessment against Borrower results in interest in excess of the maximum rate permitted by law or an unlawful penalty, the same shall be recalculated so as not to violate the law and any payment of such unlawful amount shall be deemed to be a reduction of principal and shall be credited against the outstanding principal balance or refunded to Borrower at the option of Lender.

GENERAL PROVISIONS. No forbearance, delay or failure to act by Lender shall constitute a wavier of any powers, rights or remedies of Lender under this Note. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waives any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for

any length of time) this Note, or release any party or guarantor or collateral without releasing any other party, guarantor or collateral. All such parties also agree that Lender may modify this Note without the consent of or notice to anyone other than the party with whom the modification is made.

SECURITY. This note is secured by a Security Agreement of even date executed by Borrower.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

CITADEL AGRICULTURAL PARTNERS NO. 1,
a California general partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

/s/ S. Craig Tompkins
By: _____
S. Craig Tompkins, President

SCHEDULE "1"

Line of Credit Disbursements
for
Citadel Agricultural Partners No. 1,
a California General Partnership

Date of Disbursement	Amount of Disbursement	Authorization

PROMISSORY NOTE

Date: December 29, 1997 Amount: $1,200,000

BORROWER: CITADEL AGRICULTURAL PARTNERS NO. 2
a California general partnership

LENDER: CITADEL HOLDING CORPORATION,
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

PROMISE TO PAY. CITADEL AGRICULTURAL PARTNERS NO. 2, a California general partnership ("Borrower'), promises to pay to CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender'), or order, in lawful money of the United States of America, the principal amount of One Million Two Hundred Thousand Dollars ($1,200,000) or so much as may be outstanding as set forth from time to time in Schedule 1 hereto, together with interest on the unpaid outstanding principal balance.

RESTRICTION ON DRAWS. Borrower acknowledges that Lender has agreed to extend a line of credit with a maximum draw down of One Million Two Hundred Thousand Dollars ($1,200,00) ("Credit Line Limit") in the aggregate to Borrower and two other separate entities, Citadel Agricultural Partners No. 1 and Citadel Agricultural Partners No. 3, and that this Note is subject to that Credit Line Limit. According, the amount that Borrower may draw shall at all times be limited by the amount of the Credit Line Limit then outstanding, and Lender does not guarantee that Borrower will be able to draw down any particular minimum amount under this Loan.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on August 1, 1998 ("Maturity Date"). Interest on this Note (i) shall be calculated based on the Interest Rate, as hereinafter defined, (ii) shall commence on the date of the first disbursement of funds under this Note, and (iii) shall continue to accrue until all amounts due hereunder have been paid in full. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to any unpaid collection costs and any late charges, then to any unpaid interest, and any remaining amount to principal.

VARIABLE INTEREST RATE. The Interest Rate on this Note is a fluctuating rate based on changes in the prime rate published from time to time by the Wall Street Journal (the "Index"). The Interest Rate to be applied to the outstanding principal balance of this Note means the rate equal to one (1) percentage (100 basis) point in excess of the Index. Interest shall be computed on the basis of a three-hundred sixty (360) day year and the actual number of days the outstanding principal, as the same may vary, remains unpaid. The Interest Rate shall change on the day the Wall Street Journal publishes a change in the Index. If the Index becomes unavailable during the term of this Note, Lender may designate a substitute index after notifying Borrower. Lender will advise Borrower of the current Index rate upon Borrower's request.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of this Note and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due ("Early Payments"). Early Payments will not, unless Lender agrees in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest or such other

payments as may become due under this Note. Rather, Early Payments will reduce the then outstanding principal balance.

LATE CHARGE. If any payment is not made within ten (10) days of the due date therefor, Borrower shall be charged and shall pay a late charge equal to six percent (6%) of the unpaid portion of such payment.

LENDER'S RIGHTS. Upon Lender's demand, at any time, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without prior notice, and Borrower shall forthwith pay all amounts due hereunder. Upon Borrower's failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable Interest Rate on this Note to six percentage (6%) points over the Index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Lender may hire or pay someone else to help collect this Note if Borrower does not pay, and Borrower also will pay Lender all costs or expenses associated therewith. Such costs include, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not a lawsuit if commenced, including attorneys' fees and legal expenses incurred in any bankruptcy proceedings affecting Borrower (including any action by Lender to modify or vacate any automatic stay or injunction), appeals, and any post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the State of California. If either party brings any action against the other for the enforcement, interpretation or otherwise arising out of this Note, then, unless subject matter jurisdiction or venue vest exclusively in a different court, said action shall be filed and prosecuted in the Superior (or Municipal) Court of Los Angeles County, State of California, and Borrower hereby consents to the exclusive jurisdiction and venue of said court. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, cross-complaint or counterclaim brought by either Lender or Borrower against the other. This Note shall be governed by and construed in accordance with the laws of the State of California.

LINE OF CREDIT. This Note evidences a revolving line of credit. Disbursements under this Note may be requested either orally or in writing by any person designated by Borrower to have such authority. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instruction, or directions by telephone or otherwise to Lender are to be directed to the telephone number and address designated by Lender in writing. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records. Lender will have no obligation to disburse funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has used funds disbursed pursuant to this Note for purposes other than those authorized by Lender. Lender hereby authorizes and limits the moneys disbursed under this Note for use only in connection with Borrower's farm management business.

NO USURY VIOLATION. Anything to the contrary in this Note notwithstanding, no interest or fee shall be charged or paid hereunder (including under the Variable Interest Rate or the Lender's Rights provisions above) at a rate or in an amount in excess of the maximum rate permitted by law, and in the event the Interest Rate, the addition of any unpaid accrued interest to principal or any other charge or assessment against Borrower results in interest in excess of the maximum rate permitted by law or an unlawful penalty, the same shall be recalculated so as not to violate the law and any payment of such unlawful amount shall be deemed to be a reduction of principal and shall be credited against the outstanding principal balance or refunded to Borrower at the option of Lender.

GENERAL PROVISIONS. No forbearance, delay or failure to act by Lender shall constitute a wavier of any powers, rights or remedies of Lender under this Note. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waives any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for

any length of time) this Note, or release any party or guarantor or collateral without releasing any other party, guarantor or collateral. All such parties also agree that Lender may modify this Note without the consent of or notice to anyone other than the party with whom the modification is made.

SECURITY. This note is secured by a Security Agreement of even date executed by Borrower.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

CITADEL AGRICULTURAL PARTNERS NO. 2,
a California general partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

/s/ S. Craig Tompkins
By: _____
S. Craig Tompkins, President

SCHEDULE "1"

Line of Credit Disbursements
for
Citadel Agricultural Partners No. 2,
a California General Partnership

Date of Disbursement	Amount of Disbursement	Authorization

EXHIBIT 10.77

PROMISSORY NOTE

Date: December 29, 1997 Amount: $1,200,000

BORROWER: CITADEL AGRICULTURAL PARTNERS NO. 3
a California general partnership

LENDER: CITADEL HOLDING CORPORATION,
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

PROMISE TO PAY. CITADEL AGRICULTURAL PARTNERS NO. 3, a California general partnership ("Borrower'), promises to pay to CITADEL HOLDING CORPORATION, a Delaware corporation ("Lender'), or order, in lawful money of the United States of America, the principal amount of One Million Two Hundred Thousand Dollars ($1,200,000) or so much as may be outstanding as set forth from time to time in Schedule 1 hereto, together with interest on the unpaid outstanding principal balance.

RESTRICTION ON DRAWS. Borrower acknowledges that Lender has agreed to extend a line of credit with a maximum draw down of One Million Two Hundred Thousand Dollars ($1,200,00) ("Credit Line Limit") in the aggregate to Borrower and two other separate entities, Citadel Agricultural Partners No. 1 and Citadel Agricultural Partners No. 3, and that this Note is subject to that Credit Line Limit. According, the amount that Borrower may draw shall at all times be limited by the amount of the Credit Line Limit then outstanding, and Lender does not guarantee that Borrower will be able to draw down any particular minimum amount under this Loan.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on August 1, 1998 ("Maturity Date"). Interest on this Note (i) shall be calculated based on the Interest Rate, as hereinafter defined, (ii) shall commence on the date of the first disbursement of funds under this Note, and (iii) shall continue to accrue until all amounts due hereunder have been paid in full. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to any unpaid collection costs and any late charges, then to any unpaid interest, and any remaining amount to principal.

VARIABLE INTEREST RATE. The Interest Rate on this Note is a fluctuating rate based on changes in the prime rate published from time to time by the Wall Street Journal (the "Index"). The Interest Rate to be applied to the outstanding principal balance of this Note means the rate equal to one (1) percentage (100 basis) point in excess of the Index. Interest shall be computed on the basis of a three-hundred sixty (360) day year and the actual number of days the outstanding principal, as the same may vary, remains unpaid. The Interest Rate shall change on the day the Wall Street Journal publishes a change in the Index. If the Index becomes unavailable during the term of this Note, Lender may designate a substitute index after notifying Borrower. Lender will advise Borrower of the current Index rate upon Borrower's request.

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payments as may become due under this Note. Rather, Early Payments will reduce the then outstanding principal balance.

LATE CHARGE. If any payment is not made within ten (10) days of the due date therefor, Borrower shall be charged and shall pay a late charge equal to six percent (6%) of the unpaid portion of such payment.

LENDER'S RIGHTS. Upon Lender's demand, at any time, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without prior notice, and Borrower shall forthwith pay all amounts due hereunder. Upon Borrower's failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable Interest Rate on this Note to six percentage (6%) points over the Index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Lender may hire or pay someone else to help collect this Note if Borrower does not pay, and Borrower also will pay Lender all costs or expenses associated therewith. Such costs include, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not a lawsuit if commenced, including attorneys' fees and legal expenses incurred in any bankruptcy proceedings affecting Borrower (including any action by Lender to modify or vacate any automatic stay or injunction), appeals, and any post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the State of California. If either party brings any action against the other for the enforcement, interpretation or otherwise arising out of this Note, then, unless subject matter jurisdiction or venue vest exclusively in a different court, said action shall be filed and prosecuted in the Superior (or Municipal) Court of Los Angeles County, State of California, and Borrower hereby consents to the exclusive jurisdiction and venue of said court. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, cross-complaint or counterclaim brought by either Lender or Borrower against the other. This Note shall be governed by and construed in accordance with the laws of the State of California.

LINE OF CREDIT. This Note evidences a revolving line of credit. Disbursements under this Note may be requested either orally or in writing by any person designated by Borrower to have such authority. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instruction, or directions by telephone or otherwise to Lender are to be directed to the telephone number and address designated by Lender in writing. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records. Lender will have no obligation to disburse funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has used funds disbursed pursuant to this Note for purposes other than those authorized by Lender. Lender hereby authorizes and limits the moneys disbursed under this Note for use only in connection with Borrower's farm management business.

NO USURY VIOLATION. Anything to the contrary in this Note notwithstanding, no interest or fee shall be charged or paid hereunder (including under the Variable Interest Rate or the Lender's Rights provisions above) at a rate or in an amount in excess of the maximum rate permitted by law, and in the event the Interest Rate, the addition of any unpaid accrued interest to principal or any other charge or assessment against Borrower results in interest in excess of the maximum rate permitted by law or an unlawful penalty, the same shall be recalculated so as not to violate the law and any payment of such unlawful amount shall be deemed to be a reduction of principal and shall be credited against the outstanding principal balance or refunded to Borrower at the option of Lender.

GENERAL PROVISIONS. No forbearance, delay or failure to act by Lender shall constitute a wavier of any powers, rights or remedies of Lender under this Note. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waives any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for

any length of time) this Note, or release any party or guarantor or collateral without releasing any other party, guarantor or collateral. All such parties also agree that Lender may modify this Note without the consent of or notice to anyone other than the party with whom the modification is made.

SECURITY. This note is secured by a Security Agreement of even date executed by Borrower.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

CITADEL AGRICULTURAL PARTNERS NO. 3,
a California general partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

By: /s/ S. Craig Tompkins
S. Craig Tompkins, President

SCHEDULE "1"

Line of Credit Disbursements
for
Citadel Agricultural Partners No. 3,
a California General Partnership

Date of Disbursement	Amount of Disbursement	Authorization

SECURITY AGREEMENT
(CROPS)

The parties to this Security Agreement are:

SECURED PARTY: CITADEL HOLDING CORPORATION,
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

DEBTOR: CITADEL AGRICULTURAL PARTNERSHIP NO. 1,
a California general partnership
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

1. Grant of Security Interest. Debtor grants to Secured Party a security interest in the property described in this Security Agreement ("Collateral") and its proceeds, on the terms and conditions set forth in this Security Agreement.

2. Indebtedness. The security interest in the Collateral and its proceeds is given to secure the "Indebtedness", which is defined as:

a. The payment of a promissory note ("Note"), executed and delivered by Debtor to Secured Party, dated December 29, 1997 in the principal amount of One Million Two Hundred Thousand Dollars ($1,200,000) payable as provided in the Note, and extensions and renewals of the Note;

b. Further advances by Secured Party to Debtor;

c. All other liabilities, primary, secondary, direct, or contingent, from Debtor to Secured Party whether now existing or incurred or created in the future, whether voluntary or involuntary, whether due or not due, whether absolute or contingent, and whether incurred directly or acquired by Secured Party by assignment or otherwise; and

d. Performance by Debtor of this Security Agreement and any other agreement entered into between Secured Party and Debtor.

3. Description of Collateral. The property in which the security interest is granted ("Collateral") is:

a. All crops planted, growing, or to be planted or grown and harvested during the current crop season on that certain real property owned by Debtor described in Exhibit "A" attached hereto and made a part hereof, and all crops after they have been severed from that real property, and all products of such crops.

b. All general intangibles and rights to the payment of money, whether due or to become due and whether or not earned by performance, including but not limited to accounts, contract rights, claims under insurance policies covering the Collateral, revolving fund credits, patronage dividends, commodity certificates, chattel paper, leases, conditional sale contracts, documents, warehouse receipts, and instruments, and rights under any government or other loan, reserve, disaster, diversion, deficiency, soil conservation, or other production control or price support program.

c. All rights Debtor may have or acquire in the future with respect to any statutory or common law lien, including but not limited to any mechanics' or materialman's lien, grower's or producer's lien, packer's lien, or any lien on farm products, crops, or other products or proceeds of any of them.

d. All property similar to that described as Collateral in this Agreement, acquired by Debtor at any time, including but not limited to additions, replacements, and all products of the Collateral.

e. All proceeds from the sale or other disposition of the Collateral.

4. Debtor's Warranties. Debtor warrants that:

a. Debtor is the owner of the Collateral, clear of all liens and security interests except the security interest granted by this Security Agreement and a security interest in favor of Prudential Insurance Company of America.

b. Debtor has the right to make this Security Agreement.

5. Debtor's Covenants. Debtor agrees:

a. To pay Secured Party all amounts payable on the note mentioned is this Security Agreement and all other obligations of Debtor held by Secured Party on or before the date when due and payable, whether at maturity, by acceleration, or otherwise; to perform all terms of the note and this Security Agreement, and of any other loan or security agreement between Debtor and Secured Party; and to pay all obligations required under the terms of this Security Agreement.

b. To use proceeds of all loans for the purposes agreed on.

c. To execute and deliver to Secured Party financing statements with respect to the Collateral (in number, form, and substance satisfactory to Secured Party) and such additional security documentation as and when Secured Party may request to effect the purposes of this Security Agreement; to deliver to Secured Party at its request financial statements, schedules, lists of property and accounts, budgets, books and records, forecasts, reports, tax returns, contracts, and other information relating in any manner to the Collateral.

d. To defend the Collateral against the claims and demands of all persons and entities.

e. To insure the Collateral against all hazards, in form and amount satisfactory to Secured Party; and, if requested by Secured Party, to obtain loss-payable endorsements in favor of Secured Party.

f. To keep the Collateral in good condition and keep crops and farm products in an unmanufactured state; to attend to and care for the Collateral; to perform other acts that may be necessary to grow, cultivate, spray, irrigate, cut, harvest, pick, preserve, and protect the crops and farm products according to the best course of husbandry practiced in the vicinity; to prepare crops and farm products for market and promptly notify Secured Party when those preparations have been made; keep the crops separate and always capable of being identified; promptly give Secured Party written notice of any disease to, any destruction of, any depreciation in the value of or any damage to the crops; to maintain the present buildings and improvements on the real property in good condition and repair; to keep in good standing all rights to water; to give Secured Party prompt notice of any damage to the Collateral or to the real property; to permit Secured Party to enter on the real property at reasonable times for the purpose of examining the Collateral; and to permit Secured Party to inspect all books and records relating to the Collateral.

g. To immediately pay Secured Party, as part of the secured debt, all amounts, with interest, paid or advanced by Secured Party for (1) taxes, levies, insurance, and repairs to or maintenance of the Collateral; (2) the taking of possession of, disposing of, or preserving of the Collateral after any default described in

this Agreement; and (3) attorneys' fees incurred by Secured Party in the enforcement of its rights under this Agreement.

h. To notify Secured Party in writing before any change in Debtor's place of business, or if Debtor has or acquires more than one place of business, before any change in Debtor's chief executive office.

i. To immediately notify Secured Party of any proposed or actual change of Debtor's name, identity, or legal structure.

j. To immediately notify Secured Party in writing when Debtor becomes aware of any event that substantially affects the value of the Collateral, the ability of Debtor or Secured Party to dispose of the Collateral, or the rights and remedies of Secured Party in relation to the Collateral, including, but not limited to, the levy of any legal process against the Collateral and the adoption of any marketing order, arrangement, or procedure affecting the Collateral, whether governmental or otherwise.

k. If any collateral is or becomes the subject of any negotiable document of title, including any warehouse receipt or bill of lading, Debtor shall deliver that document to Secured Party.

l. To reimburse Secured Party for all costs and expenses, including legal fees incurred by Secured Party in connection with the loan from Secured Party to Debtor.

6. Prohibitions. Without the prior written consent of Secured Party, Debtor will not:

a. Permit any of the Collateral to be removed from the real property on which it is located.

b. Permit any liens or security interests (other than Secured Party's security interests and the security interest in favor of Prudential Insurance Company of America) to attach to the Collateral; permit any Collateral to be levied on under legal process; dispose of any of the Collateral except in the ordinary course of business as it was conducted on the date of execution of this Agreement; dispose of any rights with respect to water or leases used in connection with the Collateral without Secured Party's prior written consent; or permit anything to be done that may impair the value of the Collateral or of the security interest created by this Agreement.

7. Secured Party's Right to Insure. If Debtor fails to obtain insurance as required by this Agreement, Secured Party shall have the right to obtain it at Debtor's expense. Debtor hereby assigns to Secured Party the right to receive proceeds of all insurance required by this Security Agreement, not exceeding the amount of the indebtedness. Debtor directs any insurer to pay all proceeds directly to Secured Party, and authorizes Secured Party to endorse any draft or check for the proceeds. If Debtor fails to make any payments necessary to preserve and protect the Collateral, Secured Party may make the payments. Any payments made by Secured Party under the provisions of this paragraph shall be secured by this Agreement and shall be immediately due and payable by Debtor to Secured Party.

8. Notification and Collection by Secured Party. Secured Party may, and may require Debtor to, do the following:

a. Notify any account debtors, buyers of Collateral or other persons of Secured Party's interest in the Collateral and its products and proceeds;

b. Make direct demand for and collect any receivables and proceeds of Collateral; and

c. Do all things incident to such notifications, demands, and collection.

9. Attorney in Fact. Debtor nominates and appoints Secured Party as Debtor's attorney in fact to perform all acts and things that Secured Party may consider necessary or advisable to perfect and continue perfected the security interest created by this Agreement, and to protect the Collateral.

10. Debtor's Right in Collateral. Until default, Debtor may retain possession of the Collateral and harvest, process, grow, store, and use it in any lawful manner not inconsistent with this Agreement or with the terms and conditions of any policy of insurance.

11. Sale of Collateral. The following provisions relate to any sale, consignment or transfer of crops, or other farm products included as all or a part of the Collateral:

a. To induce Secured Party to extend the credit or other financial accommodations secured by this Agreement, Debtor represents and warrants to Secured Party that it will sell, consign or transfer the Collateral only to those persons whose names and addresses have been set forth on sales schedules delivered to secured Party. Each schedule shall be in such form as Secured Party may require, including identification of each type of Collateral. Debtor also shall notify Secured Party of the name and address of each additional person to whom or through whom the Collateral may be sold, consigned or transferred. All such schedules and notifications shall be in writing and shall be delivered to Secured Party not less than seven (7) days prior to any such sale, consignment or transfer of the Collateral.

b. Debtor acknowledges that if the Collateral is sold, consigned, or transferred to any person not listed on a schedule delivered to Secured Party as provided above, and if Secured Party has not received an accounting (including the proceeds) of such sale, consignment or transfer within ten (10) days of the sale, consignment or transfer, then UNDER FEDERAL LAW, DEBTOR SHALL BE SUBJECT TO A FINE WHICH IS THE GREATER OF $5,000 OR 15% OF THE VALUE OR BENEFIT RECEIVED FROM THE SALE, CONSIGNMENT OR TRANSFER TO AN UNLISTED BUYER, CONSIGNEE OR TRANSFEREE.

c. All proceeds of any sale, consignment or transfer shall be made immediately available to Secured Party in a form jointly payable to Debtor and Secured Party. All chattel paper, contracts, warehouse receipts, documents of title, or other evidences of ownership or obligations, whether issued by a co-op, grain elevator, or other warehouse or marketing entity, and all accounts receivable and other non-cash proceeds shall be endorsed, assigned and delivered immediately to Secured Party as security for the Indebtedness. All the proceeds of any such disposition of the Collateral, when and if received by Secured Party, may at Secured Party's option be applied to the Indebtedness. In addition, Secured Party may collect at any time the proceeds of any or all such accounts or other non-cash proceeds-of any sale without notice to Debtor.

12. Default. Any one or more of the following shall be a default under this Agreement:

a. Debtor's failure to pay when due any payment to Secured Party secured by this Agreement.

b. Debtor's breach of any term, provision, warranty, or representation of this Agreement or of any other security agreement or other agreement between Debtor and Secured Party.

c. The appointment of any receiver or trustee of all or a substantial portion of the assets of Debtor.

d. Debtor's becoming insolvent or unable to pay debts as they mature, or making a general assignment for the benefit of creditors.

e. The issuance of any levy of attachment, execution, tax assessment, or similar process against the Collateral if not released within ten days of issuance.

f. Debtor's furnishing to Secured Party any financial statement, profit and loss statement, borrowing certificate or schedule, or other statement that is false or incorrect in any material respect.

g. Should Debtor default under any loan, extension of credit, security agreement or any other agreement in favor of any other creditor or person that may materially affect any of Debtor's property or Debtor's ability to repay the Indebtedness or perform its obligations under this Agreement or any other agreement between Debtor and Secured Party.

h. This Agreement or any other agreement between Debtor and Secured Party ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

13. RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Secured Party shall have all the rights of a secured party under the California Commercial Code. In addition and without limitation, Secured Party may exercise any one or more of the following rights and remedies:

a. Secured Party may declare the entire Indebtedness, including any prepayment penalty which Debtor would be required to pay, immediately due and payable, without notice.

b. Secured Party may require Debtor to deliver to Secured Party all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party. Secured Party also shall have full power to enter upon the property of Debtor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Debtor agrees Secured Party may take such other goods, provided that Secured Party makes reasonable efforts to return them to Debtor after repossession.

c. Secured Party may enter upon the premises where any Collateral consisting of crops is located and, using any and all of Debtor's equipment, machinery, tools, farming implements, and supplies, and improvements located on the premises; farm, cultivate, irrigate, fertilize, fumigate, prune, and perform any other act or acts appropriate or necessary to grow, care for, maintain, preserve and protect the crops (using any water located in, on or adjacent to the premises); harvest, pick, clean, and remove the crops from the premises; and to the extent then permitted under California law, appraise, store, prepare for public or private sale, exhibit, market and sell the crops and any products of the crops.

d. Secured Party shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Debtor. Secured Party may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will give Debtor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days, or such lesser time as required by state law, before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

e. To the extent permitted by applicable law, Secured Party shall have the following rights and remedies regarding the appointment of a receiver: Secured Party may have a receiver appointed as a matter of right; the receiver may be an employee of Secured Party and may serve without bond; and all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this

Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

f. Secured Party either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Secured Party may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Secured Party may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Secured Party may demand, collect, receipt for, settle, compromise, adjust. sue for, foreclose, or realize on the Collateral as Secured Party may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Secured Party may, on behalf of and in the name of Debtor, receive, open and dispose of mail addressed to Debtor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Secured Party may notify account debtors and obligors on any Collateral to make payments directly to Secured Party.

g. If Secured Party chooses to sell any or all of the Collateral, Secured Party may obtain a judgment against Debtor for any deficiency remaining on the Indebtedness due to Secured Party after application of all amounts received from the exercise of the rights provided in this Agreement. Debtor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

h. Secured Party shall have all the rights and remedies of a secured creditor under the provisions of the California Commercial Code, as may be amended from time to time. In addition, Secured Party shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

i. All of Secured Party's rights and remedies, whether evidenced by this Agreement or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Secured Party to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Debtor under this Agreement, after Debtor's failure to perform, shall not affect Secured Party's right to declare a default and to exercise its remedies.

14. Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Debtor will keep Secured Party informed at all times of Debtor's current addresses.

15. Waiver. Neither any waiver, express or implied, of any provision of this Agreement, nor any delay or failure by Secured Party to enforce any provision, shall preclude Secured Party from later enforcing any such provision.

16. Successors. All rights of Secured Party under this Agreement shall inure to the benefit of its successors and assigns, and all obligations of Debtor shall bind its successors, and assigns. If there is more than one Debtor, their obligations shall be joint and several.

17. Governing Law. This Agreement shall be governed by and interpreted according to the laws of the State of California.

18. Cumulative Rights. All rights and remedies provided in this Agreement are cumulative and are not exclusive of any rights or remedies otherwise provided by law. Any single or partial exercise of any right or remedy shall not preclude its further exercise or the exercise of any other right or remedy.

19. Undefined Terms. All terms not defined in this Agreement are used as set forth in the California Uniform Commercial Code.

20. Costs and Attorneys' Fees. Debtor agrees to pay upon demand all of Secured Party's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or in connection with the Indebtedness. Secured Party may pay someone else to help collect the Note and to enforce this Agreement, and Debtor will also pay Secured Party all costs or expenses associated therewith. This includes, subject to any limits under applicable law, Secured Party's attorneys' fees and Secured Party's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Debtor also will pay any court costs, in addition to all other sums provided by law.

Dated: December 29, 1997

DEBTOR:

CITADEL AGRICULTURAL PARTNERSHIP NO. 1,
a California General Partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

By: /s/ S. Craig Tompkins
S. Craig Tompkins, President

SECURITY AGREEMENT
(CROPS)

The parties to this Security Agreement are:

SECURED PARTY: CITADEL HOLDING CORPORATION,
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

DEBTOR: CITADEL AGRICULTURAL PARTNERSHIP NO. 2,
a California general partnership
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

1. Grant of Security Interest. Debtor grants to Secured Party a security interest in the property described in this Security Agreement ("Collateral") and its proceeds, on the terms and conditions set forth in this Security Agreement.

2. Indebtedness. The security interest in the Collateral and its proceeds is given to secure the "Indebtedness", which is defined as:

a. The payment of a promissory note ("Note"), executed and delivered by Debtor to Secured Party, dated December 29, 1997 in the principal amount of One Million Two Hundred Thousand Dollars ($1,200,000) payable as provided in the Note, and extensions and renewals of the Note;

b. Further advances by Secured Party to Debtor;

c. All other liabilities, primary, secondary, direct, or contingent, from Debtor to Secured Party whether now existing or incurred or created in the future, whether voluntary or involuntary, whether due or not due, whether absolute or contingent, and whether incurred directly or acquired by Secured Party by assignment or otherwise; and

d. Performance by Debtor of this Security Agreement and any other agreement entered into between Secured Party and Debtor.

3. Description of Collateral. The property in which the security interest is granted ("Collateral") is:

a. All crops planted, growing, or to be planted or grown and harvested during the current crop season on that certain real property owned by Debtor described in Exhibit "A" attached hereto and made a part hereof, and all crops after they have been severed from that real property, and all products of such crops.

b. All general intangibles and rights to the payment of money, whether due or to become due and whether or not earned by performance, including but not limited to accounts, contract rights, claims under insurance policies covering the Collateral, revolving fund credits, patronage dividends, commodity certificates, chattel paper, leases, conditional sale contracts, documents, warehouse receipts, and instruments, and rights under any government or other loan, reserve, disaster, diversion, deficiency, soil conservation, or other production control or price support program.

c. All rights Debtor may have or acquire in the future with respect to any statutory or common law lien, including but not limited to any mechanics' or materialman's lien, grower's or producer's lien, packer's lien, or any lien on farm products, crops, or other products or proceeds of any of them.

d. All property similar to that described as Collateral in this Agreement, acquired by Debtor at any time, including but not limited to additions, replacements, and all products of the Collateral.

e. All proceeds from the sale or other disposition of the Collateral.

4. Debtor's Warranties. Debtor warrants that:

a. Debtor is the owner of the Collateral, clear of all liens and security interests except the security interest granted by this Security Agreement and a security interest in favor of Prudential Insurance Company of America.

b. Debtor has the right to make this Security Agreement.

5. Debtor's Covenants. Debtor agrees:

a. To pay Secured Party all amounts payable on the note mentioned is this Security Agreement and all other obligations of Debtor held by Secured Party on or before the date when due and payable, whether at maturity, by acceleration, or otherwise; to perform all terms of the note and this Security Agreement, and of any other loan or security agreement between Debtor and Secured Party; and to pay all obligations required under the terms of this Security Agreement.

b. To use proceeds of all loans for the purposes agreed on.

c. To execute and deliver to Secured Party financing statements with respect to the Collateral (in number, form, and substance satisfactory to Secured Party) and such additional security documentation as and when Secured Party may request to effect the purposes of this Security Agreement; to deliver to Secured Party at its request financial statements, schedules, lists of property and accounts, budgets, books and records, forecasts, reports, tax returns, contracts, and other information relating in any manner to the Collateral.

d. To defend the Collateral against the claims and demands of all persons and entities.

e. To insure the Collateral against all hazards, in form and amount satisfactory to Secured Party; and, if requested by Secured Party, to obtain loss-payable endorsements in favor of Secured Party.

f. To keep the Collateral in good condition and keep crops and farm products in an unmanufactured state; to attend to and care for the Collateral; to perform other acts that may be necessary to grow, cultivate, spray, irrigate, cut, harvest, pick, preserve, and protect the crops and farm products according to the best course of husbandry practiced in the vicinity; to prepare crops and farm products for market and promptly notify Secured Party when those preparations have been made; keep the crops separate and always capable of being identified; promptly give Secured Party written notice of any disease to, any destruction of, any depreciation in the value of or any damage to the crops; to maintain the present buildings and improvements on the real property in good condition and repair; to keep in good standing all rights to water; to give Secured Party prompt notice of any damage to the Collateral or to the real property; to permit Secured Party to enter on the real property at reasonable times for the purpose of examining the Collateral; and to permit Secured Party to inspect all books and records relating to the Collateral.

g. To immediately pay Secured Party, as part of the secured debt, all amounts, with interest, paid or advanced by Secured Party for (1) taxes, levies, insurance, and repairs to or maintenance of the Collateral; (2) the taking of possession of, disposing of, or preserving of the Collateral after any default described in

this Agreement; and (3) attorneys' fees incurred by Secured Party in the enforcement of its rights under this Agreement.

h. To notify Secured Party in writing before any change in Debtor's place of business, or if Debtor has or acquires more than one place of business, before any change in Debtor's chief executive office.

i. To immediately notify Secured Party of any proposed or actual change of Debtor's name, identity, or legal structure.

j. To immediately notify Secured Party in writing when Debtor becomes aware of any event that substantially affects the value of the Collateral, the ability of Debtor or Secured Party to dispose of the Collateral, or the rights and remedies of Secured Party in relation to the Collateral, including, but not limited to, the levy of any legal process against the Collateral and the adoption of any marketing order, arrangement, or procedure affecting the Collateral, whether governmental or otherwise.

k. If any collateral is or becomes the subject of any negotiable document of title, including any warehouse receipt or bill of lading, Debtor shall deliver that document to Secured Party.

l. To reimburse Secured Party for all costs and expenses, including legal fees incurred by Secured Party in connection with the loan from Secured Party to Debtor.

6. Prohibitions. Without the prior written consent of Secured Party, Debtor will not:

a. Permit any of the Collateral to be removed from the real property on which it is located.

b. Permit any liens or security interests (other than Secured Party's security interests and the security interest in favor of Prudential Insurance Company of America) to attach to the Collateral; permit any Collateral to be levied on under legal process; dispose of any of the Collateral except in the ordinary course of business as it was conducted on the date of execution of this Agreement; dispose of any rights with respect to water or leases used in connection with the Collateral without Secured Party's prior written consent; or permit anything to be done that may impair the value of the Collateral or of the security interest created by this Agreement.

7. Secured Party's Right to Insure. If Debtor fails to obtain insurance as required by this Agreement, Secured Party shall have the right to obtain it at Debtor's expense. Debtor hereby assigns to Secured Party the right to receive proceeds of all insurance required by this Security Agreement, not exceeding the amount of the indebtedness. Debtor directs any insurer to pay all proceeds directly to Secured Party, and authorizes Secured Party to endorse any draft or check for the proceeds. If Debtor fails to make any payments necessary to preserve and protect the Collateral, Secured Party may make the payments. Any payments made by Secured Party under the provisions of this paragraph shall be secured by this Agreement and shall be immediately due and payable by Debtor to Secured Party.

8. Notification and Collection by Secured Party. Secured Party may, and may require Debtor to, do the following:

a. Notify any account debtors, buyers of Collateral or other persons of Secured Party's interest in the Collateral and its products and proceeds;

b. Make direct demand for and collect any receivables and proceeds of Collateral; and

c. Do all things incident to such notifications, demands, and collection.

9. Attorney in Fact. Debtor nominates and appoints Secured Party as Debtor's attorney in fact to perform all acts and things that Secured Party may consider necessary or advisable to perfect and continue perfected the security interest created by this Agreement, and to protect the Collateral.

10. Debtor's Right in Collateral. Until default, Debtor may retain possession of the Collateral and harvest, process, grow, store, and use it in any lawful manner not inconsistent with this Agreement or with the terms and conditions of any policy of insurance.

11. Sale of Collateral. The following provisions relate to any sale, consignment or transfer of crops, or other farm products included as all or a part of the Collateral:

a. To induce Secured Party to extend the credit or other financial accommodations secured by this Agreement, Debtor represents and warrants to Secured Party that it will sell, consign or transfer the Collateral only to those persons whose names and addresses have been set forth on sales schedules delivered to secured Party. Each schedule shall be in such form as Secured Party may require, including identification of each type of Collateral. Debtor also shall notify Secured Party of the name and address of each additional person to whom or through whom the Collateral may be sold, consigned or transferred. All such schedules and notifications shall be in writing and shall be delivered to Secured Party not less than seven (7) days prior to any such sale, consignment or transfer of the Collateral.

b. Debtor acknowledges that if the Collateral is sold, consigned, or transferred to any person not listed on a schedule delivered to Secured Party as provided above, and if Secured Party has not received an accounting (including the proceeds) of such sale, consignment or transfer within ten (10) days of the sale, consignment or transfer, then UNDER FEDERAL LAW, DEBTOR SHALL BE SUBJECT TO A FINE WHICH IS THE GREATER OF $5,000 OR 15% OF THE VALUE OR BENEFIT RECEIVED FROM THE SALE, CONSIGNMENT OR TRANSFER TO AN UNLISTED BUYER, CONSIGNEE OR TRANSFEREE.

c. All proceeds of any sale, consignment or transfer shall be made immediately available to Secured Party in a form jointly payable to Debtor and Secured Party. All chattel paper, contracts, warehouse receipts, documents of title, or other evidences of ownership or obligations, whether issued by a co-op, grain elevator, or other warehouse or marketing entity, and all accounts receivable and other non-cash proceeds shall be endorsed, assigned and delivered immediately to Secured Party as security for the Indebtedness. All the proceeds of any such disposition of the Collateral, when and if received by Secured Party, may at Secured Party's option be applied to the Indebtedness. In addition, Secured Party may collect at any time the proceeds of any or all such accounts or other non-cash proceeds-of any sale without notice to Debtor.

12. Default. Any one or more of the following shall be a default under this Agreement:

a. Debtor's failure to pay when due any payment to Secured Party secured by this Agreement.

b. Debtor's breach of any term, provision, warranty, or representation of this Agreement or of any other security agreement or other agreement between Debtor and Secured Party.

c. The appointment of any receiver or trustee of all or a substantial portion of the assets of Debtor.

d. Debtor's becoming insolvent or unable to pay debts as they mature, or making a general assignment for the benefit of creditors.

e. The issuance of any levy of attachment, execution, tax assessment, or similar process against the Collateral if not released within ten days of issuance.

f. Debtor's furnishing to Secured Party any financial statement, profit and loss statement, borrowing certificate or schedule, or other statement that is false or incorrect in any material respect.

g. Should Debtor default under any loan, extension of credit, security agreement or any other agreement in favor of any other creditor or person that may materially affect any of Debtor's property or Debtor's ability to repay the Indebtedness or perform its obligations under this Agreement or any other agreement between Debtor and Secured Party.

h. This Agreement or any other agreement between Debtor and Secured Party ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

13. RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Secured Party shall have all the rights of a secured party under the California Commercial Code. In addition and without limitation, Secured Party may exercise any one or more of the following rights and remedies:

a. Secured Party may declare the entire Indebtedness, including any prepayment penalty which Debtor would be required to pay, immediately due and payable, without notice.

b. Secured Party may require Debtor to deliver to Secured Party all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party. Secured Party also shall have full power to enter upon the property of Debtor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Debtor agrees Secured Party may take such other goods, provided that Secured Party makes reasonable efforts to return them to Debtor after repossession.

c. Secured Party may enter upon the premises where any Collateral consisting of crops is located and, using any and all of Debtor's equipment, machinery, tools, farming implements, and supplies, and improvements located on the premises; farm, cultivate, irrigate, fertilize, fumigate, prune, and perform any other act or acts appropriate or necessary to grow, care for, maintain, preserve and protect the crops (using any water located in, on or adjacent to the premises); harvest, pick, clean, and remove the crops from the premises; and to the extent then permitted under California law, appraise, store, prepare for public or private sale, exhibit, market and sell the crops and any products of the crops.

d. Secured Party shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Debtor. Secured Party may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will give Debtor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days, or such lesser time as required by state law, before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

e. To the extent permitted by applicable law, Secured Party shall have the following rights and remedies regarding the appointment of a receiver: Secured Party may have a receiver appointed as a matter of right; the receiver may be an employee of Secured Party and may serve without bond; and all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this

Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

f. Secured Party either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Secured Party may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Secured Party may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Secured Party may demand, collect, receipt for, settle, compromise, adjust. sue for, foreclose, or realize on the Collateral as Secured Party may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Secured Party may, on behalf of and in the name of Debtor, receive, open and dispose of mail addressed to Debtor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Secured Party may notify account debtors and obligors on any Collateral to make payments directly to Secured Party.

g. If Secured Party chooses to sell any or all of the Collateral, Secured Party may obtain a judgment against Debtor for any deficiency remaining on the Indebtedness due to Secured Party after application of all amounts received from the exercise of the rights provided in this Agreement. Debtor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

h. Secured Party shall have all the rights and remedies of a secured creditor under the provisions of the California Commercial Code, as may be amended from time to time. In addition, Secured Party shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

i. All of Secured Party's rights and remedies, whether evidenced by this Agreement or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Secured Party to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Debtor under this Agreement, after Debtor's failure to perform, shall not affect Secured Party's right to declare a default and to exercise its remedies.

14. Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Debtor will keep Secured Party informed at all times of Debtor's current addresses.

15. Waiver. Neither any waiver, express or implied, of any provision of this Agreement, nor any delay or failure by Secured Party to enforce any provision, shall preclude Secured Party from later enforcing any such provision.

16. Successors. All rights of Secured Party under this Agreement shall inure to the benefit of its successors and assigns, and all obligations of Debtor shall bind its successors, and assigns. If there is more than one Debtor, their obligations shall be joint and several.

17. Governing Law. This Agreement shall be governed by and interpreted according to the laws of the State of California.

18. Cumulative Rights. All rights and remedies provided in this Agreement are cumulative and are not exclusive of any rights or remedies otherwise provided by law. Any single or partial exercise of any right or remedy shall not preclude its further exercise or the exercise of any other right or remedy.

19. Undefined Terms. All terms not defined in this Agreement are used as set forth in the California Uniform Commercial Code.

20. Costs and Attorneys' Fees. Debtor agrees to pay upon demand all of Secured Party's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or in connection with the Indebtedness. Secured Party may pay someone else to help collect the Note and to enforce this Agreement, and Debtor will also pay Secured Party all costs or expenses associated therewith. This includes, subject to any limits under applicable law, Secured Party's attorneys' fees and Secured Party's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Debtor also will pay any court costs, in addition to all other sums provided by law.

Dated: December 29, 1997

DEBTOR:

CITADEL AGRICULTURAL PARTNERSHIP NO. 2,
a California General Partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

By: /s/ S. Craig Tompkins
_____
S. Craig Tompkins, President

EXHIBIT 10.80

SECURITY AGREEMENT
(CROPS)

The parties to this Security Agreement are:

SECURED PARTY: CITADEL HOLDING CORPORATION,
a Delaware corporation
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

DEBTOR: CITADEL AGRICULTURAL PARTNERSHIP NO. 3,
a California general partnership
550 South Hope Street, Suite 1825
Los Angeles, CA 90071

1. Grant of Security Interest. Debtor grants to Secured Party a security interest in the property described in this Security Agreement ("Collateral") and its proceeds, on the terms and conditions set forth in this Security Agreement.

2. Indebtedness. The security interest in the Collateral and its proceeds is given to secure the "Indebtedness", which is defined as:

a. The payment of a promissory note ("Note"), executed and delivered by Debtor to Secured Party, dated December 29, 1997 in the principal amount of One Million Two Hundred Thousand Dollars ($1,200,000) payable as provided in the Note, and extensions and renewals of the Note;

b. Further advances by Secured Party to Debtor;

c. All other liabilities, primary, secondary, direct, or contingent, from Debtor to Secured Party whether now existing or incurred or created in the future, whether voluntary or involuntary, whether due or not due, whether absolute or contingent, and whether incurred directly or acquired by Secured Party by assignment or otherwise; and

d. Performance by Debtor of this Security Agreement and any other agreement entered into between Secured Party and Debtor.

3. Description of Collateral. The property in which the security interest is granted ("Collateral") is:

a. All crops planted, growing, or to be planted or grown and harvested during the current crop season on that certain real property owned by Debtor described in Exhibit "A" attached hereto and made a part hereof, and all crops after they have been severed from that real property, and all products of such crops.

b. All general intangibles and rights to the payment of money, whether due or to become due and whether or not earned by performance, including but not limited to accounts, contract rights, claims under insurance policies covering the Collateral, revolving fund credits, patronage dividends, commodity certificates, chattel paper, leases, conditional sale contracts, documents, warehouse receipts, and instruments, and rights under any government or other loan, reserve, disaster, diversion, deficiency, soil conservation, or other production control or price support program.

c. All rights Debtor may have or acquire in the future with respect to any statutory or common law lien, including but not limited to any mechanics' or materialman's lien, grower's or producer's lien, packer's lien, or any lien on farm products, crops, or other products or proceeds of any of them.

d. All property similar to that described as Collateral in this Agreement, acquired by Debtor at any time, including but not limited to additions, replacements, and all products of the Collateral.

e. All proceeds from the sale or other disposition of the Collateral.

4. Debtor's Warranties. Debtor warrants that:

a. Debtor is the owner of the Collateral, clear of all liens and security interests except the security interest granted by this Security Agreement and a security interest in favor of Prudential Insurance Company of America.

b. Debtor has the right to make this Security Agreement.

5. Debtor's Covenants. Debtor agrees:

a. To pay Secured Party all amounts payable on the note mentioned is this Security Agreement and all other obligations of Debtor held by Secured Party on or before the date when due and payable, whether at maturity, by acceleration, or otherwise; to perform all terms of the note and this Security Agreement, and of any other loan or security agreement between Debtor and Secured Party; and to pay all obligations required under the terms of this Security Agreement.

b. To use proceeds of all loans for the purposes agreed on.

c. To execute and deliver to Secured Party financing statements with respect to the Collateral (in number, form, and substance satisfactory to Secured Party) and such additional security documentation as and when Secured Party may request to effect the purposes of this Security Agreement; to deliver to Secured Party at its request financial statements, schedules, lists of property and accounts, budgets, books and records, forecasts, reports, tax returns, contracts, and other information relating in any manner to the Collateral.

d. To defend the Collateral against the claims and demands of all persons and entities.

e. To insure the Collateral against all hazards, in form and amount satisfactory to Secured Party; and, if requested by Secured Party, to obtain loss-payable endorsements in favor of Secured Party.

f. To keep the Collateral in good condition and keep crops and farm products in an unmanufactured state; to attend to and care for the Collateral; to perform other acts that may be necessary to grow, cultivate, spray, irrigate, cut, harvest, pick, preserve, and protect the crops and farm products according to the best course of husbandry practiced in the vicinity; to prepare crops and farm products for market and promptly notify Secured Party when those preparations have been made; keep the crops separate and always capable of being identified; promptly give Secured Party written notice of any disease to, any destruction of, any depreciation in the value of or any damage to the crops; to maintain the present buildings and improvements on the real property in good condition and repair; to keep in good standing all rights to water; to give Secured Party prompt notice of any damage to the Collateral or to the real property; to permit Secured Party to enter on the real property at reasonable times for the purpose of examining the Collateral; and to permit Secured Party to inspect all books and records relating to the Collateral.

g. To immediately pay Secured Party, as part of the secured debt, all amounts, with interest, paid or advanced by Secured Party for (1) taxes, levies, insurance, and repairs to or maintenance of the Collateral; (2) the taking of possession of, disposing of, or preserving of the Collateral after any default described in

this Agreement; and (3) attorneys' fees incurred by Secured Party in the enforcement of its rights under this Agreement.

h. To notify Secured Party in writing before any change in Debtor's place of business, or if Debtor has or acquires more than one place of business, before any change in Debtor's chief executive office.

i. To immediately notify Secured Party of any proposed or actual change of Debtor's name, identity, or legal structure.

j. To immediately notify Secured Party in writing when Debtor becomes aware of any event that substantially affects the value of the Collateral, the ability of Debtor or Secured Party to dispose of the Collateral, or the rights and remedies of Secured Party in relation to the Collateral, including, but not limited to, the levy of any legal process against the Collateral and the adoption of any marketing order, arrangement, or procedure affecting the Collateral, whether governmental or otherwise.

k. If any collateral is or becomes the subject of any negotiable document of title, including any warehouse receipt or bill of lading, Debtor shall deliver that document to Secured Party.

l. To reimburse Secured Party for all costs and expenses, including legal fees incurred by Secured Party in connection with the loan from Secured Party to Debtor.

6. Prohibitions. Without the prior written consent of Secured Party, Debtor will not:

a. Permit any of the Collateral to be removed from the real property on which it is located.

b. Permit any liens or security interests (other than Secured Party's security interests and the security interest in favor of Prudential Insurance Company of America) to attach to the Collateral; permit any Collateral to be levied on under legal process; dispose of any of the Collateral except in the ordinary course of business as it was conducted on the date of execution of this Agreement; dispose of any rights with respect to water or leases used in connection with the Collateral without Secured Party's prior written consent; or permit anything to be done that may impair the value of the Collateral or of the security interest created by this Agreement.

7. Secured Party's Right to Insure. If Debtor fails to obtain insurance as required by this Agreement, Secured Party shall have the right to obtain it at Debtor's expense. Debtor hereby assigns to Secured Party the right to receive proceeds of all insurance required by this Security Agreement, not exceeding the amount of the indebtedness. Debtor directs any insurer to pay all proceeds directly to Secured Party, and authorizes Secured Party to endorse any draft or check for the proceeds. If Debtor fails to make any payments necessary to preserve and protect the Collateral, Secured Party may make the payments. Any payments made by Secured Party under the provisions of this paragraph shall be secured by this Agreement and shall be immediately due and payable by Debtor to Secured Party.

8. Notification and Collection by Secured Party. Secured Party may, and may require Debtor to, do the following:

a. Notify any account debtors, buyers of Collateral or other persons of Secured Party's interest in the Collateral and its products and proceeds;

b. Make direct demand for and collect any receivables and proceeds of Collateral; and

c. Do all things incident to such notifications, demands, and collection.

9. Attorney in Fact. Debtor nominates and appoints Secured Party as Debtor's attorney in fact to perform all acts and things that Secured Party may consider necessary or advisable to perfect and continue perfected the security interest created by this Agreement, and to protect the Collateral.

10. Debtor's Right in Collateral. Until default, Debtor may retain possession of the Collateral and harvest, process, grow, store, and use it in any lawful manner not inconsistent with this Agreement or with the terms and conditions of any policy of insurance.

11. Sale of Collateral. The following provisions relate to any sale, consignment or transfer of crops, or other farm products included as all or a part of the Collateral:

a. To induce Secured Party to extend the credit or other financial accommodations secured by this Agreement, Debtor represents and warrants to Secured Party that it will sell, consign or transfer the Collateral only to those persons whose names and addresses have been set forth on sales schedules delivered to secured Party. Each schedule shall be in such form as Secured Party may require, including identification of each type of Collateral. Debtor also shall notify Secured Party of the name and address of each additional person to whom or through whom the Collateral may be sold, consigned or transferred. All such schedules and notifications shall be in writing and shall be delivered to Secured Party not less than seven (7) days prior to any such sale, consignment or transfer of the Collateral.

b. Debtor acknowledges that if the Collateral is sold, consigned, or transferred to any person not listed on a schedule delivered to Secured Party as provided above, and if Secured Party has not received an accounting (including the proceeds) of such sale, consignment or transfer within ten (10) days of the sale, consignment or transfer, then UNDER FEDERAL LAW, DEBTOR SHALL BE SUBJECT TO A FINE WHICH IS THE GREATER OF $5,000 OR 15% OF THE VALUE OR BENEFIT RECEIVED FROM THE SALE, CONSIGNMENT OR TRANSFER TO AN UNLISTED BUYER, CONSIGNEE OR TRANSFEREE.

c. All proceeds of any sale, consignment or transfer shall be made immediately available to Secured Party in a form jointly payable to Debtor and Secured Party. All chattel paper, contracts, warehouse receipts, documents of title, or other evidences of ownership or obligations, whether issued by a co-op, grain elevator, or other warehouse or marketing entity, and all accounts receivable and other non-cash proceeds shall be endorsed, assigned and delivered immediately to Secured Party as security for the Indebtedness. All the proceeds of any such disposition of the Collateral, when and if received by Secured Party, may at Secured Party's option be applied to the Indebtedness. In addition, Secured Party may collect at any time the proceeds of any or all such accounts or other non-cash proceeds-of any sale without notice to Debtor.

12. Default. Any one or more of the following shall be a default under this Agreement:

a. Debtor's failure to pay when due any payment to Secured Party secured by this Agreement.

b. Debtor's breach of any term, provision, warranty, or representation of this Agreement or of any other security agreement or other agreement between Debtor and Secured Party.

c. The appointment of any receiver or trustee of all or a substantial portion of the assets of Debtor.

d. Debtor's becoming insolvent or unable to pay debts as they mature, or making a general assignment for the benefit of creditors.

e. The issuance of any levy of attachment, execution, tax assessment, or similar process against the Collateral if not released within ten days of issuance.

f. Debtor's furnishing to Secured Party any financial statement, profit and loss statement, borrowing certificate or schedule, or other statement that is false or incorrect in any material respect.

g. Should Debtor default under any loan, extension of credit, security agreement or any other agreement in favor of any other creditor or person that may materially affect any of Debtor's property or Debtor's ability to repay the Indebtedness or perform its obligations under this Agreement or any other agreement between Debtor and Secured Party.

h. This Agreement or any other agreement between Debtor and Secured Party ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

13. RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Secured Party shall have all the rights of a secured party under the California Commercial Code. In addition and without limitation, Secured Party may exercise any one or more of the following rights and remedies:

a. Secured Party may declare the entire Indebtedness, including any prepayment penalty which Debtor would be required to pay, immediately due and payable, without notice.

b. Secured Party may require Debtor to deliver to Secured Party all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party. Secured Party also shall have full power to enter upon the property of Debtor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Debtor agrees Secured Party may take such other goods, provided that Secured Party makes reasonable efforts to return them to Debtor after repossession.

c. Secured Party may enter upon the premises where any Collateral consisting of crops is located and, using any and all of Debtor's equipment, machinery, tools, farming implements, and supplies, and improvements located on the premises; farm, cultivate, irrigate, fertilize, fumigate, prune, and perform any other act or acts appropriate or necessary to grow, care for, maintain, preserve and protect the crops (using any water located in, on or adjacent to the premises); harvest, pick, clean, and remove the crops from the premises; and to the extent then permitted under California law, appraise, store, prepare for public or private sale, exhibit, market and sell the crops and any products of the crops.

d. Secured Party shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Debtor. Secured Party may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will give Debtor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days, or such lesser time as required by state law, before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

e. To the extent permitted by applicable law, Secured Party shall have the following rights and remedies regarding the appointment of a receiver: Secured Party may have a receiver appointed as a matter of right; the receiver may be an employee of Secured Party and may serve without bond; and all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this

Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

f. Secured Party either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Secured Party may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Secured Party may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Secured Party may demand, collect, receipt for, settle, compromise, adjust. sue for, foreclose, or realize on the Collateral as Secured Party may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Secured Party may, on behalf of and in the name of Debtor, receive, open and dispose of mail addressed to Debtor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Secured Party may notify account debtors and obligors on any Collateral to make payments directly to Secured Party.

g. If Secured Party chooses to sell any or all of the Collateral, Secured Party may obtain a judgment against Debtor for any deficiency remaining on the Indebtedness due to Secured Party after application of all amounts received from the exercise of the rights provided in this Agreement. Debtor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

h. Secured Party shall have all the rights and remedies of a secured creditor under the provisions of the California Commercial Code, as may be amended from time to time. In addition, Secured Party shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

i. All of Secured Party's rights and remedies, whether evidenced by this Agreement or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Secured Party to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Debtor under this Agreement, after Debtor's failure to perform, shall not affect Secured Party's right to declare a default and to exercise its remedies.

14. Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Debtor will keep Secured Party informed at all times of Debtor's current addresses.

15. Waiver. Neither any waiver, express or implied, of any provision of this Agreement, nor any delay or failure by Secured Party to enforce any provision, shall preclude Secured Party from later enforcing any such provision.

16. Successors. All rights of Secured Party under this Agreement shall inure to the benefit of its successors and assigns, and all obligations of Debtor shall bind its successors, and assigns. If there is more than one Debtor, their obligations shall be joint and several.

17. Governing Law. This Agreement shall be governed by and interpreted according to the laws of the State of California.

18. Cumulative Rights. All rights and remedies provided in this Agreement are cumulative and are not exclusive of any rights or remedies otherwise provided by law. Any single or partial exercise of any right or remedy shall not preclude its further exercise or the exercise of any other right or remedy.

19. Undefined Terms. All terms not defined in this Agreement are used as set forth in the California Uniform Commercial Code.

20. Costs and Attorneys' Fees. Debtor agrees to pay upon demand all of Secured Party's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or in connection with the Indebtedness. Secured Party may pay someone else to help collect the Note and to enforce this Agreement, and Debtor will also pay Secured Party all costs or expenses associated therewith. This includes, subject to any limits under applicable law, Secured Party's attorneys' fees and Secured Party's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Debtor also will pay any court costs, in addition to all other sums provided by law.

Dated: December 29, 1997

DEBTOR:

CITADEL AGRICULTURAL PARTNERSHIP NO. 3,
a California General Partnership

By: CITADEL AGRICULTURE, INC.,
a California corporation, General Partner

By: /s/ S. Craig Tompkins
_____
S. Craig Tompkins, President

Exhibit 10.81

ADMINISTRATIVE SERVICES AGREEMENT

THIS ADMINISTRATIVE SERVICES AGREEMENT ("Agreement") is entered into as of this 29th day of DECEMBER, 1997, by and between CITADEL HOLDING CORPORATION ("Citadel") and BIG 4 RANCH, INC. ("Big 4"). Citadel and Big 4 hereby agree as follows:

R E C I T A L S

A. Big 4 is the owner of a 40% partnership interest in each of three separate general California partnerships (the "Partnerships") owning certain agricultural real property (the "Property") for the farming and harvesting of citrus orchards; and

B. Big 4 desires to engage Citadel on behalf of itself under this Agreement to provide certain administrative services to and for Big 4.

1. Services:

1.1. Services Included: Citadel hereby undertakes, at the request from time to time by Big 4, to perform the following administrative services:

a) To prepare quarterly and annual reports to Big 4 shareholders, making use of financial information provided by Big 4, and to administer the printing and distribution of such reports;

b) To include in its mailings to Citadel shareholders, such reports and other information as Big 4 may reasonably request; provided that such materials are clearly labeled as being the materials of Big 4 and as not being the materials of Citadel;

c) To administer the Big 4's bank accounts;

d) To maintain a mailing and delivery address for Big 4 at the principal corporate offices of Citadel and to review and direct to appropriate directors, officers, representatives and contractors of Big 4 correspondence addressed to Big 4;

e) To maintain a telephone and fax facility for Big 4 at the principal corporate offices of Citadel and to receive and direct to appropriate directors, officers, representatives and contractors of Big 4 telephone and other oral communications directed to Big 4;

f) To provide, or cause to be provided, share registry services for Big 4;

g) To provide, or cause to be provided, on January 1, 1999 or promptly thereafter, a message center or electronic bulletin board or other facility whereby persons interested in buying or selling Big 4 common stock can register, post or otherwise give notice of such interest;

h) To provide, at Citadel's principal corporate offices, facilities where Big 4 directors and officers can hold meetings; and

i) To provide, at Citadel's principal corporate offices, such secretarial support services to the directors and officers of Big 4 as they may reasonably require in the execution of their official duties and responsibilities.

1.2. Services not included: Citadel will have no obligation to perform accounting or auditing functions, and it is understood that Big 4 will separately contract for such services. Nor is Citadel being engaged to perform any services of a fiduciary nature or of a discretionary, as opposed to a ministerial, nature. It is understood that the officers and directors of Big 4 will continue to be responsible for the management of the business and affairs of Big 4 and that Citadel will have no responsibility with respect to such management functions.

1.3 No Obligation to Advance Monies: Citadel shall have no obligation to make any advance to or for the account of Big 4 nor to become liable for any expense of Big 4 regardless of the detriment or penalty that Big 4 will suffer if the same is not made or incurred. If, in Citadel's reasonable discretion, it incurs any expense or makes any advance for Big 4 arising out of or in carrying out Citadel's duties under this Agreement, Citadel shall be deemed to have done so as the authorized agent of Big 4 and Big 4 shall promptly upon request pay such expense or reimburse Citadel for such advance which sum shall bear interest from the date disbursed by Citadel at the rate set forth in Section 2.3.

2. Reimbursement and Compensation:

2.1. Reimbursement: Big 4 will promptly, and in any event within thirty (30) days of receipt of invoice from Citadel, reimburse Citadel for its out-of-pocket costs in providing services under this Agreement. Where a precise apportionment is not possible, a representative of each of Citadel and Big 4 will meet and confer periodically to determine a reasonable apportionment. Reimbursable costs will not include, however, general overhead items such as employee salaries, rent and utilities (other than telephone and other communications type utilities), compensation for such items being included within the administrative fee specified below.

2.2. Administrative Fee: Big 4 will pay a monthly fee of One Thousand Dollars ($1,000), commencing January 1,1998, to compensate Citadel for the services to be provided under this Agreement. This amount will remain fixed for the first 24 months of this Agreement. Thereafter, such fee will be adjusted upwards to reflect a change in the consumer price index, all urban consumers _____ = 100, or such other index as may be selected by Citadel and Big 4 from time to time. Notwithstanding the above, the parties agree that following every second anniversary of this Agreement they will review the level and quantity of services being provided under this Agreement and make such adjustment to the Administrative Fee as may be appropriate given the level and quantity of such services.

2.3. Agreement Interest Rate: Any payment not timely made will accrue interest at that fluctuating rate equal from time to time to the prime rate as published in the Wall Street Journal (or such other equivalent published index as the parties may from time to time select) plus two hundred (200) basis points, or the maximum amount permitted by law, whichever is less.

3. Term:

This Agreement will have an initial term of ten (10) years, and will continue there after on a year to year basis unless terminated by either party on not less than one hundred eighty (180) days notice. Notwithstanding the above, this Agreement may be terminated by Big 4 at any time on not less than ninety (90) days notice, and by either party in the event of material breach by the other party of its obligations under this Agreement. In the case of termination for breach, the terminating party will first give notice to the other party of such breach and thirty (30) days in which to cure the same.

4. Indemnification:

Big 4 agrees to indemnify Citadel, its officers, directors, employees and contractors, against any and all liability arising out of or relating to this Agreement or from the performance by Citadel, and/or such other persons, of services under this Agreement, except where such liability was the direct and proximate result of willful misconduct or gross negligence on the part of the person seeking such indemnity. This indemnity obligation includes, without limitation, the obligation to advance all reasonable attorneys fees and other costs incurred by any person indemnified under this Agreement in defending any action or proceeding resulting from the performance of services under this Agreement and/or in investigating any claim by any person threatening any such action or proceeding; provided, however, that such indemnified party will be obligated to repay such advances, together with interest at the Agreement Interest Rate, in the event that a court of competent jurisdiction ultimately determines, in a final and non-appealable judgment, that such liability was the direct and proximate result of willful misconduct or gross negligence on the part of such person.

5. Miscellaneous:

5.1. Governing Law: Venue: This Agreement is to be governed by the laws of the State of California as such laws pertain to contracts made and to be performed entirely within such state. Any action brought under this Agreement may be brought only in the Federal District Court or the California Superior (or Municipal) Court sitting in Los Angeles County, California. Each of the parties hereto consent to the jurisdiction and venue of such courts.

5.2. Notices: Any notice to be given under this Agreement must be in writing, and will be deemed given when actually delivered, in the case of Citadel, to the Chairman of the Board, President or Secretary of that company, and in the case of Big 4, to the Chairman of the Board, President or Secretary of that company.

5.3. No Third Party Beneficiaries: There are not third party beneficiaries to this Agreement, The indemnity provisions set forth hereinabove may be asserted by individuals other than Citadel only with the written approval of Citadel, which approval may be given or withheld by Citadel in its sole and absolute discretion.

5.4. Amendments: This Agreement can only be amended by a writing making specific reference to this Agreement and signed by both parties hereto.

5.5. Successors and Assigns: This Agreement will be binding upon any corporate successor to Citadel and/or Big 4 as the case may be: provided, however, that the benefits and burdens of this Agreement can only be assigned in connection with a merger or sale of all or substantially all of the assets of the transferor (and then only provided that the transferee agrees in writing addressed to the nontransfering party hereunder to be bound by this Agreement) or otherwise with the written approval of the other party to this Agreement, such approval not to be unreasonably withheld or delayed. Upon any such transfer, the obligations of the transferor hereunder will terminate.

5.6. Interpretation: This Agreement is to be interpreted in an even handed manner and not with reference to any rule of construction providing for interpretation for or against the drafter thereof.

5.7 Competition; Self-Dealing. Except as otherwise agreed, Citadel and its affiliates may engage in or possess an interest in other business ventures of any nature or description, independently or with others, whether currently existing or hereafter created, including business that is competitive with the business of Big 4. Big 4 shall not have any rights in or to such independent ventures or the income of profits derived therefrom. Furthermore, nothing in this Agreement shall preclude transactions between Citadel, or its

affiliates, and Big 4, provided that any services performed by Citadel, or its affiliates, are on terms no less favorable to Big 4 than could be obtained from an unrelated third party on an arms' length basis.

5.8 Entire Agreement: This Agreement constitutes the entire understanding between and among the parties, and supersedes any prior understandings respecting the subject matter thereof.

IN WITNESS WHEREOF. the parties hereto have executed and delivered this Agreement as of the date first set forth above.

CITADEL HOLDING CORPORATION	BIG 4 RANCH, INC.
By _____	By /s/ Edward L. Kane
Steve Wesson	Edward L. Kane
Title: President	Title: President

Exhibit 21

LIST OF SUBSIDIARIES

Citadel Realty Inc.	100% owned
Citadel Distribution, Inc.	100% owned
Citadel Acquisition Corp., Inc.	100% owned
Big 4 Farming LLC	80% owned
Citadel Agriculture, Inc.	100% owned

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement No. 333-36277 of Citadel Holding Corporation on Form S-8 of our report dated March 20, 1998, appearing in this Annual Report on Form 10-K of Citadel Holding Corporation for the year end December 31, 1997.

Deloitte & Touche LLP

Los Angeles, California
March 30, 1998

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YEAR	
	DEC-31-1997
	JAN-01-1997
	DEC-31-1997
	4,364
	0
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	4,458
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	1,099
	9,395
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	0
	67
	17,987
	28,860
	5,110
	5,436
	2,090
	3,656
	(804)
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	1,009
	1,575
	45
	1,530
	0
	0
	0
	1,530
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	0.24