

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
The Securities Act of 1934

Date of Report (date of earliest event reported): November 10, 1994

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

Delaware (State or other jurisdiction of incorporation)	1-8625 (Commission File Number)	95-3885184 (I.R.S. Employer Identification No.)
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600 North Brand Boulevard, Glendale, California	91203
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (818) 551-7450

None
(Former name or former address, if changed since last report)

Page 1 of 3 pages

Item 5. Other Events.

See Press release described in Response to Item 7.

Item 7. Financial Statements and Exhibits.

(c) Exhibits

1. Press Release of Citadel Holding Corporation, dated November 10, 1994
2. Preferred Stock Purchase Agreement, dated November 10, 1994, by and between Citadel Holding Corporation, a Delaware corporation, and Craig Corporation, a Delaware corporation
3. Certificate of Designations of the 3% Cumulative Voting Convertible Preferred Stock of Citadel Holding Corporation, as filed with the Secretary of State of the State of Delaware on November 10, 1994
4. Opinion of Wedbush Morgan Securities, dated November 10, 1994

SIGNATURES

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 hereunto duly authorized.

CITADEL HOLDING CORPORATION, a
Delaware corporation

By: /s/ Steve Wesson

Name: Steve Wesson
Title: President and Chief
Executive Officer

November 11, 1994

PRESS RELEASE
CITADEL HOLDING CORPORATION
RESTRUCTURES BALANCE SHEET

Glendale, California (November 11, 1994) -- Citadel Holding Corporation announced today that it restructured its balance sheet to replace \$5.25 million of short-term debt with equity through the issuance of 1,329,114 shares of newly authorized 3% Cumulative Voting Convertible Preferred Stock. The shares were issued to Craig Corporation on November 10 at a price of \$3.95 per share. The preferred shares represent 16.6% of Citadel's outstanding voting securities, after giving effect to the issuance. Craig also holds 10% of Citadel's outstanding common stock (representing approximately 8.3% of all voting securities after the issuance).

The canceled debt constituting the consideration for the preferred shares was owed by Citadel to Craig under a short-term line of credit provided by Craig to finance the acquisition of Citadel's current real estate holdings as part of the restructuring and recapitalization of Fidelity Federal Bank, FSB.

A committee of independent directors of the Citadel Board approved the terms of Craig's preferred stock investment. The Citadel Board received an opinion from Wedbush Morgan Securities as to the fairness, from a financial point of view, to Citadel's public stockholders of the consideration received by Citadel in the preferred stock issuance.

Steve Wesson, President and Chief Executive Officer of Citadel, stated "This stock issuance strengthens our financial position by replacing short-term debt with equity and improving our cash flow. In the absence of this equity infusion, Citadel may have been forced to liquidate assets under pressure to meet its liabilities, including the Craig line of credit, thereby reducing our prospects for maximizing the value of our assets."

The preferred stock is subject to automatic conversion into common stock under certain circumstances if Citadel undertakes a rights offering of common stock to its stockholders. In addition, holders of the preferred stock will have the right to convert into common stock at any time at a conversion ratio based upon the market price of common stock, subject to certain limitations.

Citadel has the option to redeem the preferred stock at any time after November 10, 1997 at a premium. Holders of preferred stock have the right to require Citadel to purchase their shares at a premium under certain circumstances, including a change of control.

The preferred stock votes jointly (not as a separate class) with the Citadel common stock on most matters, including the election of directors, with each share of preferred stock entitled to one vote. Holders of the preferred stock will have the opportunity to purchase part of any new issuance of voting securities of Citadel to preserve their respective percentage voting interests.

Craig will be the holder of the preferred stock on the record date of November 14, 1994 set by the Citadel Board for the determination of stockholders entitled to vote at Citadel's Annual Stockholders' Meeting scheduled for December 12, 1994.

Craig's ownership of these shares on the record date was a condition to Craig's agreement to convert its debt to equity.

A copy of this press release will be filed by Citadel with the Securities and Exchange Commission as an exhibit to a Current Report on Form 8-K. The Certificate of Designation establishing the voting powers, preferences and relative rights of the preferred stock and the Preferred Stock Purchase Agreement pursuant to which Craig Corporation purchased the shares will be exhibits to such filing.

Citadel's common stock trades on the American Stock Exchange under the symbol CDL.

Contact: Steve Wesson, President and Chief Executive Officer, Citadel Holding Corporation, (818) 551-7450.

PREFERRED STOCK PURCHASE AGREEMENT

This Preferred Stock Purchase Agreement (this "Agreement") is made and entered into on November 10, 1994 by and between Citadel Holding Corporation, a Delaware corporation ("Citadel"), and Craig Corporation, a Delaware corporation ("Craig").

R E C I T A L

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A. Citadel desires to sell to Craig, and Craig desires to purchase from Citadel, newly-issued shares of preferred stock of Citadel that would be convertible into shares of Citadel's common stock, par value \$.01 per share ("Common Stock").

B. On October 21, 1994, Craig purchased 74,300 shares (the "Prior Shares") of Common Stock, for a price of \$286,055 (the "Common Stock Purchase Price") pursuant to a Stock Purchase Agreement dated October 21, 1994 (the "Common Stock Agreement") between Citadel and Craig.

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

Article One

Agreement to Sell and Purchase

1.1 Issuance and Sale of Stock. On the terms and subject to the

conditions set forth herein, concurrently with the execution and delivery of this Agreement by the parties, Citadel is issuing and selling to Craig, and Craig is purchasing from Citadel, 1,329,114 shares (the "Shares") of Citadel's 3% Cumulative Voting Convertible Preferred Stock, par value \$.01 per share and stated value \$3.95 per share, having the rights, preferences and privileges set forth on Exhibit A hereto (the "Preferred Stock"). It is the intent of the parties that Citadel issue the Shares to Craig and that Craig own the Shares on November 10, 1994, and Citadel shall take all steps necessary to cause Craig to become a preferred stockholder of record on this date.

1.2 Purchase Price. Craig is paying to Citadel a purchase price (the

"Purchase Price") for the Shares equal to \$3.95 per Share, or \$5,250,000.30 in the aggregate. The Purchase Price is being paid by means of cancellation of \$5,250,000.30 of the outstanding indebtedness under the Credit Agreement dated as of August 2, 1994 (the "Credit Agreement") among Citadel Realty, Inc., Citadel, and Craig. In consideration of the issuance of the Shares, Craig hereby releases and discharges Citadel from the obligation to pay, and forgives and cancels indebtedness of, \$5,250,000.30 of the outstanding principal balance due under the Credit Agreement.

Article Two

Registration Rights

2.1 Definitions.

(a) The terms "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act of 1933, as amended (the "Securities Act") and the declaration or ordering of effectiveness of such registration statement by the Securities and Exchange Commission.

(b) The term "Registrable Securities" refers to shares of Common Stock issuable upon conversion of the Shares, the Prior Shares (the shares of Common Stock issuable upon conversion of the Shares and the Prior Shares shall be referred to herein collectively as the "Common Shares") and any Common Stock of Citadel issued as a dividend or other distribution with respect to, or in exchange or in replacement of, the Shares or the Common Shares (which shall be deemed included in the term Common Shares), except that Common Shares shall cease to be Registrable Securities (i) when a registration statement with respect to the sale of such Common Shares has become effective under the Securities Act and the Common Shares have been disposed of in accordance with such registration statement; (ii) when such Common Shares may be sold to the public pursuant to paragraph (k) of Rule 144 under the Securities Act ("Rule 144") or any successor provision; (iii) when such Common Shares shall have been transferred (under Rule 144 or otherwise), new certificates for the Common Shares not bearing a legend restricting further transfer shall have been delivered by Citadel and subsequent disposition of the Common Shares does not require registration or qualification under the Securities Act or state law then in force in the opinion of legal counsel for Citadel; (iv) when such Common Shares cease to be beneficially owned by Craig or its affiliates (as defined in Rule 144), unless all Common Shares are transferred by Craig or its affiliates to a single acquiror, in which event, subject to the other provisions of this Section 2.1(b) and the receipt by Citadel of such acquiror's written agreement to assume all of the obligations of Craig under this Article Two, such Common Shares shall remain Registrable Securities; (v) when such Common Shares cease to be outstanding; or (vi) on or after November 10, 1996 if and when all outstanding Common Shares represent less than 1% of all outstanding shares of Common Stock.

2.2 Request for Registration.

(a) Subject to Sections 2.2(b) and (c), commencing on May 1, 1995, if Citadel shall receive a written request (specifying that it is being made pursuant to this Section 2.2) from Craig that Citadel file a registration statement under the Securities Act, or a similar document pursuant to any other statute then in effect corresponding to the Securities Act, covering the registration of all Registrable Securities for sale in a firmly underwritten public offering, then Citadel shall use its best efforts to cause all Registrable Securities to be registered under the Securities Act.

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

(ii) if Citadel shall furnish to Craig a certificate signed by the President of Citadel stating that in the good faith judgment of the Board of Directors it would be seriously detrimental to Citadel or its shareholders for a registration statement to be filed in the near future, then Citadel's obligation to use its best efforts to file a registration statement shall be deferred for a period not to exceed six months; provided, however, that Citadel shall furnish such a certificate to Craig only once in any one-year time period.

(c) Citadel shall be obligated to effect only two registrations pursuant to this Section 2.2.

2.3 Company Registration. -----

(a) Subject to Section 2.3(b), if at any time Citadel determines to register any of its Common Stock under the Securities Act in connection with the public offering of such securities solely for cash on a form that would also permit the registration of the Registrable Securities, Citadel shall, each such time while Registrable Securities are outstanding, promptly give Craig written notice of such determination. Upon the written request of Craig given within 20 days after mailing of any such notice by Citadel, Citadel shall use its best efforts to cause to be registered under the Securities Act all of the Registrable Securities that Craig has requested be registered.

(b) Citadel shall not be required under this Section 2.3 to include any Registrable Securities in such underwriting unless the holders thereof accept the terms of the underwriting as agreed upon between Citadel and the underwriters selected by it, and then only in such quantity as will not, in the written opinion of the underwriters, jeopardize the success of the offering by Citadel.

2.4 Agreements and Conditions. -----

(a) It shall be a condition precedent to the obligations of Citadel to take any action pursuant to Article Two that Craig and its affiliates shall:

(i) Furnish to Citadel such information regarding them, the Registrable Securities held by them, and the intended method of disposition of such securities as Citadel shall reasonably request and as shall be required to effect such registration;

(ii) Execute and deliver customary underwriting agreements, including customary indemnification and contribution provisions; and

(iii) Provide indemnification and contribution to Citadel and its affiliates, officers, directors and agents with respect to information supplied by Craig and its affiliates for inclusion in the registration.

(b) In connection with any registration under this Article Two, Citadel shall:

(i) Execute and deliver a customary underwriting agreement, including customary indemnification and contribution provisions;

(ii) Qualify the Registrable Securities for sale under the "Blue Sky" laws of such states as Craig shall designate, provided that Citadel shall not be required to file a general consent to service of process;

(iii) Provide indemnification and contribution to Craig and its affiliates, officers, directors and agents with respect to information supplied by Citadel and its affiliates for inclusion in the registration; and

(iv) Provide Craig and its affiliates with such number of prospectuses included in such registration as Craig may reasonably request.

2.5 Expenses of Registration.

(a) All expenses incurred by Citadel in connection with a registration pursuant to Article Two (excluding underwriters' discounts and commissions), including without limitation all registration and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for Citadel, shall be borne by Citadel; provided, however, that Citadel shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2.2 if the registration request is subsequently withdrawn by Craig, unless Craig agrees to forfeit its right to a demand registration pursuant to Section 2.2.

(b) In any registration under this Article Two, Craig and its affiliates shall bear the expense of their own counsel.

2.5 Effect of this Article Two on the Common Stock Agreement. This

Article Two replaces and supersedes Article Three of the Common Stock Agreement, and Article Three of the Common Stock Agreement is hereby terminated.

Article Three

Representations and Warranties

3.1 Mutual Representations and Warranties. Each party hereby represents

and warrants to the other as follows:

(a) It is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and is duly qualified and authorized to do business in the State of California.

(b) It has full power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. This Agreement is its valid and binding agreement, enforceable against it in accordance with its terms.

(c) Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will violate, result in a breach of any of the terms or provisions of, constitute a default (or any event that, with the giving of notice or the passage of time or both would constitute a default) under, accelerate any obligations under, or conflict with, (i) any agreement, indenture or other instrument to which it is party or by which it or its properties are bound, (ii) any judgment, decree, order or award of any court,

governmental body or arbitrator to which it is subject, or (iii) any law, rule or regulation applicable to it.

3.2 Representations and Warranties of Citadel. Citadel hereby

represents and warrants to Craig as follows:

(a) Upon the issuance of the Shares and payment therefor in accordance with the terms of this Agreement, the Shares will be duly and validly authorized and issued, fully paid and nonassessable, and Craig will own the Shares free and clear of any liens, encumbrances, pledges, security interests or other restrictions, other than those imposed by applicable law or by the terms of this Agreement.

(b) The Shares have the rights, preferences and privileges set forth in the Certificate of Designation attached hereto as Exhibit A (the "Certificate of Designation").

3.3 Representations and Warranties of Craig. Craig hereby represents

and warrants to Citadel as follows:

(a) Craig understands and acknowledges that the Shares are being issued without registration or qualification under federal or state securities laws pursuant to private placement exemptions thereunder. Craig is acquiring the Shares for investment, for its own beneficial account, without a view to the distribution or sale thereof and without any present or foreseeable economic need to consider disposition of such Shares.

(b) Craig is an "accredited investor" within the meaning of Regulation D promulgated by the SEC under the Securities Act.

Article Four

Other Agreements

4.1 Credit Agreement. The parties agree that no further borrowings

shall be made under the Credit Agreement. Citadel and Craig shall, at the request either party, execute an appropriate amendment to the Credit Agreement to reduce the outstanding principal amount of indebtedness thereunder and to limit the credit available thereunder as contemplated herein.

4.2 Right of Rescission. If a court of competent jurisdiction issues

any ruling, judgment, injunction, decree or order (a "Judicial Determination") that prohibits Craig from voting the Shares or Common Shares at any meeting of Citadel stockholders or pursuant to any written consent of Citadel stockholders, in which vote or consent the Shares would otherwise be entitled to participate under the terms of the Certificate of Designation, or invalidates any such vote or consent of such Shares, then Craig shall have the right to rescind the transactions contemplated by this Agreement, exercisable by delivery of written notice of such exercise, accompanied by certificates evidencing all of the Shares and Common Shares (other than the Prior Shares), to Citadel within 30 days of the date of the Judicial Determination. Upon such deliveries, (i) all outstanding Shares and Common Shares (other than the Prior Shares) shall be canceled, (ii) the Credit Agreement, the indebtedness canceled thereunder pursuant to Section 1.2, and the interest that would have accrued on such canceled

indebtedness if such indebtedness had not been canceled shall be reinstated on their original terms, and (iii) this Agreement shall terminate in all respects. None of the foregoing actions shall be deemed to have occurred or be effective unless all have occurred and are effective.

4.3 Citadel Rights Offering. If Citadel determines to undertake a

rights offering of Common Stock to its stockholders that closes on or before October 31, 1995, and if the exercise price to purchase shares of Common Stock therein shall be between 75% and 90% of the then-prevailing market price for Common Stock, Craig agrees to exercise the rights it receives in not less than the same proportion as all other rights are exercised, and payment for such exercise may be made in the form of cancellation of indebtedness, if any, owed by Citadel to Craig (including, without limitation, under the Credit Agreement). The parties agree that any such rights issued by Citadel shall be listed on the American Stock Exchange (if the Common Stock is so listed) and transferable.

4.4 Stock Legend. All certificates evidencing any of the Shares or

any shares of Common Stock issuable upon conversion thereof shall bear a legend to the effect that such shares have been issued without registration or qualification under the Securities Act or state securities laws and that such shares will be restricted from further transfer unless transfers are made in compliance therewith or pursuant to exemptions thereunder.

4.5 Further Assurances. Each party hereto shall execute and deliver

such further agreements and instruments, and take such further actions, as the other party may reasonably request in order to carry out the purpose and intent of this Agreement.

Article Five

Miscellaneous

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

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

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

If to Citadel: Citadel Holding Corporation
 700 N. Central Ave.
 Glendale, California 91203
 Telecopy: (818) 551-7456
 Attention: President

5.2 Assignability and Parties in Interest. This Agreement shall not

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

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

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

5.4 Counterparts. This Agreement may be executed in several

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

5.5 Complete Agreement. This Agreement contains the entire agreement

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

5.6 Modifications, Amendments and Waivers. This Agreement may be

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

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

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

5.8 Contract Interpretation; Construction of Agreement.

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

(b) Neither party, nor its respective counsel, shall be deemed the drafter of this Agreement for purposes of construing the provisions of this Agreement, and all language in all parts of this Agreement shall be construed in accordance with its fair meaning, and not strictly for or against either party.

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

CRAIG CORPORATION

By: _____
Title: _____

CITADEL HOLDING CORPORATION

By: _____
Title: _____

Accepted and Agreed To:

CITADEL REALTY, INC.

By: _____
Title: _____

LC943130.073/1+

CERTIFICATE OF DESIGNATION
OF THE 3% CUMULATIVE VOTING CONVERTIBLE PREFERRED STOCK
(Par Value \$.01 Per Share)

OF
CITADEL HOLDING CORPORATION

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

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

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

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

provisions of Section 151 of the General Corporation Law of the State of
Delaware, as amended (the "GCL"), the Board of Directors, on November 10, 1994,

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

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

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

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

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

Value" of each share of Preferred Stock (regardless of its par value) shall be

\$3.95 per share.

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

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

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

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

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

liquidation, dissolution or winding up of the Company. The Preferred Stock
shall be subordinate to and rank junior to all indebtedness of the Company now
or hereafter outstanding. The Preferred Stock shall be subject to creation of
Senior Stock, Parity Stock and Junior Stock, to the

extent not expressly prohibited by the Certificate of Incorporation, with respect to the payment of dividends and/or rights upon liquidation, dissolution or winding up of the Company.

3. Cumulative Dividends; Priority.

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

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

Stated Value of such share (pro-rated for any portion of a Dividend Period (as defined below) that such share shall have been issued and outstanding), plus (ii) accrued but unpaid per share dividends as to which a Dividend Payment Date (as defined below) has occurred. Dividends shall accrue from the date of issuance and be payable (subject to declaration) quarterly on the fifteenth day of January, April, July and October in each year (or if such day is a non-business day, on the next business day), commencing on January 15, 1995, in respect of the immediately preceding calendar quarter (each of such dates a

"Dividend Payment Date"). Each declared dividend shall be payable to holders of

record as they appear on the stock books of the Company at the close of business on such record dates as are determined by the Board of Directors or a duly authorized committee thereof (each of such dates a "Record Date"), which Record

Dates shall be not more than 45 calendar days nor fewer than ten calendar days preceding the Dividend Payment Dates therefor. Quarterly dividend periods (each a "Dividend Period") shall be the calendar quarters that commence on and include

the first day of January, April, July and October of each year and shall end on and include the end of the calendar quarter that commenced with each of such dates. Dividends on the Preferred Stock shall be fully cumulative and shall accrue (whether or not declared), on a daily basis, from the first day of each Dividend Period; provided, however, that the initial quarterly dividend payable on January 15, 1995, and the amount of any dividend payable for any other Dividend Period shorter than a full Dividend Period shall be computed on the basis of a 360-day year composed of twelve 30-day months and the actual number of days elapsed in the relevant Dividend Period.

(b) Priority as to Dividends. No full dividend shall be declared by

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

available for a sinking fund for the redemption of any shares of any such securities, by the Company, except by conversion into or exchange for Junior Stock. Unless full cumulative dividends, if any, accrued on all outstanding shares of the Senior Stock have been or contemporaneously are declared and paid or declared and a sum set apart sufficient for such payment through the most recently completed dividend period therefor, no dividend shall be declared or paid or set aside for payment or other distribution declared or made upon the Preferred Stock (other than a dividend or distribution paid in shares of, or warrants, rights or options exercisable for or convertible into, Preferred Stock), nor shall any Preferred Stock be redeemed, purchased or otherwise acquired for any consideration, nor may any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such securities, by the Company, except by conversion into or exchange for Preferred Stock, Parity Stock or Junior Stock. Holders of the shares of the Preferred Stock shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends as provided in Section (3)(a).

(c) Miscellaneous Provisions Relating to Dividends. Payment of

dividends shall be subject to the following provisions:

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

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

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

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

(v) Accrued but unpaid dividends on Preferred Stock shall not earn interest or compound.

4. Redemption at the Option of the Company.

(a) General. Except as expressly provided herein, the Company shall

not have any right to redeem shares of the Preferred Stock prior to the third anniversary of the original date of issuance of the Preferred Stock (the "Date of Issuance"). Thereafter, the Company shall have the right, at its sole option and election, subject to Section 6, to redeem outstanding shares of the Preferred Stock, in whole or in part, at any time and from time to time at a per share price (the "Redemption Price") equal to the sum of:

- (i) the Stated Value; plus
- (ii) all accrued but unpaid Quarterly Dividends, whether or not declared, plus
- (iii) the "Premium," which shall mean:

(A) if the Redemption Date (as defined below) is on or prior to the fourth anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 9% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(B) if the Redemption Date is after the fourth and on or prior to the fifth anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 8% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(C) if the Redemption Date is after the fifth and on or prior to the sixth anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 7% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(D) if the Redemption Date is after the sixth and on or prior to the seventh anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 6% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(E) if the Redemption Date is after the seventh and on or prior to the eighth anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 5% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(F) if the Redemption Date is after the eighth and on or prior to the ninth anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 4% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(G) if the Redemption Date is after the ninth and on or prior to the tenth anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 3% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(H) if the Redemption Date is after the tenth and on or prior to the 11th anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 2% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(I) if the Redemption Date is after the 11th and on or prior to the 12th anniversary of the Date of Issuance, an amount equal to an accrual on the Stated Value of 1% per annum (not compounded) from the Date of Issuance to the Redemption Date; or

(J) if the Redemption Date is after the 12th anniversary of the Date of Issuance, zero.

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

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

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

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

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

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

and if on or before the Redemption Date specified in such notice all said funds
necessary for such redemption shall have been irrevocably deposited in trust
(which deposit shall not be made sooner than the 15th day following the date of
the Company's mailing of the notice of redemption pursuant to Section 4(b)), for
the account of the holder of the shares of the Preferred Stock to be redeemed
(and so as to be and continue to be available therefor), with a bank or trust
company named in such notice doing business in the State of California and
having combined capital and surplus of at least \$50,000,000, thereupon and
without awaiting the Redemption Date, all shares of the Preferred Stock with
respect to which such notice shall have been so mailed and such deposit shall
have been so made shall be deemed to be no longer outstanding, and all rights
with respect to such shares of the Preferred Stock shall forthwith upon such
deposit in trust cease and terminate, except only the right of the holders
thereof on or after the Redemption Date to receive from such deposit the amount
payable on redemption thereof, but without interest, upon surrender (and
endorsement or assignment to transfer, if required by the Company) of their
certificates. In case the holders of shares of the Preferred Stock that shall
have been redeemed shall not within two years (or any longer period if required
by law) after the Redemption Date claim any amount so deposited in trust for the
redemption of such shares, such bank or trust company shall, upon demand and if
permitted by applicable law, pay over to the Company any such unclaimed amount
so deposited with it, and shall thereupon be relieved of all responsibility in
respect thereof, and thereafter the holders of such shares shall, subject to
applicable escheat laws, look only to the Company for payment of the redemption
price thereof, but without interest.

5. Redemption Following Change in Control.

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

of a Change in Control (as defined below), each holder of shares of Preferred
Stock shall have the right, at the sole option and election of such holder
exercisable on or before the 90th day following the earliest event constituting
a Change in Control, to require the Company to redeem some or all of the shares
of Preferred Stock owned by such holder at the Redemption Price. For purposes
of this Section 5, a "Change in Control" shall mean the occurrence of either of

the following events:

(i) any person, entity or "group" (as defined in Section
13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange
Act") and the rules thereunder) other than Craig Corporation, a Delaware
corporation ("Craig"), and its successors and affiliates, acquires
beneficial ownership of over 35% of the outstanding voting securities of
the Company ("affiliate" of a person shall mean any person directly or

indirectly controlling, controlled by or under common control with such
person, and

"control" of a person shall mean the power to direct the affairs of such

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

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

the Company who have been elected or nominated by a majority of the Current
Directors or the Continuing Directors cease to constitute a majority of the
Board of Directors.

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

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

6. General Provisions Relating to Redemptions. Redemptions pursuant to

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

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

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

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

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

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

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

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

Notice until the earlier of the Redemption Date or the date the deposit of funds
in trust is made pursuant to Section 4(c), holders of shares of Preferred Stock
subject

to a Redemption Notice shall retain their right to an Optional Conversion (as defined in Section 7) of their shares.

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

of Section 9, shares of Preferred Stock shall be convertible, at the option of the holder thereof (an "Optional Conversion"), into shares of Common Stock at a

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

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

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

subject to the following:

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

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

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

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

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

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

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

delivery to the Company of such Notice of Conversion shall be the "Original

Conversion Date" for such shares of Tendered Preferred Stock. Subject to

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

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

8. Automatic Conversion. In the event the Company completes an offering

(the "Rights Offering") of rights to its stockholders to purchase shares of

Common Stock (the "Rights") prior to October 31, 1995, which Rights Offering provides the Company with at least \$2,500,000 in Independent Proceeds (as defined below), a number of shares of Preferred Stock (up to the total number of such shares then outstanding) equal to the quotient of (i) the Independent Proceeds divided by (ii) the sum of the Stated Value plus any accrued but unpaid per share Quarterly Dividends on the closing date of the Rights Offering shall automatically convert (the "Automatic Conversion") on the fifth day following

the closing date of the Rights Offering (the "Automatic Conversion Date" or

"Original Conversion Date") into shares of Common Stock at a conversion ratio of

one share of Preferred Stock for a fraction of a share of Common Stock, the numerator of which is the sum of the Stated Value plus any accrued but unpaid per share Quarterly Dividends, and the denominator of which is the price per share of Common Stock in the Rights Offering. "Independent Proceeds" shall mean

the gross proceeds received by the Company in the Rights Offering from the sale of shares of Common Stock pursuant to exercise of the Rights, excluding any amounts received by the Company from Craig and its affiliates. If the shares of Preferred Stock are held by more than one holder on the Automatic Conversion Date, the same proportion of each holder's shares of Preferred Stock shall be automatically converted hereunder.

9. General Provisions Relating to Conversion. Conversions pursuant to

Sections 7 and 8 shall be subject to the following terms and conditions:

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

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

and if the AMEX rules and regulations, including, but not limited to, (S)713 of the AMEX Company Guide (the "AMEX Rules") shall require the affirmative vote of

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

"Ineligible Common Stock"), then, subject to any rights the Company may have to

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

retain the Unconverted Preferred Stock until the next annual or special meeting of the stockholders of the Company at which the Company, subject to any rights it may have to redeem the Unconverted Preferred Stock in accordance with Section 7(b),

shall submit a proposal for stockholder approval of the issuance of the Ineligible Common Stock. Pending such stockholder approval, the Unconverted Preferred Stock shall continue to be outstanding and entitled to all rights and privileges hereunder.

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

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

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

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

conversion described in Section 9(a) occurs, the Company shall, upon the request of a majority of the outstanding shares of Preferred Stock, submit a proposal for stockholder approval of the issuance of all shares of Common Stock issuable upon conversion of the Preferred Stock, including, without limitation, the Ineligible Common Stock, at the next meeting of stockholders of the Company that follows such request.

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

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

Common Stock to satisfy an Optional Conversion or an Automatic Conversion, the number of shares of Preferred Stock that would have been converted in the absence of such insufficiency shall be exchanged by the Company for a new class of preferred shares (the "New Shares") having the same aggregate stated value as the shares exchanged therefor and a stated value per share equal to, (i) in the case of an Automatic Conversion, the price per share of Common Stock in the Rights Offering, and (ii) in the case of an Optional Conversion, the Market Price (up to a maximum of \$5.00), as applicable; provided, however, that such new class shall have identical rights, privileges and preferences as those of the Preferred Stock, except as stated in this Section 9(c). If there are an insufficient number of authorized New Shares to satisfy such exchange, the holders of shares of Preferred Stock to be so exchanged shall each receive a pro rata allocation of available New Shares for such exchange, and each such holder shall have the right, exercisable by written notice of such exercise delivered to the Company within 30 days of such exchange accompanied by certificates evidencing the remainder of their shares of Preferred Stock that would have been so exchanged but for such insufficiency, to require the Company to redeem such remaining shares at the Redemption Price in

effect on the date of such exchange and in accordance with the provisions of Section 6.

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

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

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

fractional shares of Common Stock shall be issued upon the conversion of any shares of Preferred Stock. Instead of any fractional interest in a share of Common Stock that would otherwise be deliverable upon the conversion of Preferred Stock, the Company shall pay to the holder an amount in cash (computed to the nearest cent) equal to the price per share in the Rights Offering, or the Market Price, as applicable. If more than one share shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Preferred Stock so surrendered.

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

stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock on the conversion of shares of Preferred Stock pursuant to this Section 9; provided, however, that the Company shall not be required to pay any tax that may be payable in respect of any registration of transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the registered holder of Preferred Stock converted or to be converted, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid.

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

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

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

following voting rights:

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

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

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

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

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

amount equal to two Quarterly Dividends have accrued and remain unpaid for two consecutive Dividend Periods, the holders of the Preferred Stock will thereupon have the right to vote as a separate class to elect one special director to the Board of Directors (in addition to the then authorized number of directors) and at each succeeding annual meeting of stockholders thereafter until such right is terminated

as hereinafter provided. Upon payment of all dividend arrearages, the holders of Preferred Stock will be divested of such voting rights (until any future time when dividends in an amount equal to two Quarterly Dividends have accrued and remained unpaid for two consecutive Dividend Periods) and the term of the special director will thereupon terminate and the authorized number of directors will be reduced by one.

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

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

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

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

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

Stock. Except as set forth in Section 10(d) above, the creation, authorization

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

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

Board of Directors, the holders of a majority of the outstanding shares of the Preferred Stock shall have, in addition to their rights under Section 10(c), the right to nominate one director nominee to the slate of director nominees submitted to the stockholders of the Company by the Board of Directors.

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

retirement or redemption of shares of Preferred Stock.

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

Stock shall be entitled to a preemptive right to purchase or subscribe for any unissued

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

IN WITNESS WHEREOF, this Certificate has been signed by Steve Wesson as of November 10, 1994.

CITADEL HOLDING CORPORATION

By: _____

Name: Steve Wesson

Title: President and Chief Executive Officer

November 10, 1994

The Board of Directors
Citadel Holding Corporation
600 North Brand Boulevard
Glendale, California 91203

Gentlemen:

You have requested our opinion (the "Opinion"), as of the date hereof, as to the fairness, from a financial point of view, to the public shareholders (the "Shareholders") of Citadel Holding Corporation (the "Company") of the consideration ("Consideration") to be received by the Company in connection with a proposed financing (the "Financing") whereby the Company will issue 1,329,114 shares of Cumulative Voting Convertible Preferred Stock (the "Transaction") to Craig Corporation ("Craig") for an aggregate purchase price of \$5,250,000.

Wedbush Morgan Securities is an investment banking firm and a member of the New York Stock Exchange and other principal stock exchanges in the United States, and is regularly engaged as part of its business in the valuation of businesses and securities for corporate, estate tax and other purposes in connection with mergers and acquisitions, private placements and negotiated underwritings. We will receive a fee from the Company for our services in connection with this Opinion.

Our Opinion is limited to a determination of the fairness of the Consideration and does not pass on the merits of the Transaction in any other respect. We assume that the factual circumstances and terms, as they exist as of the date of our Opinion, will remain substantially unchanged through the time the Transaction is completed. We do not undertake to update our Opinion for any changes occurring between the date of the Opinion and the Transaction.

In arriving at our Opinion set forth below, we have among other things, reviewed the following information:

1. The publicly available financial and operating history of the Company and Fidelity Federal Bank.
2. Price and trading activity for the Company's common stock.
3. The Presentation to Craig Corporation, Proposal for Equity Investment dated November 7, 1994.
4. The Citadel Holding Corporation, Board of Directors Meeting Agenda dated October 10, 1994.

5. The Term Sheet for equity infusion from Craig Corporation dated November 4, 1994.
6. The Credit Agreement among Citadel Realty, Inc., Citadel Holding Corporation and Craig Corporation dated as of August 2, 1994.
7. The Real Estate Purchase Agreement between Fidelity Federal Bank and Citadel Realty, Inc.--draft dated August 17, 1994.
8. The Stockholders' Agreement dated as of June 30, 1994 between Citadel Holding Corporation and Fidelity Federal Bank.
9. The Citadel Holding Corporation--draft of Proxy Statement dated October 26, 1994.
10. The appraisal of the property located at 3939 Veselich Avenue, Los Angeles, California, by Blanchard & Associates dated June 16, 1994.
11. The appraisal of the property located at 600 North Brand Boulevard, Glendale, California, by Charles R. Wilson & Associates, Inc. dated February 25, 1994.
12. The appraisal of the property located at 1661 East Camelback Road, Phoenix, Arizona, by Winius Montandon, Inc. dated June 30, 1994.
13. The appraisal of the property located at 14455 Ventura Boulevard, Sherman Oaks, California, by Charles R. Wilson & Associates, Inc. dated May 1994.
14. The appraisal of the property located at 21028 Parthenia Street, Canoga Park, California, by P. Scott Voltz & Associates dated October 11, 1993.
15. The appraisal of the property located at the southwest corner of Padua Avenue & Mt. Baldy Road, Claremont, California, by MT Associates, Inc. dated July 18, 1994.
16. The appraisal of the property located at 23200 South Western Avenue, Los Angeles, California, by P. Scott Voltz & Associates dated June 23, 1994.
17. The Investment Offering of the Sherman Oaks property by Marcus & Millichap.
18. The Company's press releases dated; August 1, 1994; August 4, 1994; September 1, 1994; October 20, 1994; and October 24, 1994.
19. The report by Marshall and Stevens dated November 8, 1994.
20. Description of Fidelity Class B Common Stock by Gibson, Dunn & Crutcher dated November 8, 1994.
21. Certificate of Designation.
22. Preferred Stock Purchase Agreement dated November 11, 1994.

We compared the financial and stock market information for the Company with similar information for certain other companies whose securities are publicly traded. We also considered the likelihood that the Company could sell its Cumulative Voting Convertible Preferred Stock or a similar security to another purchaser on better terms.

In rendering our Opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information publicly available or furnished to or otherwise discussed with us, and do not assume any responsibility with respect to any of such information. With respect to financial forecasts and other information provided to or otherwise discussed with us, we assumed that such forecasts and other information were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company as to the expected future financial performance of the Company. We were provided with and have relied upon third party appraisals of the real property owned by the Company. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company, except for the third party real property appraisals referred to above.

We have not negotiated, or participated in any way in the negotiation of, the terms of the Transaction. We have not been asked to consider, and our Opinion does not address, the relative merits of the Transaction as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage. Our opinion is necessarily based upon financial, business, economic, stock market and other conditions and circumstances as they exist and can be evaluated by us at the date of this letter, and we assume no obligation to monitor future events relating to any of the matters addressed herein, or to update this Opinion with respect thereto.

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the Opinion that, as of the date hereof, the Consideration is fair, from a financial point of view, to the Shareholders.

Sincerely,

/s/ Wedbush Morgan Securities

WEDBUSH MORGAN SECURITIES