SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. 2)

Filed by the Registrant[ ]
Filed by a Party other than the Registrant[X]
Check the appropriate box:
[X] Preliminary Proxy Statement
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Citadel Holding Corporation
(Name of Registrant as Specified In Its Charter)

Dillon Investors, L.P.
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):
[ ] $125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(j)(2).
[ ] $500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

_____

2) Aggregate number of securities to which transaction applies:

_____

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

_____

4) Proposed maximum aggregate value of transaction:

_____

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

_____

2) Form, Schedule or Registration Statement No.:

_____

3) Filing Party:

_____

4) Date Filed:

_____

PRELIMINARY COPY - NOVEMBER [^] 21, 1994

DILLON INVESTORS, L.P.

_____

PROXY STATEMENT

In Opposition to the Board of Directors of
Citadel Holding Corporation

ANNUAL MEETING OF STOCKHOLDERS
OF CITADEL HOLDING CORPORATION

To be held on December 12, 1994

To the Stockholders of Citadel Holding Corporation:

INTRODUCTION

This Proxy Statement, the accompanying letter and the enclosed GREEN proxy card are furnished in connection with the solicitation of proxies (the "Proxy Solicitation") by and on behalf of Dillon Investors, L.P., a Delaware limited partnership ("Dillon"), to be used in connection with the Annual Meeting of Stockholders (the "Annual Meeting") of Citadel Holding Corporation, a Delaware corporation (the "Company"), to be held on December 12, 1994, and at any and all adjournments or postponements thereof. Dillon is soliciting proxies pursuant to this Proxy Statement to elect the nominees of Dillon named herein (the "Dillon Nominees") to the Board of Directors of the Company (the "Board") and to oppose the authorization of additional shares of common stock of the Company and the grant of authority to the current Board to adjourn the Annual Meeting in its discretion, as proposed by the Company. The Annual Meeting will be held on December 12, 1994 at such time and place as specified in the Company's Notice of Annual Meeting of Stockholders and Proxy Statement (the "Company Proxy Statement"). This Proxy Statement and the enclosed GREEN proxy card are first being furnished to stockholders of the Company on or about November ___, 1994.

Based on 6,669,924 shares of common stock, par value $.01 per share (the "Shares"), of the Company reported as outstanding as of the November [^] 14, 1994 record date in the preliminary copies of the Notice of Annual Meeting of Stockholders and Proxy Statement (the "Company Preliminary Proxy Statement") filed by the Company with the Securities and Exchange Commission (the "Commission") on [^] November 17, 1994, Dillon, Roderick H. Dillon, Jr., Roderick H. Dillon, Jr. - IRA and Roderick H. Dillon, Jr. Foundation (which are sometimes referred to herein collectively as the "Dillon Entities") hold 659,000 Shares or approximately 9.88% of the outstanding Shares as of such date. On November 10, 1994, the Company issued to its controlling stockholder, Craig Corporation ("Craig"), 1,329,114 shares of its 3% Cumulative Voting Convertible Preferred Stock (the "New Preferred Stock"). Dillon is contesting such issuance as improper (see "BACKGROUND OF THE PROXY SOLICITATION"). The New Preferred Stock, which is convertible into Shares at any time, votes jointly with the Shares on most matters, including the election of directors, on a share-for-share basis. The Shares and the shares of New Preferred Stock are collectively referred to herein as the "Voting Stock." Dillon holds approximately 8.24% of the 7,999,038 Voting Stock outstanding as of the November 14 record date.

By letter dated October 13, 1994, Dillon asked the Board to promptly call a 1994 annual meeting of stockholders (which, pursuant to the Company's By-Laws, should have been held in May 1994) and to respond publicly to inquiries concerning the current business strategy of the Company and the best course of action to maximize stockholder value. Other than scheduling the Annual Meeting for December 12, 1994, the Board did not respond to Dillon's letter. Dillon now seeks your votes in support of an alternative slate of nominees at the Annual Meeting. Dillon believes that you, the true owners of the Company, should have the right to decide for yourselves how the Company should be operated.

THE ABILITY OF DILLON TO HOLD PROXIES FOR THE ELECTION OF THE DILLON NOMINEES (BUT NOT WITH RESPECT TO OTHER MATTERS BEING CONSIDERED AT THE ANNUAL MEETING) IS DEPENDENT UPON THE RECEIPT OF ADVICE FROM THE OFFICE OF THRIFT SUPERVISION (THE "OTS") WITH RESPECT TO THE APPLICABILITY OF THE OTS CONTROL REGULATIONS TO

THE SOLICITATION OF PROXIES FOR THE ELECTION OF DIRECTORS AT THE ANNUAL MEETING. SEE "REGULATORY APPROVALS."

DILLON URGES YOU TO SIGN, DATE AND RETURN TO DILLON THE ENCLOSED GREEN PROXY CARD TO VOTE FOR THE ELECTION OF THE DILLON NOMINEES AS DIRECTORS AND AGAINST ALL OTHER PROPOSALS.

BACKGROUND OF THE PROXY SOLICITATION

The Dillon Entities purchased their 659,000 Shares from March 17, 1993 through March 16, 1994 at prices ranging from $20.22 per Share to $4.54 per Share. On September 7, 1994, the [^] reported [^] low for the Shares on the American Stock Exchange ("AMEX") was $3.50, the lowest price at which the Shares [^] had traded in the past ten years. (On November 17, 1994, the Shares sunk to a new low on the AMEX of $3.44). As a result of the weakness in the market price of the Shares, and the results of the recapitalization and restructuring involving the Company and its formerly wholly owned subsidiary, Fidelity Federal Bank, a Federal Savings Bank ("Fidelity"), which were materially less favorable to the Company than had been anticipated (see "REASONS TO REPLACE THE PRESENT BOARD WITH THE DILLON NOMINEES"), the Dillon Entities began to consider seeking a greater voice in the Company's affairs.

As set forth above, by letter dated October 13, 1994, Dillon asked the Board to promptly call a 1994 annual meeting of stockholders (which, pursuant to the Company's By-Laws, should have been held in May 1994) and to respond publicly to inquiries concerning the current business strategy of the Company and the best course of action to maximize stockholder value. Other than scheduling the Annual Meeting for December 12, 1994, with a record date of November 4, 1994, the Board did not respond to Dillon's letter. In that letter, Dillon stated its opinion that a dissolution and liquidation of the Company's assets would seem to be the best strategy to maximize the value of the Shares to stockholders. Dillon does not believe that such value is maximized through the current operation of the Company as a real estate company, as evidenced by the recent market prices for the Shares.

On October 21, 1994, the Company sold 74,300 Shares to Craig [^], which resulted in Craig's owning more than 10% of the outstanding Shares. Craig's Chairman, James Cotter, and President, S. Craig Tompkins, serve as the Company's Chairman and Vice Chairman, respectively. The agreed upon purchase price was the lesser of the average trading price for the Shares on (a) the three trading days preceding October 21, 1994 or (b) the five trading days following October 21, 1994. The actual price paid by Craig for such additional Shares was $3.85 per Share(1).

_____

(Footnote 1 above)
OTS approval for Craig to purchase in excess of 10% of the outstanding Shares was scheduled to expire on October 23, 1994; thus, the issuance of such Shares, at what Dillon believes to be depressed market prices, enabled Craig to buy additional Shares in the future without regulatory delay. Craig had stated in Amendment No. 13 to its Schedule 13D filed with the Commission on October 26, 1994 that it would have been unwilling to file an agreement with the OTS to avoid such delay because such an agreement "would have substantially limited Craig's ability to exercise an influence over the business and affairs of" the Company.

_____

On November 4, 1994, Dillon filed an amendment to its Schedule 13D stating its intention to solicit proxies to elect a slate of nominees to the Board. Also on November 4, the Company announced that the record date for the stockholders entitled to vote at the Annual Meeting had been changed from November 4, 1994

to November 11, 1994.

On November 7, 1994, Dillon commenced litigation (the "Delaware Litigation") in the Court of Chancery of the State of Delaware in and for New Castle County against the Company, its present directors James J. Cotter, Steve Wesson, Peter W. Geiger, S. Craig Tompkins and Alfred Villasenor, Jr. (the "Individual Defendants") and Craig alleging that the attempt by the Company's Board to change the record date for the Annual Meeting was not for a proper corporate or business purpose of the Company but to enable the Individual Defendants to perpetuate themselves in office by improperly manipulating the corporate machinery of the Company so as to permit them to issue additional Shares to Craig or other "friendly hands" prior to the new record date and, in addition, alleging that the Company's issuance in October of the 74,300 Shares to Craig was done for inadequate consideration and not for a proper business purpose of the Company but rather to enable the Individual Defendants to maintain themselves in office and to affect adversely and to impede the voting rights of Dillon and the other stockholders of the Company at the Annual Meeting. The complaint sought an order declaring that such 74,300 Shares were improperly issued and enjoining Craig from voting such Shares at the Annual Meeting, determining that any Shares issued by the Company after November 4, 1994 shall not be voted or counted towards a quorum at the Annual Meeting, and preliminarily and permanently enjoining the Individual Defendants and the Company from issuing any Shares prior to the Annual Meeting. Also on November 7, Roderick H. Dillon, Jr. delivered a consent to the Company, together with a letter announcing Dillon's intention to engage in a consent solicitation.

On November 8, 1994, the Company announced that the record date for purposes of the Annual Meeting was November 14, 1994, and that the prior announcement "erroneously reported the record date of the meeting." On November 11, 1994, the Company issued a press release indicating that it had sold to Craig 1,329,114 shares of [^] New Preferred Stock [^] on November 10, 1994 at a price of $3.95 per share by exchanging such shares for $5.2 million of debt owed by the Company to Craig. The New Preferred Stock votes jointly with the Shares on most matters, including the election of directors, on a share-for-share basis and is convertible into Shares at any time, at the option of the holder, at a conversion ratio based upon the market price of the Shares (up to a maximum price of $5.00). The New Preferred Stock is redeemable at a premium at the option of the Company after November 10, 1997. Holders of the New Preferred Stock have the right to require the Company to purchase their shares at a premium under certain circumstances, including a change of control (which would include failure of the existing directors or any persons elected or nominated by the existing directors to constitute a majority of the Board).

On November 14, 1994, Dillon amended its complaint filed in the Delaware Litigation to seek rescission of the sale of the New Preferred Stock and to preliminarily and permanently enjoin the voting of such stock at the Annual Meeting or otherwise. Such amended complaint alleges that such issuance of New Preferred Stock was in violation of the Board's fiduciary duties, as such stock was issued for inadequate consideration and not for a proper business or corporate purpose of the Company. The shares of New Preferred Stock were issued at a share price below the closing sales price for the Shares on the AMEX on such date, notwithstanding the fact that such New Preferred Stock has superior liquidation, dividend and redemption rights to the Shares, voting rights equal to the Shares and is convertible into Shares. Dillon believes that the New Preferred Stock was issued to Craig solely for the purposes of improperly increasing Craig's voting power, diluting the voting power of the Company's existing stockholders other than Craig and entrenching the Company's management. On November 9, 1994, prior to the Company's issuance of the New Preferred Stock to Craig, the Court scheduled a trial beginning January 4, 1995, after determining that a prompt trial after the Annual Meeting, together with a status quo order preserving the parties in the position they were from the time of the Annual Meeting through conclusion of the trial, would afford sufficient relief. The Court did, however, indicate that it would entertain a new request for injunctive relief should significant events occur. Dillon has not definitively determined whether to request relief from the Court prior to the Annual

Meeting, although Dillon will continue to monitor the situation. If the Dillon Nominees are elected by vote at the Annual Meeting or pursuant to written consent, it is Dillon's intention to prosecute the Delaware Litigation in order to invalidate the issuance of the New Preferred Stock.

On November 16, 1994, the Company commenced litigation in California seeking to forbid Dillon, among others, from soliciting proxies or voting its own Shares at the Annual Meeting, and also filed an answer and counterclaim in the Delaware Litigation seeking to invalidate Dillon's proposed consent solicitation (see "Consent Solicitation," below)(2). The California Litigation Defendants intend to vigorously defend against such claims in the California Litigation, and Dillon intends to vigorously defend against the counterclaim in the Delaware Litigation.

_____

(Footnote 2 above)
The action, commenced in the United States District Court for the Central District of California (the "California Litigation"), against the Dillon Entities and the Dillon Nominees (collectively, the "California Litigation Defendants") alleges that the California Litigation Defendants have violated Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder by failing to disclose certain information in their Schedule 13D and the amendments thereto. The Company's complaint seeks an order forbidding the California Litigation Defendants from, among other things, soliciting any proxies or consents related to the Shares until the California Litigation Defendants have disclosed the material information allegedly omitted from, and corrected the information allegedly misstated in, their Schedule 13D and the amendments thereto, voting any Shares pursuant to any proxy or consent which may be granted pursuant to the Proxy Solicitation or acquiring or attempting to acquire any further Shares, in either case prior to the date ten days following public dissemination of the corrective disclosures.

_____

The Distribution, the Real Estate Sales and the Dissolution

Dillon believes that you, the true owners of the Company, should have the right to decide for yourselves how the Company should be operated. If elected, the Dillon Nominees intend to propose, subject to their fiduciary duties, that the Company (i) effect a pro rata distribution of the shares of Fidelity currently held by the Company to the stockholders of the Company (the "Distribution"), (ii) effect an orderly sale of the Company's real estate assets at the best available price (the "Real Estate Sales") and (iii) thereafter promptly dissolve and liquidate the Company (the "Dissolution"). None of the Dillon Entities or their affiliates would participate in any transaction with the Company regarding a sale or liquidation of any of the Company's assets, other than pursuant to their pro rata interest as stockholders.

Consent Solicitation

As an alternate means to facilitate the consummation of the Distribution, the Real Estate Sales and the Dissolution, Dillon is [^] soliciting consents from stockholders of the Company (the "Consent Solicitation"), concurrently with the Proxy Solicitation , to its proposals to (i) remove all the incumbent directors of the Company, (ii) elect the Dillon Nominees to the Board and (iii) amend the Company's By-Laws to restrict the indemnification of (or advancement of expenses to) its officers, directors, employees and agents without the prior approval of the holders of a majority of outstanding Shares. Dillon believes that the Consent Solicitation is necessary [^] because the [^] record [^] date for [^] the Consent Solicitation [^] is before the issuance of 16.6% of the Voting Stock to Craig and before the reset record date for the Annual Meeting. The earlier record date for the Consent Solicitation of November 7, 1994, rather than the Company's proposed November 14, 1994 record date for the Proxy Solicitation, allows only the record holders of Shares (as the only voting securities) prior to the issuance of the New

Preferred Stock, to vote their Shares with respect to how the Company should be operated.

Assuming Dillon is successful in the Proxy Solicitation and the Consent Solicitation is still pending, it is Dillon's current intention not to pursue the completion of the Consent Solicitation or the amendment of the Company's By-Laws in the manner provided above.

DILLON URGES YOU TO SIGN, DATE AND RETURN TO DILLON THE ENCLOSED GREEN PROXY CARD TO VOTE FOR THE ELECTION OF THE DILLON NOMINEES AS DIRECTORS.

REASONS TO REPLACE THE PRESENT BOARD WITH THE DILLON NOMINEES

Poor Operating Performance

The Company has incurred significant operating losses during recent years, primarily as a result of the poor performance of Fidelity. The Company reported a net loss of $92.0 million ($13.95 per Share) for the second quarter of 1994, and a loss of $106.8 million ($16.19 per Share) for the six months ended June 30, 1994, as reported in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1994 (the "Form 10-Q"). As a result of such losses, the Company commenced a series of steps to internally reorganize in order to, among other things, strengthen Fidelity's operations. The Company ultimately entered into a restructuring and recapitalization transaction (the "Restructuring and Recapitalization"), major aspects of which were consummated on August 4, 1994.

Pursuant to the Restructuring and Recapitalization, Fidelity transferred certain of its real estate assets to a newly-formed subsidiary of the Company and made a public offering which resulted in the reduction of the Company's equity interest in Fidelity from 100% to approximately 16.18%. The Board announced that, following the Restructuring and Recapitalization, the Company would become a real estate company and focus on the servicing and enhancement of its real estate portfolio.

Unfortunately, as noted by the Company in the Form 10-Q, the results of the Restructuring and Recapitalization were materially less favorable to the Company than had previously been anticipated. In light of such results, by letter dated October 13, 1994, Dillon asked the Board to respond publicly to inquiries concerning the current business strategy of the Company, the action required to effect a pro rata distribution to the stockholders of the Company of the shares of Fidelity currently held by the Company, whether a dissolution of the Company and liquidation of its assets would be the best strategy to maximize stockholder value, and why, in light of the consummation of the Restructuring and Recapitalization, the Company is still registered with the OTS as a savings and loan holding company.

The Board did not respond to Dillon's inquiries and appears unwilling to consider proposals to operate the Company in any manner other than as a real estate company. The Board's only action to date has been to reset the record date for the Annual Meeting and, prior to such new date, issue securities having over 1.3 million votes to Craig for what Dillon believes was inadequate consideration, so that Craig would be able to vote such securities at the Annual Meeting for the existing directors, including Craig's own Chairman and its President.

Dillon is concerned that the Board may dispose of the shares of Fidelity held by the Company and may use the proceeds of such disposition in furtherance of its stated plans to develop the Company as a real estate company. Likewise, Dillon is concerned that the Board, which is seeking stockholder approval at the Annual Meeting to double the number of authorized Shares (see "MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING - PROPOSAL 2: AUTHORIZATION OF ADDITIONAL SHARES OF COMMON STOCK"), will issue additional Shares and use the proceeds of such issuances in furtherance of such plans. Such issuances could also be utilized to further increase the stock ownership of management and persons friendly to management in order to provide them an even greater voice in pursuing such plans.

Interested-Party Transactions

Dillon is also concerned that the current Board will continue a pattern of interested-party transactions with its controlling stockholder, Craig, and Craig's officers who also serve on the Company's Board.

In August 1994, the Company entered into an $8.2 million line of credit agreement with Craig (the "Craig Line of Credit") which has a one year maturity (subject to an option to extend for a period of six months). The Craig Line of Credit, among other things, paid Craig a $205,000 up front "commitment fee," up to $100,000 for "expenses" and interest at three percentage points over the prime rate for a fully secured loan. $5.2 million of the $6.2 million outstanding loan under the Craig Line of Credit was then replaced only three months later by the issuance to Craig of the New Preferred Stock, and Craig's commitment to extend any further loans under the Craig Line of Credit was terminated. The exchange of debt for New Preferred Stock took place at a price below the current market price for the Shares, notwithstanding the fact that the New Preferred Stock votes jointly with the Shares on most matters, is convertible into Shares and has superior liquidation, dividend and redemption rights to the Shares. In the event of a change of control (including failure of the existing directors or their nominees to constitute a majority of the Board), such New Preferred Stock also gives Craig the right to cause the Company to repurchase the New Preferred Stock at a premium equal to approximately $39,000 per month from the date of issuance to the date of repurchase.

In addition, Dillon notes that the Company Preliminary Proxy Statement indicates that the annual fees paid to the Company's Chairman, James Cotter, who is also the Chairman of Craig, were more than doubled to $100,000 in December 1993, retroactive to October 1991. Following such retroactive increase and payment, in August 1994 the Board reduced future payments to Mr. Cotter to $45,000 per year. The Company's Vice Chairman, S. Craig Tompkins, who is the President of Craig, receives a fee of at least $35,000 per year from the Company.

Dillon's investment of over $3.8 million in the Company was intended to be an investment in a savings and loan with real estate assets, not [^] in a real estate company. Dillon further believes that most other stockholders did not intend to invest in a real estate company. Dillon now seeks your votes in support of an alternative slate of nominees at the Annual Meeting. Dillon believes that you, the true owners of the Company, should have the right to decide for yourselves how the Company should be operated. Our nominees are committed to maximizing [^] value for ALL stockholders by establishing the stockholders' direct investment in Fidelity, selling the real estate assets of the Company and dissolving the Company and liquidating any remaining assets, as described below. None of the Dillon Entities or their affiliates would participate in any transaction with the Company regarding a sale or liquidation of any of the Company's assets, other than pursuant to their pro rata interest as stockholders.

YOU CAN TAKE SOME IMMEDIATE STEPS TO HELP OBTAIN THE MAXIMUM VALUE FOR YOUR SHARES BY SIGNING, DATING AND RETURNING YOUR GREEN PROXY CARD FOR THE ELECTION OF THE DILLON NOMINEES TO THE BOARD.

DILLON'S STRATEGY FOR THE COMPANY

The Distribution

In connection with the Restructuring and Recapitalization, the Company's equity interest in Fidelity was reclassified into 4,202,243 shares of Fidelity's non-voting Class B Common Stock (the "Fidelity Class B Stock"), representing approximately 16.18% of the outstanding shares of Fidelity.

Dillon believes that, to maximize [^] value for all

stockholders and establish the stockholders' direct investment in Fidelity, the Board should effect a pro rata distribution of the shares of Fidelity currently held by the Company to the stockholders of the Company (the "Distribution"). Dillon believes that the value of such shares of Fidelity are being discounted by the market due to the operation of the Company as a real estate company, wherein such shares are mixed with the Company's real estate assets. While there is not an active market for Fidelity shares, which are currently unregistered, Dillon has been informed by J.P. Morgan Securities Inc., the principal market maker for the Fidelity voting Class A Common Stock (the "Fidelity Class A Stock") (into which the Fidelity Class B Stock is automatically convertible upon transfer by the Company to an unaffiliated party) that since the offering of Fidelity common stock at $5.25 per share pursuant to the Restructuring and Recapitalization, the Fidelity Class A Stock has traded between $5.00 and $5.75 per share. These prices would be equal to approximately $3.15 to $3.62 per Share (on a primary basis, not including as outstanding Shares issuable upon conversion of the New Preferred Stock issued to Craig). Dillon therefore believes that the shares of Fidelity would be more valuable to the stockholders of the Company if held by them directly, as opposed to being held by the Company.

If elected, the Dillon Nominees intend to fix a record date for the Distribution as soon as practicable and distribute to each holder of Shares on such record date, on a pro rata basis, shares of Fidelity. As a result of the Distribution, stockholders of the Company would hold shares in both the Company and Fidelity.

All stockholders of the Company would likely receive shares of Fidelity Class A Stock as a result of the Distribution. Currently, the Company holds shares of Fidelity Class B Stock. However, the terms of the Fidelity Class B Stock provide that such shares will automatically be converted into shares of Fidelity Class A Stock when they are received by any person who is not [^] a holder of at least 5% or more of Fidelity's outstanding common stock or a member of a "group" under Section 13(d) of the Exchange Act which holds at least 5% or more of Fidelity's outstanding common stock (collectively, a "Fidelity 5% Holder"). In addition, the terms of the Fidelity Class B Stock provide that all shares of Fidelity Class B Stock will automatically be converted into shares of Fidelity Class A Stock at such time as all shares of Fidelity Class B Stock represent less than 10% of the outstanding common stock of Fidelity on a fully diluted basis. Since the Fidelity Class B Stock currently represents approximately 16.18% of the outstanding fully diluted common stock of Fidelity and since, according to the Company Preliminary Proxy Statement and Fidelity's offering materials in the Restructuring and Recapitalization, less than 25% of the Company's stockholders [^] could be considered Fidelity 5% Holders, the Distribution would likely cause all stockholders of the Company[^] to receive Fidelity Class A Stock. The preferences and privileges of the Fidelity Class A Stock and the Fidelity Class B Stock are the same except with respect to voting rights and conversion rights.

The exact timing and details of the Distribution will depend on a variety of factors and legal requirements, including determination by the Dillon Nominees that the Fidelity shares received in the Distribution by the Company's stockholders (other than affiliates, if any, of Fidelity) will be freely transferable. This may require registration of the Fidelity shares pursuant to existing registration rights for such shares, which rights are not exercisable by the Company until March 31, 1995[^] (the date on which Fidelity's Report on Form 10-K for the fiscal year ended December 31, 1994 is due). If for any reason Fidelity were not to honor such registration rights in accordance with their terms, the Distribution could be delayed until such registration is effected. In addition, the Company has indicated that Fidelity shares currently are required to trade in minimum blocks of 100,000 shares. Such restriction will expire upon the filing of Fidelity's Annual Report on Form 10-K for the year ended December 31, 1994, which is due no later than March 31, 1995.

Notwithstanding their present belief that the Distribution would maximize stockholder value, in the event that the Dillon Nominees, following their election and after careful review of then available information, were to determine, pursuant to the exercise of their fiduciary duties, that stockholder values would be maximized by other alternatives, such as a block or other sale of the Fidelity shares and distribution of the net proceeds to the Company's stockholders, the Dillon Nominees would pursue such alternatives.

Real Estate Sales

As set forth above, Dillon's investment of over $3.8 million in the Company was not made for the purpose of investing in a real estate company. Dillon also believes that most of the Company's other stockholders did not intend to invest in a real estate company. Based upon statements made by the Company in the Form 10-Q, Dillon believes that the Company's real estate assets (including assets on which the Company holds purchase options) have a market value in excess of their purchase price or option exercise price(3). Therefore, Dillon believes that, to maximize stockholder value, the Board should effect an orderly sale of the real estate assets of the Company at the best available price (the "Real Estate Sales"). The timing of the Real Estate Sales will be determined after consideration of all relevant factors, including detailed information then available regarding the status of the properties and the condition of the relevant property markets at that time, in order to maximize proceeds to the Company and its stockholders. See "MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING -Proposal 1: Election of Directors - Dillon Nominees," for information with respect to the extensive real estate experience of the Dillon Nominees.

_____

- ---------- COMPARISON OF FOOTNOTES ----------

- -FOOTNOTE 1-

[^] OTS approval for Craig to purchase in excess of 10% of the outstanding Shares was scheduled to expire on October 23, 1994; thus, the issuance of such Shares, at what Dillon believes to be depressed market prices, enabled Craig to buy additional Shares in the future without regulatory delay. Craig had stated in Amendment No. 13 to its Schedule 13D filed with the Commission on October 26, 1994 that it would have been unwilling to file an agreement with the OTS to avoid such delay because such an agreement "would have substantially limited Craig's ability to exercise an influence over the business and affairs of" the Company.

- -FOOTNOTE 2-
The action, commenced in the United States District Court for the Central District of California (the "California Litigation"), against the Dillon Entities and the Dillon Nominees (collectively, the "California Litigation Defendants") alleges that the California Litigation Defendants have violated Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder by failing to disclose certain information in their Schedule 13D and the amendments thereto. The Company's complaint seeks an order forbidding the California Litigation Defendants from, among other things, soliciting any proxies or consents related to the Shares until the California Litigation Defendants have disclosed the material information allegedly omitted from, and corrected the information allegedly misstated in, their Schedule 13D and the amendments thereto, voting any Shares pursuant to any proxy or consent which may be granted pursuant to the Proxy Solicitation or acquiring or attempting to acquire any further Shares, in either case prior to the date ten days following public dissemination of the corrective disclosures.

- -FOOTNOTE [2] 3-
The Form 10-Q states that with "active management and certain capital expenditures, the Company's owned properties "if sold on an individual basis, could be worth more than [the Company] purchased them for in [connection with the Restructuring and Recapitalization], but there can be no assurance on this point." In addition, the Form 10-Q states that the value of the options could be "up to $3 million above the exercise price of [the options], before costs the Company would incur in connection with the exercise, which may be significant." The terms of the options indicate that they are transferable prior to exercise.

- -FOOTNOTE 4-
The election of the Dillon Nominees would, depending upon the outcome of the Delaware Litigation (see "BACKGROUND OF THE PROXY SOLICITATION"), either permit Craig to accelerate its original $6.2 million loan to the Company or to accelerate the remaining $950,000 loan and require the Company to repurchase the New Preferred Stock at a premium, for a total cost to the Company of $6.2 million plus approximately $39,000 per month, pro rated, from the date of issuance to the date of redemption of the New Preferred Stock. Although Dillon has not approached any financing sources with respect to the Company's obtaining funds to enable it to meet such obligations, Dillon believes that financing, secured by such assets, would be available, based upon the fact that Craig was willing to supply the Craig Line of Credit and the Company's statements with respect to its real estate assets in the Form 10-Q (see "DILLON'S STRATEGY FOR THE COMPANY - Real Estate Sales"), although there can be no assurance on this point.

- -FOOTNOTE 1-
The 659,000 Shares include (i) 647,000 Shares held by Dillon, (ii) 5,000 Shares held by Roderick H. Dillon, Jr., (iii) 5,000 Shares held by Roderick H. Dillon Jr. - IRA, and (iv) 2,000 Shares held by Roderick H. Dillon, Jr. Foundation.

- -FOOTNOTE 1-
Except as otherwise indicated, the persons listed as beneficial owners of the Shares have the sole voting and investment power with respect to such Shares.

- -FOOTNOTE 2-

[^] Includes the 1,329,114 shares of [^] New Preferred Stock issued by the Company to Craig on November 10, 1994, which shares are immediately convertible into Shares.

- -FOOTNOTE 1-
Rounded to the nearest cent.

- -FOOTNOTE 2-
Purchased by Roderick H. Dillon, Jr. - IRA.

- -FOOTNOTE 3-
Purchased by Roderick H. Dillon, Jr. Foundation.

- -FOOTNOTE 4-
Purchased by Roderick H. Dillon, Jr.

- -FOOTNOTE 5-
Purchased by Roderick H. Dillon, Jr. Foundation.

- -FOOTNOTE 6-
Purchased by Bradley C. Shoup - IRA.

PRELIMINARY COPY

[front of proxy card]

PROXY - Citadel Holding Corporation - Solicited by Dillon Investors, L.P.
for Annual Meeting December 12, 1994

The undersigned, revoking all other proxies heretofore given, appoints Roderick H. Dillon, Jr. and Bradley C. Shoup, and each of them, with full power of substitution, as proxy or proxies, to vote all shares of the undersigned of Common Stock of Citadel Holding Corporation at the Annual Meeting of Stockholders on December 12, 1994, and at any adjournment or postponement thereof (the "Annual Meeting"), as instructed below upon the proposals which are more fully set forth in the Proxy Statement of Dillon Investors, L.P. ("Dillon"), dated November ____, 1994 (receipt of which is acknowledged) and in their discretion upon any other matters as may properly come before the meeting, including but not limited to, any proposal to adjourn or postpone the meeting, provided, however, that this appointment shall not be effective to vote with respect to Proposal 1 (Election of Directors) unless and until Dillon has received advice from the Office of Thrift Supervision ("OTS") confirming that the OTS Control Regulations will not preclude Dillon from holding proxies to vote for directors at the Annual Meeting, or Dillon is otherwise able to hold such proxies without violating such Regulations.

Dillon Investors, L.P. Recommends a Vote FOR all Nominees listed and AGAINST Proposal 2

1. ELECTION OF DIRECTORS: ___ FOR all nominees listed below (except as marked to the contrary below) ___ WITHHOLD AUTHORITY to vote for all nominees listed below

Roderick H. Dillon, Jr., Bradley C. Shoup, Timothy M. Kelley, Ralph V. Whitworth and Jordan M. Spiegel

(INSTRUCTION: To vote for all nominees listed here, mark the "FOR" line above; to withhold authority for all nominees listed here, mark the "WITHHOLD AUTHORITY" line above; and to withhold authority to vote for any individual nominee listed here, mark the "FOR" line above and write the nominee's name in the space below):

2. AMENDMENT OF RESTATED CERTIFICATE OF INCORPORATION:
FOR ___ AGAINST ___ ABSTAIN ___

3. GRANT OF AUTHORITY TO CURRENT BOARD TO ADJOURN ANNUAL MEETING:
FOR ___ AGAINST ___ ABSTAIN ___

(Continued on reverse side)

[REVERSE OF PROXY CARD]

The shares represented hereby will be voted in accordance with the directions given in this proxy. If not otherwise directed herein, shares represented by this proxy will be voted FOR all nominees listed in Proposal 1 and AGAINST [^] Proposals 2 and 3. The shares represented hereby may be voted to adjourn the Annual

Meeting, or the proxies named herein may determine not to present this proxy at the Annual Meeting in order to defeat a quorum, if, in their sole discretion, they believe such action to be desirable in furtherance of Dillon's stated objectives. If any other matters are properly brought before the Annual Meeting, such proxies will be voted on such matters as such persons, in their sole discretion and consistent with the federal proxy rules, may determine.

Dated: _____, 1994

_____
(Signature)

_____
(Signature if jointly held)

Title: _____

Please sign exactly as name appears herein. When shares are held by joint tenants, both should sign; when signing as an attorney, executor, administrator, trustee or guardian, give full title as such. If a corporation, sign in full corporate name by President or other authorized officer. If a partnership, sign in partnership name by authorized partner.

PLEASE SIGN, DATE AND MAIL PROMPTLY IN THE POSTAGE-PAID ENVELOPE ENCLOSED.