

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended: September 30, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8625

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

95-3885184  
(IRS Employer Identification No.)

550 South Hope Street  
Suite 1825 Los Angeles CA  
(Address of principal executive offices)

90071  
(Zip Code)

Registrant's telephone number, including area code: (213) 239-0540

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding twelve months (or for such shorter period that the  
Registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes  No \_\_\_\_\_  
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Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date. There were 6,669,924 shares of  
Common Stock, \$0.01 par value per share, as of November 10, 1997.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

September 30,    December 31,  
1997                    1996

-----  
(In thousands of dollars)

ASSETS

-----		
ASSETS		
Cash and cash equivalents	\$ 7,015	\$ 6,356
Properties held for sale	--	1,145
Rental properties, net	13,605	13,288
Investment in shareholder affiliate	7,000	7,000
Capitalized leasing costs, net	1,439	1,576
Other receivables	93	311
Other assets	658	616
	-----	-----
Total assets	\$ 29,810	\$ 30,292
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

-----		
LIABILITIES:		
Security deposits payable	\$ 91	\$ 76
Deferred rental revenue	483	164
Accounts payable and accrued liabilities	1,011	2,025
Mortgage notes payable	9,435	10,303
	-----	-----
Total liabilities	11,020	12,568
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Serial preferred stock, par value \$.01; 5,000,000 shares authorized, 3% Cumulative Voting Convertible, none outstanding	--	--
Serial preferred stock, par value \$.01; 5,000,000 shares authorized, Series B 3% Cumulative Voting Convertible, none outstanding	--	--
Common stock, par value \$.01, 10,000,000 shares authorized, 6,669,924 shares issued and outstanding	67	67
Paid-in capital	59,603	59,020
Retained (deficit)	(38,882)	(39,948)
Note receivable from shareholder upon common stock issuance	(1,998)	--
Cost of 666,000 treasury shares	--	(1,415)
	-----	-----
Total stockholders' equity	18,790	17,724
	-----	-----
Total liabilities and stockholders' equity	\$ 29,810	\$ 30,292
	=====	=====

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
(In thousands of dollars, except per share amounts)				
<b>Revenues:</b>				
Rental income	\$1,318	\$1,029	\$3,712	\$3,912
Consulting fees from shareholder	60	42	180	127
Interest income from shareholder	43	--	81	--
Interest income	65	249	238	678
	1,486	1,320	4,211	4,717
Real estate operating expenses	543	485	1,527	1,999
Depreciation and amortization	102	75	301	296
Interest expense	249	262	761	1,056
General and administrative expenses	284	321	821	878
	1,178	1,143	3,410	4,229
Gain on sale of rental property	--	20	(16)	1,493
Dividends from investment in Reading	114	--	341	--
Gain (loss) of and Write-Down of Investment in Fidelity	--	--	--	4,000
	422	197	1,126	5,981
Earnings before income taxes	422	197	1,126	5,981
Income tax expense	15	--	60	--
	407	197	1,066	5,981
Net Earnings	\$ 407	\$ 197	\$1,066	\$5,981
	=====	=====	=====	=====
Earnings per common and common equivalent share	\$0.06	\$ 0.02	\$0.17	\$0.74
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended  
September 30,  
1997      1996  
-----  
(In thousands of dollars)

OPERATING ACTIVITIES

Net earnings	\$ 1,066	\$ 5,981
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain from investment in Fidelity	--	(4,000)
Loss (gain) on sale of rental property	16	(1,493)
Amortization of deferred loan items	39	79
Depreciation and amortization of property	267	296
Amortization of lease costs	160	--
Changes in operating assets and liabilities:		
Decrease (increase) in other receivables	218	295
Decrease (increase) in other assets	146	(185)
Increase (decrease) in security deposits	15	(167)
Increase (decrease) in deferred rental income	319	--
Increase (decrease) in accrued liabilities	(1,014)	(199)
	-----	-----
Net cash provided by (used in) operating activities	1,232	607
	-----	-----

INVESTING ACTIVITIES

Proceeds from sale of rental properties	1,128	9,361
Purchase deposit for real estate interest	(250)	--
Additions to rental properties	(583)	(434)
	-----	-----
Net cash provided by (used in) investing activities	295	8,927
	-----	-----

FINANCING ACTIVITIES

Repayments of long-term mortgage borrowings	(868)	(5,853)
Dividends paid on Preferred Stock	--	(157)
	-----	-----
Net cash provided by (used in) financing activities	(868)	(6,010)

INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS

659      3,524

CASH AND CASH EQUIVALENTS AT BEGINNING  
OF PERIOD

6,356      16,291

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$ 7,015      \$19,815  
=====

SUPPLEMENTAL DISCLOSURES:

Cash paid during the period for:

Interest on mortgages

\$ 723      \$ 944

Non-cash transactions:

Common stock issued in exchange  
for secured note payable

1,998      --

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
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Basis of Presentation  
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The consolidated financial statements include the accounts of Citadel Holding Corporation ("Citadel") and its wholly owned subsidiaries (collectively the "Company"). In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments of a recurring nature considered necessary for a fair presentation of its financial position as of September 30, 1997 and December 31, 1996, the results of operations for the three months and nine months ended September 30, 1997 and 1996 and the results of its cash flows for the nine months ended September 30, 1997 and 1996. The results of operations for the three and nine month periods ended September 30, 1997 are not necessarily indicative of the results of operations to be expected for the entire year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes required to be in conformity with generally accepted accounting principles. The financial information provided herein, including the information under the heading, "Management's Discussion and Analysis of Financial Condition and Results of Operations," is written with the presumption that the users of the interim financial statements have read, or have access to, the most recent Annual Report on Form 10-K which contains the latest audited financial statements and notes thereto, together with the Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 1996 and for the year then ended.

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

Cash and Cash Equivalents  
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The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Included in cash and cash equivalents at September 30, 1997 is approximately \$5.9 million which is being held in institutional money market mutual funds.

Earnings Per Share  
-----

Earnings per common and common equivalent share is based on 6,669,349 and 8,050,708 shares, the weighted average number of shares of common stock and common stock equivalents outstanding during the three months ended September 30, 1997 and 1996, respectively, and 6,427,520 and 8,050,708 shares during the nine months ended September 30, 1997 and 1996, respectively. For the 1996 periods the calculation of the weighted average number of shares of common stock outstanding included the effect of shares assumed to be issued on the conversion of the Preferred Stock as of the beginning of the periods being reported. The number of shares assumed converted as of January 1, 1996 amounted to 2,046,784 and was

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

calculated based on the terms of the Preferred Stock conversion terms prior to their repurchase in December 1996.

NOTE 2 - RENTAL PROPERTIES AND PROPERTIES HELD FOR SALE  
-----

The Company's rental properties at September 30, 1997 and December 31, 1996 consist of the following:

	September 30, 1997	December 31, 1996
	-----	-----
	(In Thousands)	
Land	\$ 4,438	\$ 4,438
Building and improvements	9,972	9,389
	-----	-----
Total	\$ 14,410	\$13,827
Less accumulated depreciation	(805)	(539)
	-----	-----
Rental properties, net	\$ 13,605	\$13,288
	-----	-----

At September 30, 1997 and December 31, 1996, rental properties consisted of two commercial buildings. In January 1997, the property held for sale at December 31, 1996 was sold resulting in a loss of approximately \$16,000. Concurrent with the sale of such property the outstanding mortgage loan amounting to approximately \$.755 million was paid in full.

NOTE 3 - INVESTMENT IN SHAREHOLDER AFFILIATE  
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On October 15, 1996, the Company consummated a transaction contemplated by an exchange agreement (the "Exchange Agreement") with its shareholder affiliates, Craig Corporation ("Craig") and Reading Entertainment, Inc. ("REI" and collectively with its consolidated subsidiaries, "Reading"). Pursuant to the terms of the Exchange Agreement, the Company contributed cash in the amount of \$7 million to REI in exchange for 70,000 shares of Reading Series A Voting Cumulative Convertible Preferred Stock ("REI Series A Preferred Stock") and an option to transfer all or substantially all (subject to certain limitations) of its assets to REI for REI Common Stock (the "Asset Put Option"). The Asset Put Option is exercisable through a date 30 days after REI's Form 10-K is filed with respect to its year ended December 31, 1999, and gives the Company the right to exchange up to \$20 million in aggregate appraised value of the Company's assets for REI Common Stock determined by dividing the value of the Company's assets by \$11.75 per share if the notice is received by October 31, 1997, and thereafter, at \$12.25 per share. If the appraised value of the Company's assets is in excess of \$20 million, REI is obligated to pay for the excess by issuing REI Common Stock at the then fair market value up to a maximum of \$30 million of assets. As of November 6, 1997, the closing price per share of REI Common Stock was \$13.00 per share. In late October, the Company determined not to exercise the Asset Put Option by October 31, 1997, but rather to continue to hold the Asset Put Option.

As of September 30, 1997, the Company held approximately 5% of the voting power of REI and Craig held approximately 78% of the voting power of REI. As of September 30, 1997, REI holds approximately 23.4% and Craig holds approximately 10% of then outstanding common stock of Citadel.

The REI Series A Preferred Stock acquired by the Company has a liquidation preference of \$100 per share or \$7 million ("Stated Value"), (ii) bears a cumulative dividend of 6.5%, payable quarterly, and (iii) is convertible any time after April 1998 (or earlier upon a change of control of REI) into shares of REI Common Stock at a conversion price of \$11.50 per share. REI, may at its option, redeem the Series A Preferred Stock at any time after October 15, 2001, in whole or in part, at a redemption price equal to a percentage of the Stated Value (initially 108% and decreasing 2% per annum until the percentage equals 100%). The Company has the right for a 90-day period beginning October 15, 2001 (provided the Company has not exercised the Asset Put Option), or in the event of a change of control of REI to require REI to repurchase the REI Series A Preferred Stock for their aggregate Stated Value plus accumulated dividends. In addition, if REI fails to pay dividends for four quarters, the Company has the option to require REI to repurchase such shares at their aggregate liquidation value plus accumulated dividends.

The Company accounts for its investment in REI at cost. Included in the Statements of Operations for the three and nine months ended September 30, 1997, is dividend income of approximately \$114,000 and \$341,000, respectively, earned pursuant to the terms of the REI Series A Preferred Stock.

REI is a publically traded company whose shares are listed on the NASDAQ National Market System. Reading through its subsidiaries, operates motion picture exhibition theaters in Puerto Rico, Australia and New York, New York and is currently developing multiplex cinemas in Puerto Rico, multiplex art and specialty cinemas in the United States and the development of a new chain of multiplex cinemas and entertainment centers in Australia.

Summarized financial information of REI and subsidiaries as of September 30, 1997 and December 31, 1996 and for the three and nine months ended September 30, 1997 follows:

CONDENSED BALANCE SHEETS:

	Sept. 30, 1997	December 31, 1996
	-----	-----
	(In Thousands)	
Cash and cash equivalents	\$108,994	\$ 48,680
Other current assets	4,972	7,765
	-----	-----
Total current assets	113,966	56,445
Equity investment in Citadel	4,809	4,850
Preferred Stock of Stater	--	67,978
Property and equipment, net	25,827	21,130
Intangible assets	25,108	26,229
Other assets	4,339	5,122
	-----	-----
Total assets	\$174,049	\$181,754
	=====	=====
Current liabilities	\$ 6,180	\$ 13,716
Other liabilities	6,267	5,084
Series A Preferred stock held by Citadel	7,000	7,000
Shareholders' equity (inclusive of a foreign currency translation adjustment of \$2.013 million at 9/30/97)	154,602	155,954
	-----	-----
Total liabilities and equity	\$174,049	\$181,754
	=====	=====



During the third quarter, Stater Bros. Holdings Inc. ("Stater") redeemed the Stater Preferred Stock owned by Reading Australia Pty. Limited (an indirectly wholly owned subsidiary of REI). The exercise price paid at the closing amounted to \$74.5 million, inclusive of accumulated dividends and a payment for a covenant not to compete amounting to approximately \$5.1 million. A gain of \$2.002 million (inclusive of \$.615 million of fee income) was recorded by Reading upon the redemption of the Stater Preferred Stock during the three months ended September 30, 1997. In addition to the gain on the redemption of the Stater Preferred Stock, included below in Reading's Statement of Operations, is dividend income earned on the Stater Preferred Stock prior to its redemption of approximately \$.698 million and \$4.310 million for the three months and nine months ended September 30, 1997, respectively.

CONDENSED STATEMENT OF OPERATIONS:

	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1997
	-----	-----
	(In Thousands)	
Revenue:		
Theater	\$ 7,594	\$ 19,937
Real estate	40	140
Interest and dividends	1,408	6,272
	-----	-----
Total revenue	9,042	26,349
Theater costs	(5,765)	(15,533)
Depreciation and amortization	(660)	(1,893)
General and administrative	(2,455)	(6,730)
	-----	-----
Income from operations	162	2,193
Equity in earnings of Citadel	69	204
Gain from Stater Stock redemption	2,002	2,002
Other income, net	(4)	236
	-----	-----
Earnings before income taxes and minority interest	2,229	4,635
Income taxes	(377)	(699)
Minority interest	(77)	(181)
	-----	-----
Net income	1,775	3,755
Less preferred stock dividends and amortization of asset put option	(1,078)	(3,231)
	-----	-----
Net (loss) income applicable to common shareholders	\$ 697	\$ 524
	=====	=====

NOTE 4 - GAIN OR LOSS RELATED TO INVESTMENT IN FIDELITY FEDERAL BANK

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Under a Stockholders' Agreement, Citadel agreed to reimburse its previously owned subsidiary, Fidelity Federal Bank ("Fidelity"), for certain losses incurred by Fidelity in either curing breached representations or repurchasing assets sold under a bulk sales agreement, subject to a \$4 million aggregate limit, in the event Fidelity were to be determined to have breached certain representations made in connection with certain bulk sales of loans and properties in 1994. As a significant number of material issues were unresolved with regards to the

Company's ultimate exposure with respect to the indemnity clause negotiated with Fidelity, the Company included \$4 million on its balance sheet at December 31, 1995 as "Deferred proceeds from bulk sales agreement". During 1996, Fidelity reached a settlement with the purchaser regarding the bulk sales claims and released the Company from the indemnity given to Fidelity. Accordingly, the Statement of Operations for the nine months ended September 30, 1996 includes a non-recurring gain related to its previous investment in Fidelity, which resulted from the reversal of the \$4 million deferral.

NOTE 5 - TAXES ON INCOME

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The provision for income taxes for the three months and nine months ended September 30, 1997 and 1996 amounted to approximately \$15,000 and \$60,000, respectively, representing a provision for estimated Federal AMT and state taxes. For the three and nine months ended September 30, 1996, no federal provision for income taxes was required due to the realization for financial statement purposes of deferred tax assets previously reserved.

NOTE 6 - COMMON STOCK

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On April 11, 1997, Craig exercised its warrant to purchase 666,000 shares of the Company's common stock at an exercise price of \$3.00 per share or \$1.998 million. Such exercise was consummated pursuant to delivery by Craig of its secured promissory note (the "Craig Secured Note") in the amount of \$1.998 million, secured by 500,000 shares of REI Common Stock owned by Craig. The Craig Secured Note, in the amount of \$1.998 million, is included in the Balance Sheet as a contra equity account under the caption "Note receivable from shareholder" at September 30, 1997. Interest is payable quarterly in arrears at the prime rate (amounting to 8.5%) computed on a 360 day-year. Principal and accrued but unpaid interest is due upon the earlier of April 11, 2002 or 120 days following the Company's written demand for payment. The Craig Secured Note may be prepaid, in whole or in part, at any time by Craig without penalty or premium.

NOTE 7 - POSSIBLE ACQUISITION OF AGRICULTURAL REAL ESTATE INTEREST

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During the three months ended September 30, 1997, the Company formed a new subsidiary, Citadel Agriculture, Inc., to engage in the business of owning and farming agricultural land. The new company's first transaction is expected to be the acquisition of partnership interests representing an approximately 80% interest in three partnerships newly formed to acquire from The Prudential Insurance Company of America approximately 1600 acres of agricultural land located in the Central Valley of California and commonly known as Big 4 Ranch. The remaining approximately 20% interest in these partnerships is being acquired by a company controlled by James J. Cotter, the Company's Chairman, and owned by Mr. Cotter and members of his family. The Company and Mr. Cotter will contribute to the capital of the partnerships and share in the allocation of profits and losses and in any distributions from the partnerships on the same 80/20 basis.

The Big 4 Ranch is being acquired for a purchase price of \$6.75 million, plus the reimbursement of certain cultural costs related to the 1998 crop. Of this amount \$4.05 million is being financed by Prudential. The Big 4 Ranch currently consists of approximately 960 acres of mature citrus orchards, approximately 640 acres of open agricultural land, and various agricultural improvements (such as irrigation facilities and wind machines).

Included in the Balance Sheet at September 30, 1997 as "Other Assets" is a \$250,000 escrowed deposit for such property. Such deposit together with an additional deposit of \$750,000 made in November 1997 is refundable upon certain terms and conditions until December 15, 1997. If the Company were to breach its obligations under its agreement with Prudential, these funds would be subject to forfeiture as liquidated damages.

In order to comply with Federal water regulations, it is currently anticipated that 50% of Citadel's 80% interest will be spun off to shareholders immediately prior to the closing of the acquisition of Big 4 Ranch by the partnerships. Every stockholder of Citadel would receive with respect to each share of Citadel stock owned by such stockholder on the record date one share in a new company which would in turn, hold a 40% interest in the partnerships owning and farming the Big 4 Ranch.

While no assurances can be given, it is currently anticipated that shares of the new company will be dividended to Citadel stockholders and the acquisition will close before December 31, 1997. No record date has been fixed with respect to any such dividend.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Citadel Holding Corporation, a Delaware corporation ("Citadel" and collectively with its wholly owned subsidiaries, the "Company") has been engaged primarily in the ownership and management of commercial and residential property since August 1994. However in February 1997, the Company sold its last remaining residential property. Accordingly, its real property holdings currently consist of two commercial buildings located in Glendale, California and Phoenix, Arizona.

In October 1996, the Company contributed cash to Reading Entertainment, Inc. ("REI" and collectively with its consolidated subsidiaries, "Reading") in the amount of \$7 million in exchange for 70,000 shares of REI Series A Voting Cumulative Convertible Preferred Stock (the "REI Series A Preferred Stock") and an option which gives the Company the right, through approximately April 1999, to exchange for shares of REI Common Stock all or substantially all of the Company's assets. Pursuant to the terms of the Asset Put Option, the Company has the right to exchange up to \$20 million in aggregate appraised value of the Company's assets for REI Common Stock determined by dividing the value of the Company's assets by \$11.75 per share if the notice is received by October 31, 1997, and thereafter, at \$12.25 per share. If the appraised value of the Company's assets is in excess of \$20 million, REI is obligated to pay for the excess by issuing REI Common Stock at the then fair market value up to a maximum of \$30 million of assets. As of November 6, 1997, the closing price per share of REI Common Stock was \$13.00 per share. In late October, the Company determined not to exercise the Asset Put Option by October 31, 1997, but rather to continue to hold the Asset Put Option.

The REI Series A Preferred Stock is convertible at any time after April 15, 1998 into shares of REI Common Stock at a conversion price of \$11.50 per share. The REI Preferred Stock represents approximately 5% of REI's voting securities. REI owns approximately 23.4% of the Company's outstanding common stock. In addition, Craig Corporation ("Craig"), which owns approximately 78% of REI's voting securities, owns approximately 10% of the Company's outstanding Common Stock.

In April 1997, Craig purchased its 10% interest through the exercise of outstanding warrants to purchase 666,000 shares of the Company's common stock at \$3.00 per share. The Craig purchase was consummated through the delivery by Craig of a secured promissory note (the "Craig Secured Note") in the amount of \$1.998 million. Principal and any unpaid interest, which accrues at prime and is payable quarterly, is due upon the earlier of April 11, 2002 or 120 days following the Company's written demand for payment. The Craig Secured Note is secured by 500,000 shares of REI Common Stock and may be prepaid, in whole or in part, at any time by Craig without penalty or premium. Included in the Statement of Operations for the three and nine months ended September 30, 1997 is interest income earned and paid by Craig, amounting to \$43,000 and \$81,000, respectively, to Citadel pursuant to the terms of the \$1.998 million Secured Promissory Note.

During the three months ended September 30, 1997, the Company formed a new subsidiary, Citadel Agriculture, Inc., to engage in the business of owning and farming agricultural land. The new company's first transaction is expected to be the acquisition of partnership interests representing an approximately 80% interest in three partnerships newly formed to acquire from The Prudential Insurance Company of

America approximately 1600 acres of agricultural land located in the Central Valley of California and commonly known as Big 4 Ranch. The remaining approximately 20% interest in these partnerships is being acquired by a company controlled by James J. Cotter, the Company's Chairman, and owned by Mr. Cotter and members of his family. The Company and Mr. Cotter will contribute to the capital of the partnerships and share in the allocation of profits and losses and in any distributions from the partnerships on the same 80/20 basis.

The Big 4 Ranch is being acquired for a purchase price of \$6.75 million, plus the reimbursement of certain cultural costs related to the 1998 crop. Of this amount \$4.05 million is being financed by Prudential. The Big 4 Ranch currently consists of approximately 960 acres of mature citrus orchards, approximately 640 acres of open agricultural land, and various agricultural improvements (such as irrigation facilities and wind machines).

Included in the Balance Sheet at September 30, 1997 as "Other Assets" is a \$250,000 escrowed deposit for such property. Such deposit together with an additional deposit of \$750,000 made in November 1997 is refundable upon certain terms and conditions until December 15, 1997. If the Company were to breach its obligations under its agreement with Prudential, these funds would be subject to forfeiture as liquidated damages.

In order to comply with Federal water regulations, it is currently anticipated that 50% of Citadel's 80% interest will be spun off to shareholders immediately prior to the closing of the acquisition of Big 4 Ranch by the partnerships. Every stockholder of Citadel would receive with respect to each share of Citadel stock owned by such shareholder on the record date one share in a new company which would in turn, hold a 40% interest in the partnerships owning and farming the Big 4 Ranch.

While no assurances can be given, it is currently anticipated that shares of the new company will be dividended to Citadel stockholders and the acquisition will close before December 31, 1997. No record date has been fixed with respect to any such dividend.

#### RESULTS OF OPERATIONS

The following is a comparison of the results of operations for the three months ended September 30, 1997 ("1997 Quarter") with the three months ended September 30, 1996 ("1996 Quarter") and for the nine months ended September 30, 1997 (the "1997 Nine Months") with the nine months ended September 30, 1996 (the "1996 Nine Months"). Due to the nature of the Company's business activities, revenues and earnings have varied significantly reflecting the operating results of its managed real estate and asset sales during those periods. Accordingly, period to period comparisons of operating results will not necessarily be indicative of future financial results.

The Company's net earnings for the 1997 Quarter amounted to \$407,000 or \$0.06 per common and common equivalent share as compared to the net earnings of \$197,000 or \$0.02 per common and common equivalent share for the 1996 Quarter. Net earnings for the 1997 Nine Months was \$1,066,000 or \$0.17 per common and common equivalent share as compared to \$5,981,000 or \$0.74 per common and common equivalent share for the 1996 Nine Months. Earnings per common and common equivalent share is based upon the weighted average number of common and common stock equivalents of 6,669,924 and 8,050,708 shares for the 1997 and 1996 Quarters, respectively, and 6,427,520 and 8,050,708 shares for the 1997 and 1996

Nine Months, respectively. The calculation of the weighted average of common and common stock equivalents outstanding for the 1996 Quarter and 1996 Nine Months included the effect of 2,046,784 shares assumed to be issued on the conversion of the then outstanding Citadel Convertible Preferred Stock. The Convertible Preferred Stock was redeemed in December 1996.

Included in net earnings for the 1996 Nine Months is (i) approximately \$1,493,000 from the sale of an apartment building and a parcel of land and (ii) non-recurring income amounting to \$4 million resulting from the recognition of previously deferred proceeds from the bulk sale of loans and properties by Citadel's previously owned subsidiary, Fidelity Federal Bank ("Fidelity"). Included in the net earnings for the 1997 Quarter and 1997 Nine Months is dividend income of approximately \$114,000 and \$341,000, respectively, earned with respect to the Company's October 1996 investment in REI Preferred Stock.

Rental income amounted to \$1,318,000 for the 1997 Quarter as compared to \$1,029,000 for the 1996 Quarter and rental income amounted to \$3,712,000 for the 1997 Nine Months as compared to \$3,912,000 for the 1996 Nine Months. The changes in rental income reflects the reduction of the number of rental properties owned by the Company during the periods offset by increased revenues from the two remaining properties. Rental income for the 1997 Quarter and 1997 Nine Months includes revenue from the Company's two commercial rental properties. Since the 1996 Quarter and 1996 Nine Months the Company sold two apartment buildings. The 1996 Quarter and 1996 Nine Months includes rental income from these sold properties amounting to approximately \$41,000 and \$839,000, respectively. Such decrease, as compared to the 1997 periods, was partially offset by an increase in rental income from the two remaining commercial properties of approximately \$331,000 and \$633,000 for the 1997 Quarter and 1997 Nine Months, respectively.

Real estate operating expenses increased to \$543,000 in the 1997 Quarter as compared to \$485,000 in the 1996 Quarter and decreased approximately \$472,000 to \$1,527,000 in the 1997 Nine Months as compared to \$1,999,000 in the 1996 Six Months. The overall decrease in the 1997 Nine Months as compared to the 1996 Nine Months is attributable to the sale of the two apartment properties during 1996, offset by the increase in the remaining two commercial properties. Real estate operating expenses for these two commercial properties increased approximately \$82,000 and \$114,000 in the 1997 Quarter and 1997 Nine Months, respectively, as compared to the relevant 1996 periods.

The 1997 Quarter and Nine Months included approximately \$60,000 and \$180,000, respectively, in fee income for consulting services provided by employees of the Company to Reading as compared to approximately \$42,000 and \$127,000 for the 1996 Quarter and 1996 Nine Months, respectively.

Interest income decreased during the 1997 periods and amounted to \$65,000 in the 1997 Quarter as compared to \$249,000 in the 1996 Quarter and amounted to approximately \$238,000 in the 1997 Nine Months as compared to \$678,000 in the 1996 Nine Months. Such 1997 period decreases reflect the significant decrease in investable fund balances between the periods. Cash and cash equivalents amounted to \$7.015 million at September 30, 1997 as compared to \$19.815 million at September 30, 1996. In October 1996, the Company made a \$7 million investment in REI and in December 1996 redeemed from REI the Company's previously issued 3%

Cumulative Voting Convertible Preferred Stock at a redemption price amounting to approximately \$6.19 million.

General and administrative expenses in the 1997 Quarter and 1997 Nine Months decreased, primarily as a result of a reduction in professional costs, compared to the respective 1996 periods and amounted to \$284,000 in the 1997 Quarter as compared to \$321,000 in the 1996 Quarter and amounted to \$821,000 in the 1997 Nine Months as compared to \$878,000 in the 1996 Nine Months. General and administrative expenses for each of the 1997 and 1996 Quarters and Nine Months include administrative and rent expense paid to Craig in the amount of \$24,000 and \$72,000, respectively.

Interest expense was \$249,000 in the 1997 Quarter as compared to \$262,000 in the 1996 Quarter and was \$761,000 in the 1997 Nine Months as compared to \$1,056,000 in the 1996 Nine Months. The decrease in interest expense principally is due to the payoff of two mortgage loans since the 1996 periods. In May 1996, the Company repaid a mortgage loan on the sale of a rental property in the amount of approximately \$5.7 million and in January 1997 repaid a mortgage loan in the amount of approximately \$.755 million.

REAL ESTATE INTERESTS

The table below provides an overview of the properties which constituted all of the real properties owned by the Company at September 30, 1997.

Address	Type	Units/ Sq. Feet	% Leased	Major Tenants *	Remaining Lease Term
ARBOLEDA 1661 Camelback Rd. Phoenix, Arizona	Office/ Restaurant	178,000	99	American Express (56%) Others	Feb. 1999 1-5 Years
BRAND 600 N. Brand Glendale, CA	Office	89,000	100	Disney (87%) Fidelity(13%)	Feb. 2007 May 2005

\* Percent of rentable space leased.

Arboleda, Phoenix

This property was fully leased at September 30, 1997 with American Express occupying approximately 56% (100,252 sq. feet) of the property.

Brand, Glendale

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

The base rental rate for the first five years of the Fidelity lease term is \$26,000 per month (including parking) with annual rental increases at a rate

equal to the lower of the increase in the Consumer Price Index or 3%. The rental rate of the Fidelity lease at March 31, 1997 was approximately \$26,600 per month. After the first five years of the lease term, the rental rate will be adjusted to the higher of (a) \$1.50 per square foot increased by the annual rental rate increase applied during the first five years as described in the preceding sentence or (b) the then current market rate. Fidelity has an option to extend its lease for two consecutive five year terms, at a market rental rate.

The rental rate for the first five years of the Disney lease term beginning February 1, 1997 is approximately \$148,000 per month (excluding parking) and approximately \$164,000 (excluding parking) for the remaining five-year term. Disney has an option to renew the lease for two consecutive five-year terms. In addition to approximately \$1.4 million of costs incurred by the Company as of September 30, 1997 for certain building upgrades, lease commissions and legal fees, the Disney lease provides that the Company will pay for additional tenant improvements and additional common area upgrades, which the Company estimates will cost approximately \$2.1 million.

#### BUSINESS PLAN, CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents increased approximately \$659,000 from \$6.356 million at December 31, 1996 to \$7.015 million at September 30, 1997. Net cash provided by investing activities amounted to \$295,000 in the 1997 Nine Months and is comprised of approximately \$1,128,000 provided from the sale of a rental property, offset by \$583,000 used to make leasehold improvements to rental properties and a \$250,000 refundable deposit for the purchase of a real estate interest. Net cash used in financing activities amounted to \$868,000 in the 1997 Nine Months and resulted from the repayment of long-term mortgage loans inclusive of the mortgage on the property sold in January 1997.

The Company expects that its sources of funds in the near term will include (i) cash on hand and related interest income, (ii) cash flow from the operations of its rental properties, (iii) consulting fee income from Reading of approximately \$60,000 quarterly and (iv) a preferred stock dividend, payable quarterly, from REI amounting to approximately \$455,000 annually.

In the short term, uses of funds are expected to include (i) funding of the Glendale Building leasehold and tenant improvements of approximately \$2.1 million, (ii) operating expenses, and (iii) debt service pursuant to the property mortgages; and may include the acquisition of the additional agricultural real interest, net of financing proceeds, described above.

Management believes that its sources of funds will be sufficient to meet its cash flow requirements for the foreseeable future. The investment in REI described above, provides the Company with the opportunity to make an initial investment in REI, and the ability thereafter, to review the implementation by REI of its business plan and, if it approves of the progress made by REI, to make a further investment in REI through the exercise of the option to exchange all or substantially all of its assets for Reading Common Stock. The Company has the right to require REI to redeem the REI Preferred Stock after five years or sooner, if REI fails to pay dividends on such securities for four quarters.



PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Various legal actions and claims are pending against the Company. The Company believes that it has meritorious defenses to these claims, and has not reserved any amounts with respect thereto. However, the damages claimed by certain plaintiffs are in an unspecified amount, and accordingly, no assurance can be given that the ultimate resolution of such pending claims will not have a material adverse effect on the Company's consolidated financial position or its results of operations.

Citadel, Hecco Ventures I and James J. Cotter were defendants in a civil action filed in 1980 by Alfred Roven. In 1995, Citadel, Hecco Ventures I and James J. Cotter were granted summary judgment on all causes of action asserted in the 1980 complaint, which Roven appealed. On August 1, 1997 the United States Court of Appeals for the Ninth District affirmed the United States District Courts decision of summary judgment in favor of Citadel, Hecco Ventures I and James J. Cotter.

For a description of legal proceedings, please refer to Item 3 entitled Legal Proceedings contained in the Company's Form 10-K for the fiscal year ended December 31, 1996.

ITEM 2 - CHANGES IN SECURITIES

Not applicable.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

- 10.61 Agreement for Purchase and Sale of Real Property between Prudential Insurance Company of America and Big 4 Farming LLC dated August 29, 1997.
- 10.62 Second Amendment to Agreement of Purchase and Sale between Prudential Insurance Company of America and Big 4 Farming LLC dated November 5, 1997.
- 27. Financial Data Schedule.

B. Reports on Form 8-K

None.

SIGNATURES

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

CITADEL HOLDING CORPORATION

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By: /s/ Steve Wesson  
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President and Chief  
Executive Officer  
November 13, 1997

/s/ S. Craig Tompkins  
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Principal Accounting Officer  
November 13, 1997

AGREEMENT FOR PURCHASE AND SALE  
OF  
REAL PROPERTY  
KERN COUNTY, CALIFORNIA

THIS AGREEMENT IS made and entered into as of August 29, 1997, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation ("Seller"), and BIG 4 FARMING, LLC, a limited liability company ("Buyer").

ARTICLE 1. DEFINITIONS  
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Unless the context otherwise specifies or requires, for the purposes of this Agreement, the following terms shall have the meanings set forth in this Article 1:  
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Section 1.1 Close of Escrow or Closing. The terms "Close of Escrow" or "Closing" shall mean the event of the transfer of title to the Property from Seller to Buyer.  
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Section 1.2 Closing Date. The term "Closing Date" shall mean the date that the Closing shall occur, which shall be a date no later than sixty (60) days following execution of this Agreement.  
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Section 1.2A Crops. The term "Crops" shall mean all growing crops associated with the Land. Buyer recognizes that as of the date of this Agreement, the 1997 Valencia Crop has not been harvested, but will be harvested prior to the Closing Date. The Purchase Price does not include any amount attributable to the 1997 Valencia Crop, which shall remain the sole property of Seller.  
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Section 1.3 Due Diligence Period. The term "Due Diligence Period" shall mean a period expiring thirty (30) days following execution of this Agreement.  
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Section 1.4 Improvements. The term "Improvements" shall mean all improvements, and all appurtenances thereto, located on the Land, including, without limitation, all irrigation and pumping equipment, buildings and all other auxiliary amenities located on or used in the operation of the Property.  
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Section 1.5 Intangible Property. The term "Intangible Property" shall mean all water rights currently owned by Seller and used for the benefit of the Land, including, without limitation, underground water, surface water, ditch water, canal water, riparian rights, artesian well water and any ownership interest or any stock in any water company or organization, and any mineral rights held by Seller relating to the land (provided the foregoing water and mineral rights shall be transferred without representation or warranty whatsoever), any contracts affecting the Property, any names by which the Property is generally known, the Permits, and any other intangible property owned by Seller which is essential to the operation of or relates exclusively to the Property.  
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Section 1.6 Land. The term "Land" shall mean the real property consisting of 1,612.18 gross APN acres, more or less, (Assessor's Parcel Nos. 051-110-10, 051-110-12, 051-110-19, 051-110-37, 051-110-38, 051-110-56, 051-300-02, 051-131-01, 051-131-03, 051-131-04, and 051-131-05), located in Kern County, California, including permanent plantings and any growing crops located on the Land at the time of Closing, exclusive of the Improvements, Personal Property and Intangible Property, more particularly described in Exhibit F.  
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Section 1.7 [Intentionally Deleted]

Section 1.8 Permits. The term "Permits" shall mean any and all permits and other governmental authorizations related to the operation of the Property that are assignable to Buyer.  
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Section 1.9 Permitted Excetions. The term "Permitted Exceptions" shall have the meaning given such term in Section 3.1.  
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Section 1.10 Personal Property. The term "Personal Property" shall mean all personal property relating exclusively to the Land and Improvements and all replacements of such property, except such property as may constitute "Crops".  
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Section 1.11 Preliminary Title Report. The term "Preliminary Title

Report" shall mean a current preliminary title report with respect to the Land and Improvements issued by the Title Company and delivered to Buyer in accordance with this Agreement.

Section 1.12 Property. The term "Property" shall mean the Land,

the Improvements, the Crops, the Personal Property and the Intangible Property.

Section 1.13 Title Company. The term "Title Company" shall mean

Commonwealth Title Insurance Company, 1318 East Shaw Ave., Fresno, California 93710.

Section 1.14 Title Documents. The term "Title Documents" shall have the

meaning given such term in Section 3.3.

Section 1.15 Water Approvals. The Term "Water Approvals" shall have the

meaning given such term in Section 4.1(f).

## ARTICLE 2. PURCHASE AND SALE OF THE PROPERTY

Section 2.1 Purchase and Sale. Seller agrees to sell the Property to

Buyer, and Buyer agrees to purchase the Property from Seller, upon all of the terms, covenants and conditions set forth in this Agreement.

Section 2.2 Purchase Price. The Purchase Price for the Property (the

"Purchase Price") shall be SIX MILLION SEVEN HUNDRED FIFTY THOUSAND DOLLARS (\$6,750,000.00). Buyer shall pay to Seller the Purchase Price in the following manner:

(a) Buyer shall, within five (5) business days of the execution of this Agreement, deposit TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) with the Title Company, which the Title Company shall deposit in an interest bearing account. Such funds and all interest earned thereon shall be referred to as the "Deposit". The Deposit shall be non-refundable upon the earlier of (i) Buyer's written approval of all due diligence matters related to the Property pursuant to Article 4 or (ii) the expiration of the Due Diligence Period, except as provided in Section 4.5 which provides for a refund of the Deposit in case of a

termination of this Agreement due to Seller's inability or unwillingness to cure or for any other reason specified in Section 4.5.

(b) Seller shall provide purchase money financing in the amount of Four Million Fifty Thousand Dollars (\$4,050,000) (the "Purchase Money Financing"), subject, however, to the terms and conditions of an Application for First Mortgage Loan to be made by Buyer in favor of Seller and the other terms and conditions set forth in Section 4.8.

(c) On the Closing Date, Buyer shall deposit with Escrow Holder by federal wire transfer or cashier's check the remaining balance of the Purchase Price (i.e., minus the Deposit purchase money financing), plus or minus closing adjustments and prorations, if any.

Section 2.3 Allocation of Purchase Price. The total consideration to be

paid for the Property shall be allocated as reasonably agreed by the parties during the Due Diligence Period. The final statement submitted into Escrow by the parties pursuant to Article 7 shall reflect the final agreed allocation.

## ARTICLE 3. TITLE

Section 3. 1 Condition of Title. Seller shall convey to Buyer fee simple

title to the Land and Improvements by good and sufficient Grant Deed in the form of Exhibit D (the "Deed"), subject to no exceptions other than:

(a) The lien for local real estate taxes not yet due or payable; and

(b) Any other exceptions in the Preliminary Title Report approved by Buyer in writing pursuant to this Article 3.

The foregoing exceptions are herein referred to collectively as the "Permitted Exceptions".

Section 3.2 Evidence of Title. Close of Escrow shall be conditioned upon

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the willingness of the Title Company to issue, upon payment of its normal premium, a CLTA Owners Policy of Title Insurance with extended coverage, together with such endorsements thereto as may be requested by Buyer (the "Title Policy"), insuring Buyer in the amount of the Purchase Price that fee simple title to the Land and Improvements is vested in Buyer subject only to the Permitted Exceptions.

Section 3.3 Title Review. Seller has delivered to Buyer the Preliminary

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Title Report and shall no later than five (5) business days after the date of this Agreement deliver to Buyer copies of all recorded documents referred to as exceptions to title therein (collectively, the "Title Documents"). Buyer shall have the Due Diligence Period to review matters of title.

Section 3.4 Objections to Title. Buyer shall notify Seller in writing

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no later than the end of the Due Diligence Period of any objections Buyer may have, as determined in Buyer's sole discretion, to any of the exceptions to title in the Title Documents. Any title exceptions disapproved by Buyer shall be hereinafter referred to as "Title Defects". If Buyer fails to timely provide notification of Title Defects, Buyer will be deemed to have accepted the matters disclosed by the Title Documents. In the event Buyer objects to any matters affecting title, such matters will be deemed to be subject to the termination procedure specified in Section 4.5 hereof.

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ARTICLE 4. CONDITIONS TO AGREEMENT  
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Section 4.1 Conditions Precedent. Buyer's obligation to purchase the

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Property or otherwise to perform any obligation provided in this Agreement shall be expressly conditioned upon the fulfillment of each of the following conditions precedent:

- (a) The timely performance by Seller of each and every covenant and obligation to be performed by Seller hereunder;
- (b) The delivery to Buyer upon Close of Escrow of title to the Property, and the issuance of the Title Policy, pursuant to Article 3;  
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- (c) Buyer's review and approval or deemed approval on or before the expiration of the Due Diligence Period of the matters referred to in Section 6.1(a);  
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- (d) Buyer's approval or deemed approval on or before the expiration of the Due Diligence Period of the results of any inspection, test, examination, audit, study, review, analysis, or other review conducted by or for Buyer pursuant to Section 4.2;  
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- (e) Seller's issuance of a commitment for the Purchase Money Financing and the issuance of the Purchase Money Financing on the terms of the Commitment; and
- (f) Receipt by Buyer on or before the end of the Due Diligence Period, of any and all governmental approvals, confirmations and/or permits (collectively, the "Water Approvals") required in order to obtain adequate federal water for the farming of all of the Land.

Section 4.2 Property Inspection. At all reasonable times prior to the

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expiration of the Due Diligence Period, Buyer, and its agents and representatives, shall be entitled to enter onto the Land and Improvements on reasonable prior notice to Seller, in the case of any inspection or test, to perform such inspections and tests of the Property as Buyer shall deem necessary or appropriate. Buyer shall provide Prudential with evidence of a CGL Policy in the amount of at least \$1 Million per occurrence in form and substance satisfactory to Prudential, prior to any entry on the Property under the provisions of this paragraph. Buyer's tests may include, without limitation, inspections and tests designed to verify, among other matters, the conditions of any crops, the absence of asbestos, PCBs, and all other toxic, hazardous or dangerous substances, wastes or materials in, on or under the Property, provided, however, any consultant performing testing for such substances wastes or materials and the procedures to be employed by any such consultant shall be subject to the reasonable pre-approval of and supervision by Seller of such consultant's testing activities on the Property. Buyer shall also be entitled to enter upon the Land to make any inspections as it may deem appropriate of (i) the Personal Property; (ii) any and all roofs, foundations, walls

and other structural components of the Improvements, if any, and any electrical, plumbing, heating, ventilating, air conditioning, refrigeration and other mechanical systems within the Improvements, and (iii) soil conditions, ground water, irrigation water supplies, delivery condition and yields of wells, the condition of the water delivery systems, the condition of the pumping system, building materials and utility areas. In addition to any physical inspections or tests of the Property, Buyer shall, during the Due Diligence Period, make any and all studies as it shall deem appropriate of zoning laws applicable to the Property, and water laws and regulations applicable to the availability of water to the Buyer (and/or any permitted assignees) with respect to the Property; or market studies, operating expense and other financial projections and analyses, real estate tax analyses, income tax analyses, and any other studies or analyses relating to the value of the Property as Buyer may deem appropriate and shall conduct such personal interviews with the operators of the Property as it shall deem appropriate. Buyer and its agents hereby agree to indemnify and hold harmless Seller and its officers, directors, agents, and employees from any and all loss, costs, damages or expense (including, without limitation, reasonable attorneys' fees) arising out of or in any way connected with the activities of Buyer or Buyer's agents on the Property in connection with any inspection or testing, except to the extent that such liabilities, claims or damages arise out of the negligence or willful misconduct of Seller or its agents, or a breach by Seller of this Agreement.

Section 4.3 Due Diligence Review Procedure. Buyer shall notify

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Seller in writing on or before the expiration of the Due Diligence Period of its approval or disapproval of the subject matters of Buyer's review. Buyer may terminate the agreement for any reason, or for no reason at any time during the Due Diligence Period, in which case the Deposit will be returned to Buyer and neither party will have any further obligation to the other. If, for any reason, Buyer shall fail to provide notice of objection to any matter related to the Property or of its decision to decline to purchase the Property on or before the expiration of the Due Diligence Period, Buyer shall be deemed to have approved such matter and waived any condition to closing relative to such matter.

Section 4.4 Waiver. Buyer may, at any time or times on or

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before the Closing Date, at its election, waive in writing, in part or in whole any of the conditions precedent to Buyer's obligation to perform its obligations hereunder, and Buyer's consent to the Close of Escrow pursuant to this Agreement shall waive all such conditions. No such waiver shall reduce or eliminate the rights or remedies of Buyer by reason of any breach of any obligation, agreement or covenant of Seller hereunder.

Section 4.5 Termination. Upon receipt by Seller of any notice

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of objection to any matter related to the Property, by written notice to Buyer, Seller may elect to cure the matter objected to by Buyer, provided Seller will provide Buyer with notice no later than five (5) days after receipt of Buyer's notice that it has made such election. If Seller does not provide a notice of intention to cure as specified in the foregoing sentence, it will be deemed to have elected not to cure and this agreement will terminate unless Buyer, by written notice provided to Seller within five (5) days after the last date upon which Seller could have provided its notice of intention to cure, waives the matter which was the subject of its objection. In the event that any of the matters objected to by Buyer as to which Seller has made an election to cure are not cured by Seller on or before ten (10) business days before the Closing Date, and any of the foregoing matters are not waived by Buyer pursuant to Section

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4.4, or in the event of any other circumstance (including damage or destruction

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to any Improvements, Buyer's declining to purchase the property for no stated reason, failure of Buyer to satisfy the terms and conditions of the Application as set forth in Section 4.8 or failure of Seller to provide the Purchase Money Financing or failure of the parties to agree on the form of purchase-money loan documents or the failure to occur of any of the conditions to Closing of either party provided in the Agreement) under which Buyer or Seller has a right to terminate this Agreement, the party exercising the right to terminate, by written notice given to the other party, may terminate this Agreement and be released from all obligations hereunder. If any of the foregoing events shall occur, all funds theretofore deposited in escrow by Buyer, including the Deposit, together with all interest accrued thereon or paid by Buyer to Seller outside of escrow, shall immediately be returned to Buyer, and all documents theretofore deposited in escrow by Buyer or Seller shall be returned to the party on whose behalf they were deposited.

Section 4.6 "AS-IS" Sale. Except to the extent specifically

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provided to the contrary in this paragraph, Buyer shall rely solely on its own investigations with respect to all matters related to the Property, including, without limitation, the physical or environmental condition of the Property and any water rights or the sufficiency of any water supplies to the Property, or matters related to the zoning, marketability, economic viability or the value of the Property. Buyer acknowledges that (a) Seller has not made, nor shall Buyer rely on any statements or representations made by Seller with respect to any matters related to the Property, other than any representations and warranties set forth in this Agreement, including any and all exhibits thereto (which representations and warranties shall be deemed to include the warranties of title implicit in the



Grant Deed); (b) that all documents and instruments delivered to or made available to Buyer have been provided without representation or warranty whatsoever, other than the representations and warranties set forth in this Agreement and (c) Buyer has represented to Seller, and Seller has expressed its reliance upon Buyer's representation that Buyer is a sophisticated investor in properties such as the Property and has or has available to it the expertise to properly and fully investigate all matters related to the physical condition, zoning, marketability, economic viability or value of the Property. Buyer shall accept the Property in "AS-IS" condition without representation or warranty of Seller whatsoever, except as expressly set forth in this Agreement and the exhibits thereto (including any warranties as to title set implicit in the Grant Deed).

Buyer agrees that, from and after the Closing Date, Buyer, for itself and its agents, affiliates, successors and assigns, hereby RELEASES AND FOREVER DISCHARGES Seller, its agents, affiliates, successors and assignees from, and waives any right to proceed against Seller for, any and all rights, claims and demands at law or in equity relating to the physical, environmental, economic or legal condition of the Property. Notwithstanding the foregoing, Buyer expressly reserves any and all claims and demands at law or in equity arising from (i) breach of any warranties as to title implicit in the Grant Deed; (ii) the falseness, inaccuracy or breach of any representations, warranties and/or indemnities contained in any bill of sale transferring title to Personal Property and/or improvements and/or in the Assignment of Intangible Property or (iii) the knowing falseness or inaccuracy of any representation, warranty or covenant specifically set forth in this Agreement and/or any exhibits thereto (iv) any fraud or intentional misrepresentations. WITHOUT LIMITING THE FOREGOING, BUYER HEREBY SPECIFICALLY WAIVES, IN CONNECTION WITH THE MATTERS RELEASED ABOVE (PROVIDED THE CLAIMS AND DEMANDS AT LAW AND IN EQUITY SPECIFICALLY RESERVED TO BUYER HEREIN ARE EXPRESSLY EXCLUDED FROM THE WAIVER OF SUCH PROVISION), THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542 WHICH PROVIDE:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

BUYER HEREBY ACKNOWLEDGES THAT BUYER HAS CAREFULLY REVIEWED THIS SUBSECTION AND DISCUSSED ITS IMPACT WITH LEGAL COUNSEL, AND THAT THE PROVISIONS OF THIS SUBSECTION ARE A MATERIAL PART OF THIS AGREEMENT.

/s/ S. Craig Tompkins  
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BUYER

Section 4.7 Corporate Approval. Buyer's obligation to purchase the  
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Property is conditioned on the approval on or before the expiration of the Due Diligence Period, of the terms and conditions of this Agreement, by the Board of Directors of Buyer.

Section 4.8 Purchase Money Mortgage. It shall be a condition to Buyer's  
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obligation to purchase the Property that it obtain the Purchase Money Financing from Seller in the amount of \$4,050,000, which shall generally be on the terms and conditions contained in the Application attached hereto as Schedule I (the "Application"). If the parties are unable to reasonably agree on the form of Loan Documents pursuant to the Application on or before the expiration of the Due Diligence Period, either party shall have the right to terminate this contract pursuant to Section 4.5 hereof. Buyer shall submit the Application,

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together with any relevant fees on or before five (5) days after the date of the Expiration of the Due Diligence Period. The Interest Rate (as defined in the Application) shall be determined as of the date Buyer submits the Application and fees. Provided all of the terms and conditions of the Application shall be satisfied and Buyer shall not have terminated, breached or repudiated this Agreement or a Termination Event (as defined in the Application) shall have occurred, Lender shall issue its Commitment on or before five (5) business days prior to the Closing Date, subject to the conditions of the Application.

Section 4.9 Matters Related to Lead-Based Paint. Buyer acknowledges that  
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there is a residential structure located on the property, which may have been constructed prior to 1978. This contract is contingent upon a risk assessment or inspection of the property for the presence of lead-based paint and/or lead-based paint hazards at the Buyer's expense provided Buyer shall have until 9:00 P.M. on the expiration of the Due Diligence Period to complete its assessment. This contingency will be deemed



satisfied on above date unless the Buyer (or Buyer's agent) delivers to Seller (or Seller's agent) a written contract addendum listing the specific existing deficiencies and corrections needed, together with a copy of the inspection and/or risk assessment report. The Seller may, at the Seller's option within five (5) days after delivery of the addendum, elect in writing whether to correct the condition(s) prior to the Closing Date. If the Seller will correct the condition(s), the Seller shall furnish Buyer with certification from a risk assessment or inspector demonstrating that the condition(s) has been remedied before the Closing Date. If the Seller does not elect to make the repairs, or if the Seller makes a counter-offer, the Buyer shall, within one (1) business day, respond to the counter-offer or remove this contingency and accept the property in "as-is" condition, or this contract shall become void. The Buyer may waive this condition at any time, with or without cause. In addition, it shall be a condition of Seller's obligation to complete the sale of the Property hereunder, that Buyer execute and return to Seller the attachment in the form of Exhibit E

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to this contract covering matters related to lead-based paint, promptly after execution of this Agreement.

Section 4.9 [Intentionally Deleted]

ARTICLE 5. REPRESENTATIONS AND WARRANTIES  
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Section 5.1 Seller's Representations and Warranties. Seller hereby makes

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the following representations and warranties. Where the term "best knowledge" is used, it shall be construed to mean the actual knowledge of Roderick T. Robertson, who is the person within Seller who has responsibility for matters related to the management of the Property:

(a) To the best knowledge of Seller, all management, maintenance, operating, service and all other written contracts of similar nature affecting the Property which were entered into by Seller or are in Seller's possession have been delivered to Buyer.

(b) To the best knowledge of Seller, except for the management, maintenance, operating, service and other agreements affecting the Property, and the documents referenced in the Preliminary Title Report, Seller has not entered into or undertaken any written or oral commitments, agreements or obligations of any kind currently affecting the Property.

(c) Seller is duly organized and existing under the laws of the state of New Jersey and is qualified to do business in California. As of the date of execution of this Agreement by Seller, Seller has the full right and authority to enter into this Agreement, consummate the sale, transfers and assignments contemplated herein and otherwise perform its obligations under this Agreement and no further approvals are required to consummate the transactions contemplated hereby.

ARTICLE 6. COVENANTS OF SELLER  
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Section 6.1 Covenants. In addition to the covenants of Seller contained

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elsewhere in this Agreement, Seller hereby covenants with Buyer as follows, each of which covenants is material and being relied upon by Buyer:

(a) (i) Seller has delivered or shall deliver to Buyer within five (5) business days after execution of this Agreement the following documents:

(A) all equipment rental agreements or leases, all service, maintenance and operating contracts affecting the Property; and

(B) a list certified by Seller describing all Personal Property, if any is included.

(ii) Seller shall deliver to Buyer within three (3) business days after Buyer's request such other written information relating to the Property as Buyer may reasonably request, in writing, prior to the expiration of the Due Diligence Period if such information shall be in the possession of Seller.

(b) Seller shall not (i) enter into any contract with respect to the Property which will survive the Close of Escrow or otherwise affect the use, operation or enjoyment of the Property after the Close of Escrow or (ii) change, modify, supplement, amend or cancel any existing contract or agreement relating to the Property if such change modification or supplement would survive the Close of Escrow.

(c) At all times prior to the Close of Escrow, Seller shall (i) operate and manage or to the extent within the control of Seller, cause to be operated and managed the Property in a manner consistent with prior years' maintenance, including ordinary, reasonable and necessary cultural practices, provided, however, Seller shall reasonably consult with Buyer on maternal cultural practices, such as, for example, block selection for growth regulator spraying, and provided further, if actual expenses are expected to exceed the 1997 budget of \$523,377.00 for the months of July through October, Seller will notify Buyer and consult with respect to any over-budget expenses (the above amount plus any additional expenses approved in writing by Buyer is referred to herein as the "Approved Budget"), (ii) maintain the Property in a state of repair and working order comparable to prior years' maintenance, subject to the proviso contained in the foregoing subsection and (iii) perform when due all of Seller's obligations under any agreements relating to the Property. Seller shall not remove any of the Personal Property or fixtures from the Property unless replaced by personal property or fixtures of comparable value. Seller shall deliver the Personal Property at the Close of Escrow in a condition comparable to the condition of the Personal Property on the date of this Agreement.

(d) Seller shall pay in full, prior to the Closing Date, all bills and invoices for labor, goods, material and services of any kind relating to the Property, utility charges relating to the period prior to the Closing Date.

(e) After the date hereof and prior to the Closing Date, Seller shall not alienate, encumber or otherwise transfer any part of the Property or any interest therein.

(f) Prior to the Close of Escrow, Seller shall pay in full all general, special or other assessments relating to the Property that are then due and owing and attributable to the period of Seller's ownership.

#### ARTICLE 7. TITLE, ESCROW AND CLOSING

Section 7.1 Escrow. Seller has opened Escrow No 19996.10 (the "Escrow")

with the Title Company for the purpose of consummating the purchase and sale of the Property. On or before the Closing Date (as defined below), Buyer and Seller shall provide separate escrow instructions to the Title Company consistent with the terms and conditions of this Agreement.

Section 7.2 Closing Date. Buyer and Seller shall consummate the transaction contemplated herein through Escrow on the Closing Date.

Section 7.3 Deposit of Documents and Funds.

(a) Seller shall deposit or cause to be deposited with Buyer or into escrow with the Title Company on or before the Closing Date the following documents:

- (i) The duly executed and acknowledged Deed;
- (ii) A duly executed Bill of Sale in the form attached hereto as Exhibit A;
- (iii) A duly executed Assignment of Warranties, Contracts and Intangible Property in the form attached hereto as Exhibit B;
- (iv) A duly executed FIRPTA Certificate in the form attached hereto as Exhibit C;
- (v) A certificate updating the representations and warranties contained in Article 5 of this Agreement as of the Closing Date; and
- (vi) Seller's written escrow instructions to close escrow in accordance with the terms of this Agreement, including directions to pay the commission of the Brokers.

(b) Buyer shall deposit or cause to be deposited with Seller or into escrow with the Title

Company on or before the Closing Date the following funds and documents:

- (i) Cash or certified funds by wire transfer in the amount of the Purchase Price less the Deposit and any other credits in favor of Buyer ("Seller's Funds");
- (ii) [INTENTIONALLY DELETED]
- (iii) A dully executed counterpart of the Assignment of Warranties, Contracts and Intangible Property in the form attached hereto as Exhibit B; and  
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- (iv) Buyer's written escrow instructions to close escrow in accordance with the terms of this Agreement.

Section 7.4 Closing. The Title Company shall close escrow on the  
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Closing Date when it is in a position to issue the Title Policy. The Title Company shall close escrow by:

- (a) Recording the Deed;
- (b) Issuing to Buyer the Title Policy;

(c) If such documents are required to be deposited into escrow by Seller, delivering to Buyer the Bill of Sale, an executed counterpart of the Assignment of Warranties, Contracts and Intangible Property and the FIRPTA Certificate;

(d) Delivering to Seller the Seller's Funds, less funds sufficient to pay the commission of CAPS, Seller's share of closing costs and any adjustments for prorations, and, if deposited in Escrow, duly executed counterparts of the Assignment Warranties, Contracts and Intangible Property.

Section 7.5 Prorations. Real estate taxes and payments under any  
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contracts affecting the property that shall survive the Close of Escrow shall be prorated between Seller and Buyer as of the Closing Date. Any sales taxes assessed on the transfer of the Personal Property shall be the responsibility of Buyer, and Buyer hereby agrees to indemnify Seller for the payment of any such taxes, which indemnity will survive the Closing hereunder.

Section 7.5A Cultural Costs. Buyer will reimburse Seller, though the  
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Escrow for ordinary, reasonable and necessary cultural costs for the care, management and maintenance of the Property incurred subsequent to July 1, 1997 through the Closing Date, including any costs or expenses included in an Approved Budget. If there are any expenditures that are reasonable and necessary cultural costs for the care, management and maintenance of the Property incurred subsequent to July 1, 1997 through the Closing Date and are made other than in compliance with an Approved Budget, the parties shall agree in writing as to whether all or a portion of such costs or expenses shall be paid through Escrow. If the parties are unable to reasonably agree on the amount of the reimbursement of any costs or expenses reasonable and necessary for the care, management and maintenance of the Property incurred by Seller but not included in the Approved Budget, either party may send a notice to the other and if agreement is not reached in ten (10) days, the parties shall submit the matter to an individual mutually acceptable to the parties (the "Arbitrator") for arbitration, provided (a) the Arbitrator will have fifteen (15) days after his or her appointment to render a decision; (b) each party will specify in the notice the amount it claims for such expenses; (b) the Arbitrator shall make its decision consistent with custom and practice in Kern County, California for citrus crops and such arbitration shall be conducted in compliance with the rules of the AAA as to such arbitration, or as otherwise agreed by the parties and indicated in writing in their notice to the Arbitrator in connection with the Arbitrator's appointment and (d) the losing party to such arbitration shall pay the cost of the arbitration (the losing party being defined as the party whose claim for expenses varies the most from the amount determined by the arbitrator to be owing as cultural costs). At the conclusion of such arbitration, the parties will provide joint direction to Escrow Holder as to the treatment of cultural costs in Escrow, consistent with the result of the arbitration.

Section 7.6 Closing Costs. Seller shall pay the cost of the portion  
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of the title insurance premium attributable to a CLTA Owner's Standard Policy and the title premium associated with any title policy obtained in connection with the Purchase Money Financing. Buyer shall pay (a) all recording fees and transfer, documentary stamp or similar taxes or charges, including recording charges associated with the Purchase Money Financing and (b) the portion of the title insurance premium attributable to extended owner's coverage. Seller and Buyer shall each pay their own attorneys' fees. Escrow fees of the Title Company shall be divided equally between Seller and Buyer, provided any party breaching this Agreement

shall pay the full amount of such fees if the transaction contemplated by this Agreement is not consummated by reason of such party's breach of this Agreement.

Section 7.7 Possession. Right to possession of the Property  
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shall transfer to Buyer on the Closing date.

ARTICLE 8. REMEDIES  
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If Seller shall have failed to perform any of the covenants and agreements contained herein to be performed by Seller within the time for performance as specified herein (including Seller's obligation to close), Buyer may elect to terminate Buyer's obligations under this Agreement by written notice to Seller. The rights and remedies of Buyer set forth in this Section shall be in addition to all rights and remedies otherwise applicable to or provided in this Agreement or otherwise available at law or in equity, it being understood that Buyer's rights and remedies under this Agreement shall be non-exclusive and cumulative and that the exercise of one remedy or form of relief available to Buyer shall not be exclusive or constitute a waiver of any other.

ARTICLE 9. DAMAGE AND DESTRUCTION; EMINENT DOMAIN  
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(a) If, prior to the Closing Date, any of the Property is the subject of any eminent domain or condemnation proceedings, whether actual or threatened, temporary or permanent, partial or total (collectively, a "Condemnation Action"), and such Condemnation Action would, in Buyer's judgment, adversely affect the use of the Property or result in the diminution in value of the Property by more than Fifty Thousand Dollars (\$50,000.00), Buyer may, at its option, either (i) terminate this Agreement as provided in Section 4.5, or (ii)

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close the transaction contemplated herein, in which event Seller shall assign to Buyer all of Seller's right, title and interest with respect to such Condemnation Action and any awards, damages or other compensation arising from such Condemnation Action (collectively, the "Condemnation Rights and Awards"). Unless or until Buyer has exercised its right to terminate this Agreement, Seller shall take no action with respect to such Condemnation Action without the prior written consent of Buyer. If, prior to the Closing Date, any of the Land and/or the Improvements are the subject of a Condemnation Action, and such Condemnation Action would not, in Buyer's judgment, adversely affect the use of the Property or result in the diminution in value of the Property by more than Fifty Thousand Dollars (\$50,000.00), the Closing shall occur and Seller shall assign to Buyer all of Seller's Condemnation Rights and Awards. Seller shall immediately give Buyer written notice of any Condemnation Action.

(b) If the Property, or any part thereof, is materially damaged or destroyed and not restored to the satisfaction of Buyer prior to the Closing Date, the Purchaser may terminate this Agreement, in which case the Deposit shall be returned to Buyer and neither party will have any further obligation to the other. If Buyer, however, elects to accept the Property, all proceeds of insurance paid or payable to Seller by reason of the damage or destruction (including, without limitation, for lost profits from tree or crop damage or destruction) shall be paid over or assigned to Buyer, and Seller shall also pay to Buyer the amount of any deductible or coinsurance under any policy. In the event of nonmaterial damage to the Property, which damage Seller is unwilling or unable to repair prior to Closing, Buyer shall be entitled to a reduction in the Purchase Price (which shall be applicable to the cash portion thereof payable at Close of Escrow) to the extent of the cost of repairing the damage.

ARTICLE 10. COMMISSIONS.

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Seller and Buyer each warrant to the other that their sole contact with the other or with the Property regarding this transaction has been through the Fresno, California office of Capital Agricultural Property Services, Inc. ("CAPS"), as the representative of Seller and James D. Vandever ("Vandever;" and both are collectively referred to herein as "Brokers"). Seller shall pay, at closing, through escrow a commission to Brokers equal to four percent (4%) of the Purchase Price, which shall be paid 50% to CAPS and 50% to Vandever. Seller and Buyer warrant that, other than the commission payable to the Brokers, no person or entity can properly claim a right to a commission, finder's fee or other compensation based upon contacts or understandings between such claimant and Buyer or Seller with respect to the transaction contemplated by this Agreement and Buyer and Seller each agrees to protect, defend and indemnify the other against and to hold it harmless from any claim, loss, cost or expense, including, without limitation, attorneys' fees and returned commissions, resulting from any claim for a commission, finder's fee or other compensation by any person or entity based upon such contacts or understandings.

ARTICLE 11. GENERAL PROVISIONS

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Section 11.1 Notices. Any notices required to be given hereunder shall be

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given in writing and shall be served either personally, overnight delivery by a recognized express company with acknowledgment of receipt by addressee, by telecopier provided receipt thereof is immediately confirmed telephonically with the person identified below, or delivered by certified or registered mail, return receipt requested, postage prepaid and addressed to the following:

TO SELLER:           The Prudential Insurance Company of America  
Woodward Centre  
7108 N. Fresno Street, Ste 400  
Fresno, California 93720  
Attention: Roderick T. Robertson, Vice President, Agricultural  
Investments

WITH COPIES TO:   Capital Agricultural Property Services, Inc.  
Woodward Centre  
7108 N. Fresno Street, Ste 401  
Fresno, California 93720  
Attention: Dave Moore

AND:                 The Prudential Realty Group  
Four Embarcadero Center, Suite 2700  
San Francisco, California 94111  
Attention: Regional Counsel

TO BUYER:           Big 4 Farming LLC  
c/o Citadel Holding Corporation  
550 South Hope Street, Suite 1825  
Los Angeles, CA 90071  
Attn: S. Craig Tompkins, Vice Chairman

Notices shall be deemed received at the earlier of actual receipt or the date on which receipt is acknowledged.

Section 11.2 Entire Agreement. This Agreement, together with the exhibits

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hereto, contains all representations and the entire understanding between the parties hereto with respect to the subject matter hereof. Any prior correspondence, memoranda or agreements are replaced in total by this Agreement and the exhibits hereto.

Section 11.3 Time. Time is of the essence in the performance of the

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parties' respective obligations hereunder.

Section 11.4 Attorneys' Fees. In the event of any dispute between the

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parties hereto, whether

relating to this Agreement or any agreement or instrument executed in connection herewith, the prevailing party shall be reimbursed for all reasonable costs incurred, including reasonable attorneys' fees. The words "attorneys' fees" as used in this Section 11.4 and elsewhere in this Agreement shall include, in

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addition to the reasonable fees and costs of outside counsel retained by a party, the cost of in-house counsel, as determined by the employer of such counsel, which may be based on the market rate prevailing in the community where such in-house counsel is located for attorneys of comparable experience and reputation, and any court costs.

Section 11.5 [Intentionally Deleted]

Section 11.6 Successors and Assigns. Seller may assign this Agreement

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without the consent of Buyer. This Agreement may be assigned by buyer, to one or more persons or entities, so long as Buyer shall remain liable on this Agreement and the sale of the Property to any assignee shall not violate any applicable law, including ERISA. Buyer will give notice to Seller of the final vesting not later than fifteen (15) days prior to the Closing Date. Subject to the foregoing provisions, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

Section 11.7 Counterparts. This Agreement and the exhibits hereto may be

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executed in one or more counterparts and all so executed shall constitute one contract, binding on all of the parties hereto, notwithstanding that all of the parties are not signatory to the same counterpart.

Section 11.8 Construction. The parties acknowledge that each party and

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its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto. The use in this Agreement, or in any agreement, instrument or certificate delivered in connection herewith, of the words "including", "such as", or words of similar import, when following any general term, statement or matter shall not be construed to limit such statement, term or matter to the specific items or matters, whether or not language of non-limitation such as "without limitation" or "but not limited to", or words of similar import are used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such statement, term or matter.

Section 11.9 Governing Law. This Agreement and, unless otherwise

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specifically provided therein, all agreements or instruments executed in connection herewith, shall be governed by and in accordance with the laws of the State of California.

Section 11.10 Third Parties. Nothing contained in this Agreement, express

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or implied, is intended to or shall confer upon any person or entity, other than the parties hereto and their permitted successors or assigns, any rights or remedies under or by reason of this Agreement.

Section 11.11 Severability. If any one or more of the provisions in this

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Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

SECTION 11.12 LIQUIDATED DAMAGES. IN THE EVENT ALL OF THE CONDITIONS TO

BUYER'S OBLIGATION TO PURCHASE THE PROPERTY HAVE BEEN SATISFIED OR WAIVED AND BUYER DOES NOT PURCHASE THE PROPERTY, PROVIDED SELLER HAS PERFORMED EACH AND EVERY OBLIGATION ON ITS PART TO PERFORM HEREUNDER, SELLER SHALL HAVE THE RIGHT TO TERMINATE THIS AGREEMENT FORTHWITH AND WITHOUT FURTHER OBLIGATIONS TO BUYER AND TO OBTAIN IMMEDIATE DISBURSEMENT OF AND TO RETAIN THE DEPOSIT THEN HELD BY ESCROW HOLDER. SUCH RETENTION OF THE DEPOSIT IS NOT INTENDED AS A FORFEITURE OR PENALTY, BUT INSTEAD IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER. THE PARTIES ACKNOWLEDGE THAT THE ACTUAL DAMAGES WHICH WOULD RESULT TO SELLER AS A RESULT OF SUCH FAILURE WOULD BE EXTREMELY DIFFICULT TO ESTABLISH. IN ADDITION, BUYER DESIRES TO HAVE A LIMITATION PUT UPON ITS POTENTIAL LIABILITY TO SELLER IN THE EVENT THAT THIS TRANSACTION SHALL FAIL TO CLOSE. BY PLACING THEIR RESPECTIVE INITIALS IN THE SPACES HEREINAFTER PROVIDED, THE PARTIES ACKNOWLEDGE THAT UPON A DEFAULT BY BUYER UNDER THE TERMS OF THIS AGREEMENT SELLER SHALL BE ENTITLED TO LIQUIDATED DAMAGES IN THE AMOUNT OF THE DEPOSIT.

INITIALS: /s/ SCT                    /s/ RTR  
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BUYER                                SELLER

Section 11.13 Exchange. Seller may wish to dispose of the Property by

means of a like-kind exchange qualifying for tax-free treatment pursuant to Internal Revenue Code Section 1031 (an "Exchange"). Buyer will cooperate with Seller in effecting an Exchange, provided that such cooperation does not delay the Closing and that Seller would (a) bear and pay for all additional transaction costs attributable to the Exchange and (b) indemnify Buyer against any and all losses and liabilities that Buyer may incur as a result of its participation in the Exchange, in connection with its acquisition of the Property.

Section 11.14 Expressions of Interest. Upon execution of this contract

neither Seller nor Broker will seek or accept other offers or expressions of interest on the Property until such time as the Due Diligence Period terminates. If Seller or CAPS receives any offer or expressions of interest during this period, the party receiving such offer or expression will promptly advise Purchaser that such offer or expression has been made. Seller will not accept any offer unless Buyer terminates this contract pursuant to Section 4.5 hereof after the Due Diligence Period. The Confidentiality Agreement dated May 21, 1997, which is incorporated herein by this reference, will remain in effect until the Due Diligence Period shall terminate, as provided in the Confidentiality Agreement.

Section 11.15 Survival. The obligations, representations and warranties

and the remedies for any breach of such obligations, representations and warranties contained in this Agreement or the exhibits thereto, shall survive the Closing, to the extent not released pursuant to Section 4.6 hereof.

IN WITNESS WHEREOF, Buyer and Seller have executed this Agreement as of the date and year first above written.

SELLER:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, A  
NEW JERSEY CORPORATION

By: /s/ R. T. Robertson

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Its: Vice President  
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BUYER:

BIG 4 FARMING, LLC, a limited liability company  
By: /s/ S. Craig Tompkins

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Its: President  
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SECOND AMENDMENT TO AGREEMENT  
OF PURCHASE AND SALE

THIS SECOND AMENDMENT TO AGREEMENT OF PURCHASE AND SALE (the "Amendment") is made as of this 5th day of November, 1997 by and between BIG 4 FARMING LLC, a limited liability company ("Buyer"), and THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation ("Seller").

RECITAL

Buyer and Seller entered into a certain Agreement for Purchase and Sale dated as of August 29, 1997, which was further amended by a First Amendment to Agreement of Purchase and Sale dated September 26, 1997 (collectively, the "Agreement"). Buyer and Seller wish to amend the Agreement to (a) provide that the Due Diligence Period, as defined in the Agreement, shall expire on a date no later than November 5, 1997, except as provided herein; (b) provide for an increase in the Deposit required of Buyer hereunder; (c) provide for an indemnity of Buyer by Seller on the terms and conditions provided herein and in the attached Exhibit A, and to make certain conforming changes to the Agreement

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in connection therewith (d) to provide that the Closing Date shall be a date no later than December 15, 1997, unless extended as provided herein; (e) provide that Seller shall use reasonable efforts, during the Due Diligence Period, to issue to the Kern/Tulare Water Storage District a corrective deed to certain reservoir property more particularly described in Exhibit B to this Agreement.  
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NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Buyer and Seller agree as follows:

1. DEFINITIONS. All capitalized terms used in this Amendment and not defined in

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this Amendment shall have the meanings ascribed in the Agreement. From and after the date of this Amendment, the term "Agreement", as used in the Agreement shall mean the Agreement as amended by this Amendment.

2. DUE DILIGENCE PERIOD. Seller agrees that notwithstanding anything to the

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contrary contained in the Agreement, the Due Diligence Period shall be extended to NOVEMBER 5, 1997.

3. AMENDMENTS TO AGREEMENT.

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a) SECTION 2.2 of the Agreement is hereby deleted and replaced in its entirety with the following (substantive changes are indicated by bold underlined text):

Section 2.2 Purchase Price. The Purchase Price for the Property

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(the "Purchase Price") shall be Six Million Seven Hundred Fifty Thousand Dollars (\$6,750,000.00). Buyer shall pay to Seller the Purchase Price in the following manner:



(a) BUYER HAS DEPOSITED TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) WITH THE TITLE COMPANY, WHICH THE TITLE COMPANY HAS PLACED IN AN INTEREST BEARING ACCOUNT. AT THE EXPIRATION OF THE DUE DILIGENCE PERIOD, PROVIDED THAT BUYER HAS NOT ELECTED TO WITHDRAW AS PROVIDED IN SECTION 4.3, BUYER SHALL DEPOSIT AN ADDITIONAL SEVEN HUNDRED FIFTY THOUSAND DOLLARS (\$750,000.00) WITH THE TITLE COMPANY WHICH THE TITLE COMPANY SHALL PLACE IN THE SAME INTEREST BEARING ACCOUNT, SO THAT THE TOTAL DEPOSIT SHALL EQUAL ONE MILLION DOLLARS (\$1,000,000.00) PLUS ACCRUED INTEREST. Such funds, when deposited with the Title Company, and all interest earned thereon, shall be referred to as the "Deposit." The Deposit shall be non-refundable upon the earlier of (i) Buyer's written approval of all due diligence matters related to the Property pursuant to Article 4 or (ii) the expiration of the Due Diligence Period, except as provided in Section 4.5 which provides for a refund of the Deposit in case of a termination of this Agreement due to Seller's inability or unwillingness to cure or for any other reason specified in Section 4.5.

(b) IN THE EVENT THAT, AT BUYER'S REQUEST AND DELIVERY OF THE NOTICE DESCRIBED IN PARAGRAPH 5 OF THIS SECOND AMENDMENT, THE CLOSING DATE IS EXTENDED TO THE EXTENDED CLOSING DATE (AS DEFINED BELOW), THE TITLE COMPANY SHALL IMMEDIATELY AND WITHOUT FURTHER INSTRUCTION, NOTICE OR REQUEST FROM EITHER PARTY, RELEASE AND DELIVER THE ENTIRE DEPOSIT TO SELLER. NOTWITHSTANDING THE FOREGOING, IF BUYER PERFORMS ALL OF ITS OBLIGATIONS UNDER THIS AGREEMENT ON OR BEFORE THE EXTENDED CLOSING DATE, THEN UPON THE CLOSE OF ESCROW, SELLER WILL CREDIT THE PURCHASE PRICE FOR BUYER'S BENEFIT IN AN AMOUNT EQUAL TO THE DEPOSIT DISBURSED TO SELLER. CONCURRENTLY WITH BUYER'S NOTICE AND REQUEST FOR EXTENSION OF THE CLOSING DATE AS PROVIDED IN PARAGRAPH 5 OF THIS SECOND AMENDMENT, BUYER SHALL DEPOSIT AN ADDITIONAL ONE MILLION DOLLARS (\$1,000,000.00) WITH THE TITLE COMPANY, WHICH THE TITLE COMPANY SHALL DEPOSIT INTO AN INTEREST BEARING ACCOUNT. SUCH ADDITIONAL FUNDS AND ALL INTEREST EARNED THEREON SHALL BE REFERRED TO AS THE "EXTENSION DEPOSIT." THE EXTENSION DEPOSIT SHALL BE NON-RUFUNDABLE AND SHALL BE PAID TO SELLER ON ACCOUNT OF THE PURCHASE PRICE AT THE CLOSE OF ESCROW OR AS LIQUIDATED DAMAGES IN THE EVENT OF BUYER'S DEFAULT AS PROVIDED IN SECTION 11.12, EXCEPT AS PROVIDED IN SECTION 4.5 WHICH PROVIDES FOR A REFUND OF THE DEPOSIT OR THE EXTENSION DEPOSIT IN CASE OF A TERMINATION OF THIS AGREEMENT DUE TO SELLER'S INABILITY OR UNWILLINGNESS TO CURE OR FOR ANY OTHER REASON SPECIFIED IN SECTION 4.5.

(c) Seller shall provide purchase money financing in the amount of Four Million Fifty Thousand Dollars (\$4,050,000.00) (the "Purchase Money Financing"), subject, however, to the terms and conditions of an Application for First Mortgage Loan to be made by Buyer in favor of Seller and the other terms and conditions set forth in Section 4 8.

(d) On The Closing Date OR THE EXTENDED CLOSING DATE, AS THE  
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CASE MAY BE, Buyer shall deposit with TITLE COMPANY by federal wire  
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transfer or cashier's check the remaining balance of the PURCHASE PRICE  
(I.E., MINUS THE DEPOSIT AND THE EXTENSION DEPOSIT, IF APPLICABLE, HELD BY  
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TITLE COMPANY OR SELLER, AND THE PURCHASE MONEY FINANCING), plus or minus  
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closing adjustments and prorations, if any.

b) SECTION 4.5 of the Agreement is hereby amended by replacing the  
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last sentence thereof with the following (substantive changes are indicated  
by bold underlined text):

If any of the foregoing events shall occur, all funds theretofore  
deposited in escrow by Buyer OR PAID BY BUYER TO SELLER OUTSIDE OF ESCROW  
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OR RELEASED FROM ESCROW TO SELLER, including the Deposit AND THE EXTENSION  
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DEPOSIT, together with all interest accrued thereon, shall immediately be  
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returned to Buyer, and all documents theretofore deposited in escrow by  
Buyer or Seller shall be returned to the party on whose behalf they were  
deposited.

c) SECTION 4.6 of the Agreement is hereby deleted and replaced in its  
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entirety with the following (substantive changes are indicated by bold  
underlined text):

Section 4.6 "AS-IS" Sale. Except to the extent specifically  
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provided to the contrary in this paragraph, Buyer shall rely solely  
on its own investigations with respect to all matters related to  
the Property, including, without limitation, the physical or  
environmental condition of the Property and any water rights or the  
sufficiency of any water supplies to the Property, or matters  
related to the zoning, marketability, economic viability or the  
value of the Property. Buyer acknowledges that (a) Seller has not  
made, nor shall Buyer rely on any statements or representations  
made by Seller with respect to any matters related to the Property,  
other than any representations and warranties OR WRITTEN  
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INDEMNITIES set forth in this Agreement, INCLUDING ANY AMENDMENTS  
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THERE TO AND any and all exhibits thereto (which representations and  
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warranties shall be deemed to include the warranties of title  
implicit in the Grant Deed); (b) all documents and instruments  
delivered to or made available to Buyer have been provided without  
representation or warranty whatsoever, other than the  
representations and warranties set forth in this Agreement and (c)  
Buyer has represented to Seller, and Seller has expressed its  
reliance upon Buyer's representation that Buyer is a sophisticated  
investor in properties such as the Property and has or has  
available to it the expertise to properly and fully investigate  
all matters related to the physical condition, zoning,  
marketability, economic viability or value of the Property. Buyer  
shall accept the Property in "AS-IS" condition without  
representation or warranty of Seller whatsoever, except as  
expressly set forth in this Agreement and the exhibits thereto  
(including any warranties as to title set implicit in the Grant  
Deed).

Buyer agrees that, from and after the Closing Date, Buyer, for itself and its agents, affiliates, successors and assigns, hereby RELEASES AND FOREVER DISCHARGES Seller, its agents, affiliates, successors and assignees from, and waives any right to proceed against Seller for, any and all rights, claims and demands at law or in equity relating to the physical, environmental, economic or legal condition of the Property. Notwithstanding the foregoing, Buyer expressly reserves any and all claims and demands at law or in equity arising from (i) breach of any warranties as to title implicit in the Grant Deed; (ii) the falseness, inaccuracy or breach of any representations, warranties and/or indemnities contained in any bill of sale transferring title to Personal Property and/or improvements and/or in the Assignment of Intangible Property (iii) the knowing falseness or inaccuracy of any representation, warranty or covenant specifically set forth in this Agreement and/or any exhibits thereto (iv) any fraud or intentional misrepresentations OR (V) ANY CLAIMS, DEMANDS OR RIGHTS OF BUYER

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UNDER THAT CERTAIN ENVIRONMENTAL INDEMNITY ATTACHED AS AN EXHIBIT  
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TO THIS AGREEMENT, PURSUANT TO THE SPECIFIC TERMS AND CONDITIONS,  
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AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. WITHOUT LIMITING  
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THE FOREGOING, BUYER HEREBY SPECIFICALLY WAIVES, IN CONNECTION WITH  
THE MATTERS RELEASED ABOVE (PROVIDED THE CLAIMS AND DEMANDS AT LAW  
AND IN EQUITY SPECIFICALLY RESERVED TO BUYER HEREIN ARE EXPRESSLY  
EXCLUDED FROM THE WAIVER OF SUCH PROVISION), THE PROVISIONS OF  
CALIFORNIA CIVIL CODE SECTION 1542 WHICH PROVIDE:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

BUYER HEREBY ACKNOWLEDGES THAT BUYER HAS CAREFULLY REVIEWED THIS SUBSECTION AND DISCUSSED ITS IMPACT WITH LEGAL COUNSEL, AND THAT THE PROVISIONS OF THIS SUBSECTION ARE A MATERIAL PART OF THIS AGREEMENT.

/s/ S. Craig Tompkins  
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BUYER

d) SECTION 11.12 of the Agreement is hereby deleted and replaced in  
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its entirety with the following (substantive changes are indicated by bold underlined text):

SECTION 11.12 LIQUIDATED DAMAGES. IN THE EVENT ALL OF THE  
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CONDITIONS TO BUYER'S OBLIGATION TO PURCHASE THE PROPERTY HAVE BEEN SATISFIED OR WAIVED AND BUYER DOES NOT PURCHASE THE PROPERTY, PROVIDED SELLER HAS PERFORMED EACH AND EVERY OBLIGATION ON ITS PART TO PERFORM HEREUNDER, SELLER SHALL HAVE THE RIGHT TO TERMINATE THIS AGREEMENT FORTHWITH AND WITHOUT

FURTHER OBLIGATIONS TO BUYER AND TO OBTAIN IMMEDIATE DISBURSEMENT OF AND TO RETAIN THE DEPOSIT AND, PROVIDED THE CLOSING DATE HAS

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BEEN EXTENDED TO THE EXTENDED CLOSING DATE, THE EXTENSION DEPOSIT  
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THEN HELD BY TITLE COMPANY. SUCH RETENTION OF THE DEPOSIT AND THE  
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EXTENSION DEPOSIT IS NOT INTENDED AS A FORFEITURE OR PENALTY, BUT

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INSTEAD IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER. THE PARTIES ACKNOWLEDGE THAT THE ACTUAL DAMAGES WHICH WOULD RESULT TO SELLER AS A RESULT OF SUCH FAILURE WOULD BE EXTREMELY DIFFICULT TO ESTABLISH. IN ADDITION, BUYER DESIRES TO HAVE A LIMITATION PUT UPON ITS POTENTIAL LIABILITY TO SELLER IN THE EVENT THAT THIS TRANSACTION SHALL FAIL TO CLOSE. BY PLACING THEIR RESPECTIVE INITIALS IN THE SPACES HEREINAFTER PROVIDED, THE PARTIES ACKNOWLEDGE THAT UPON A DEFAULT BY BUYER UNDER THE TERMS OF THIS AGREEMENT SELLER SHALL BE ENTITLED TO LIQUIDATED DAMAGES IN THE AMOUNT OF THE DEPOSIT AND, PROVIDED THE CLOSING DATE HAS BEEN  
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EXTENDED TO THE EXTENDED CLOSING DATE, THE EXTENSION DEPOSIT.  
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SCT RTR  
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INITIALS: BUYER SELLER

4. ENVIRONMENTAL INDEMNITY. As a Closing document, Seller shall  
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deliver an Environmental Indemnity in the form attached hereto as Exhibit  
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A.  
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5. CLOSING DATE. The Closing Date, as defined in this Agreement, is  
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hereby changed to be a date no later than December 15, 1997. However, subject to the provisions contained herein, the Closing Date will be extended twenty-eight (28) days to January 12, 1998 (the "Extended Closing Date") provided that, in the reasonable opinion of Buyer's counsel, such additional time is needed in order for the Buyer to comply with any and all securities laws and/or blue sky laws applicable to the distribution by Citadel Holding Corporation to its shareholders of shares of capital stock of a newly formed corporate partner of Buyer's anticipated assignees. Buyer shall request such extension in writing and shall affirmatively represent in writing that Buyer is diligently proceeding with the transaction, and that Buyer believes that it will be able to comply with applicable securities laws and/or blue sky laws by not later than January 12, 1998. The extension to the Extended Closing Date shall not be deemed a waiver of Seller's right to require complete performance of Buyer's obligations by the Extended Closing Date, and shall not be construed as consent to any further or future extensions.

6. BUYER'S CONDITION PRECEDENT WITH RESPECT TO RESERVOIR PARCEL. As a  
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condition precedent to Buyer's obligation to purchase the Property, the Kern/Tulare Water Storage District (the "District") shall have accepted and Seller shall have recorded on or before the Closing Date, a corrective deed to and covenant relating to the operation of that certain parcel described in

Exhibit B hereto, which constitutes a reservoir (the "Reservoir") that was  
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defectively conveyed to the District by Seller's predecessor in interest,  
provided (a) Seller shall not be required to expend any significant sums to  
do so, nor to burden any property of Seller as a condition to such  
conveyance, (b) if the County of Kern shall require, as a condition to the  
approval of any such conveyance any condition that shall burden the  
Property after the Closing Date, Seller will obtain Buyer's approval before  
agreeing to any such condition, and (c) if despite reasonable efforts  
Seller is unable to meet the conditions for the recording of such  
corrective deed on or before the Closing Date, such failure shall not be a  
default under the Agreement. Buyer hereby consents to Seller's grant to the  
District of easements or licenses required by District to enable it to  
access, operate and maintain the Reservoir in substantially the manner that  
it has during Seller's ownership of the Property, including easements for  
access, ingress and egress to the Reservoir, the operation, maintenance and  
repair of the Reservoir, including dams and embankments, the placement of  
equipment to be used in connection with the Reservoir, the maintenance and  
repair thereof and to use, repair, maintain and replace existing pipelines  
that transport irrigation water into the reservoir or otherwise distribute  
it to the Property. Any other easements required by the District shall be  
subject to the prior approval of Buyer which shall not be unreasonably  
withheld or delayed.

7. BUYER'S CONDITION PRECEDENT WITH RESPECT TO REPRESENTATION LETTER.  
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As a condition precedent to Buyer's obligation to purchase the property,  
Seller shall have delivered to Buyer not later than thirty (30) days prior  
to the Closing Date, an executed representation letter prepared by Buyer's  
accountants in a form not materially different from the form attached  
hereto as Exhibit C, provided that if the representation letter prepared by  
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Buyer's accountants is materially different from the form attached hereto  
as Exhibit C and is unacceptable to Seller, the parties shall in good faith  
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work together with Buyer's accountants to reach agreement on the form of  
such representation letter on commercially reasonable terms. If the parties  
are unable to reach agreement on the form of such representation letter by  
November 17, 1997, either party may terminate this Agreement by giving  
written notice of termination to the other party, which such termination  
shall be deemed a failure of a condition precedent to the Closing for  
purposes of Section 4.5.

8. ASSIGNMENT. Buyer acknowledges that Seller's rights and duties  
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under the Agreement may be assigned and delegated by Seller to a third  
party or parties and the Property conveyed to such third parties subject to  
Seller's rights and duties under the Agreement at any time without the  
consent of Buyer. Provided that Buyer shall perform all of its obligations  
and the transaction shall close on or before the Closing Date or Extended  
Closing Date if applicable, the Deposit and Extension Deposit (if  
applicable), shall be credited in partial payment of the Purchase Price  
regardless of whether such Deposits have been assigned or retained by  
Seller.

9. PURCHASE PRICE ALLOCATION. The parties agree that for financial and  
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income tax reporting of this transaction, the Purchase Price shall be  
allocated among the property purchased as set forth on Exhibit D attached  
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hereto and incorporated herein by reference.

10. NO OTHER AMENDMENT. Except as amended hereby, the Agreement shall  
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continue to be of full force and effect.

11. REVISED LOAN APPLICATION. Attached hereto as Exhibit E, IS A  
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revised purchase-Money First Mortgage Loan Application, which the parties  
agree shall replace and supersede the Purchase-Money First Mortgage Loan  
Application attached to the Agreement as Schedule I and shall constitute  
the "Application" as such term is defined in the Agreement. The parties  
agree that the form of Loan Documents attached to the Purchase-Money First  
Mortgage Loan Application attached hereto as Exhibit E have been approved  
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by the parties.

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

THE PRUDENTIAL INSURANCE  
COMPANY OF AMERICA,  
a New Jersey corporation

BIG 4 FARMING LLC,  
a limited liability company

By: /s/ R.T. ROBERTSON  
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By: /s/ S. Craig Tompkins  
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Title: Vice President  
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Title: President  
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9-MOS

	DEC-31-1997	JAN-01-1997	SEP-30-1997
			7,015
			0
		93	0
			0
	7,108		14,410
	(805)		
	29,810		
1,585			9,435
	0		0
			67
		18,723	
29,810			3,712
	4,211		1,527
		3,410	
	(325)		
		0	
	761		
	1,126		
		60	
1,066			
		0	
		0	
			0
	1,066		
	0.17		
	0.17		