SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. 4)

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Section 240.14a-12

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

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

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

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed
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PRELIMINARY COPY - NOVEMBER [^] 29, 1994

DILLON INVESTORS, L.P.

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PROXY STATEMENT

In Opposition to the Board of Directors of
Citadel Holding Corporation

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ANNUAL MEETING OF STOCKHOLDERS
OF CITADEL HOLDING CORPORATION

To be held on December 12, 1994

To the Stockholders of Citadel Holding Corporation:

INTRODUCTION

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

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

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

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

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

BACKGROUND OF THE PROXY SOLICITATION

The Dillon Entities purchased their 659,000 Shares from March 17, 1993 through March 16, 1994 at prices ranging from $20.22 per Share to $4.54 per Share. On September 7, 1994, the reported low for the Shares on the American Stock Exchange ("AMEX") was $3.50, the lowest price at which the Shares had traded in the past ten years. (On November [^] 23, 1994, the Shares sunk to a new low on the AMEX of [^] $2.63). As a result of the weakness in the market price of the Shares, and the results of the recapitalization and restructuring involving the Company and its formerly wholly owned subsidiary, Fidelity Federal Bank, a Federal Savings Bank ("Fidelity"), which were materially less favorable to the Company than had been anticipated (see "REASONS TO REPLACE THE PRESENT BOARD WITH THE DILLON NOMINEES"), the Dillon Entities began to consider seeking a greater voice in the Company's affairs.

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

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

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(Footnote 1) Craig had previously received approval from the OTS to purchase more than 10% but less than 25% of the outstanding Shares. However, such approval would have expired on October 23, 1994 if Craig's ownership of Shares did not exceed 10% on such date. The issuance of the 74,300 Shares to Craig on October 21, 1994 enabled Craig to buy additional Shares without any further regulatory delay, so long as its holdings did not exceed 25% of the outstanding Shares. Craig had stated in Amendment No. 13 to its Schedule 13D filed with the Commission on October 26, 1994 that it would have been unwilling to file an agreement with the OTS to avoid the regulatory delay because such an agreement "would have substantially limited Craig's ability to exercise an influence over the business and affairs of" the Company.

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On November 4, 1994, Dillon filed an amendment to its Schedule 13D stating its intention to solicit proxies to elect a slate of nominees to the Board. Also on November 4, the Company announced that the record date for the stockholders entitled to vote at the Annual Meeting had been changed from November 4, 1994 to November 11, 1994.

On November 7, 1994, Dillon commenced litigation (the "Delaware Litigation") in the Court of Chancery of the State of Delaware in and for New Castle County against the Company, its present directors James J. Cotter, Steve Wesson, Peter W. Geiger, S. Craig Tompkins and Alfred Villasenor, Jr. (the "Individual Defendants") and Craig alleging that the attempt by the Company's Board to change the record date for the Annual Meeting was not for a proper corporate or business purpose of the Company but to enable the Individual Defendants to perpetuate themselves in office by improperly manipulating the corporate machinery of the Company so

as to permit them to issue additional Shares to Craig or other "friendly hands" prior to the new record date and, in addition, alleging that the Company's issuance in October of the 74,300 Shares to Craig was done for inadequate consideration and not for a proper business purpose of the Company but rather to enable the Individual Defendants to maintain themselves in office and to affect adversely and to impede the voting rights of Dillon and the other stockholders of the Company at the Annual Meeting. The complaint sought an order declaring that such 74,300 Shares were improperly issued and enjoining Craig from voting such Shares at the Annual Meeting, determining that any Shares issued by the Company after November 4, 1994 shall not be voted or counted towards a quorum at the Annual Meeting, and preliminarily and permanently enjoining the Individual Defendants and the Company from issuing any Shares prior to the Annual Meeting. Also on November 7, Roderick H. Dillon, Jr. delivered a consent to the Company, together with a letter announcing Dillon's intention to engage in a consent solicitation.

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

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

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

California Litigation, and Dillon intends to vigorously defend against the counterclaim in the Delaware Litigation.

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

The Distribution, the Real Estate Sales and the Dissolution

Dillon believes that you, the true owners of the Company, should have the right to decide for yourselves how the Company should be operated. If elected, the Dillon Nominees intend to propose, subject to their fiduciary duties, that the Company (i) effect a pro rata distribution of the shares of Fidelity currently held by the Company to the stockholders of the Company (the "Distribution") as soon as practicable after March 31, 1995, (ii) effect an orderly sale of the Company's real estate assets at the best available price (the "Real Estate Sales") and (iii) thereafter promptly dissolve and liquidate the Company (the "Dissolution"). None of the Dillon Entities or their affiliates would participate in any transaction with the Company regarding a sale or liquidation of any of the Company's assets, other than pursuant to their pro rata interest as stockholders.

Consent Solicitation

As an alternate means to facilitate the consummation of the Distribution, the Real Estate Sales and the Dissolution, Dillon is soliciting consents from stockholders of the Company (the "Consent Solicitation"), concurrently with the Proxy Solicitation, to its proposals to (i) remove all the incumbent directors of the Company, (ii) elect the Dillon Nominees to the Board and (iii) amend the Company's By-Laws to restrict the indemnification of (or advancement of expenses to) its officers, directors, employees and agents without the prior approval of the holders of a majority of outstanding Shares. Dillon believes that the Consent Solicitation is necessary because the record date for the Consent Solicitation is before the issuance of 16.6% of the Voting Stock to Craig and before the reset record date for the Annual Meeting. The earlier record date for the Consent Solicitation of November 7, 1994, rather than the Company's proposed November 14, 1994 record date for the Proxy Solicitation, allows only the record holders of Shares (as the only voting securities prior to the issuance of the New Preferred Stock), to vote their Shares with respect to how the Company should be operated. On November 16, 1994, the Company filed an answer and counterclaim in the Delaware Litigation seeking an order declaring invalid any removal of the Board either prior to or after the Annual Meeting, declaring that the consent procedure cannot be used to amend the Company's By-Laws in the manner proposed by Dillon in the Consent Solicitation and declaring that any such amendment is void even if approved by the Company's stockholders. Dillon intends to vigorously defend against such answer and counterclaim.

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

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

REASONS TO REPLACE THE PRESENT BOARD WITH THE DILLON NOMINEES

Poor Operating Performance

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

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

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

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

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

Interested-Party Transactions

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

In August 1994, the Company entered into an $8.2 million line of credit agreement with Craig (the "Craig Line of Credit") which has a one year maturity (subject to an option to extend for a period of six months). The Craig Line of Credit, among other

things, paid Craig a $205,000 up front "commitment fee," up to $100,000 for "expenses" and interest at three percentage points over the prime rate for a fully secured loan. $5.2 million of the $6.2 million outstanding loan under the Craig Line of Credit was then replaced only three months later by the issuance to Craig of the New Preferred Stock, and Craig's commitment to extend any further loans under the Craig Line of Credit was terminated. The exchange of debt for New Preferred Stock took place at a price below the current market price for the Shares, notwithstanding the fact that the New Preferred Stock votes jointly with the Shares on most matters, is convertible into Shares and has superior liquidation, dividend and redemption rights to the Shares. In the event of a change of control (including failure of the existing directors or their nominees to constitute a majority of the Board), such New Preferred Stock also gives Craig the right to cause the Company to repurchase the New Preferred Stock for a price equal to its $5.2 million issuance cost plus accrued dividends of 3% per annum plus a premium equal to approximately $39,000 per month from the date of issuance to the date of repurchase. Depending upon whether the issuance of the New Preferred Stock is invalidated pursuant to the Delaware Litigation or otherwise (see "BACKGROUND OF THE PROXY SOLICITATION"), election of the Dillon Nominees would either permit Craig to accelerate its original $6.2 million loan to the Company or accelerate the remaining $950,000 loan and require the Company to repurchase the New Preferred Stock. Although Dillon has not approached any financing sources with respect to the Company's obtaining funds to enable it to meet such obligations, Dillon believes that refinancing secured by such assets would be available (see "DILLON'S STRATEGY FOR THE COMPANY - Potential Adverse Consequences"). There can be no assurance on this point, however.

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

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

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

DILLON'S STRATEGY FOR THE COMPANY

The Distribution

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

Dillon believes that, to maximize value for all stockholders and establish the stockholders' direct investment in Fidelity, the Board should effect a pro rata distribution of the shares of Fidelity currently held by the Company to the stockholders of the Company (the "Distribution") as soon as practicable after March 31,

1995. Dillon believes that the value of such shares of Fidelity are being discounted by the market due to the operation of the Company as a real estate company, wherein such shares are mixed with the Company's real estate assets. While there is not an active market for Fidelity shares, which are currently unregistered, Dillon has been informed by J.P. Morgan Securities Inc., the principal market maker for the Fidelity voting Class A Common Stock (the "Fidelity Class A Stock") (into which the Fidelity Class B Stock is automatically convertible upon transfer by the Company to an unaffiliated party) that since the offering of Fidelity common stock at $5.25 per share pursuant to the Restructuring and Recapitalization, the Fidelity Class A Stock has traded between [^] $4.88 and $5.75 per share. These prices would be equal to approximately [^] $3.07 to $3.62 per Share (on a primary basis, not including as outstanding Shares issuable upon conversion of the New Preferred Stock issued to Craig). Dillon therefore believes that the shares of Fidelity would be more valuable to the stockholders of the Company if held by them directly, as opposed to being held by the Company.

If elected, the Dillon Nominees intend to fix a record date for the Distribution as soon as practicable after March 31, 1995 and distribute to each holder of Shares on such record date, on a pro rata basis, shares of Fidelity. As a result of the Distribution, stockholders of the Company would hold shares in both the Company and Fidelity.

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

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

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

alternatives.

Real Estate Sales

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

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

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The Dissolution

Following the consummation of the Distribution and the Real Estate Sales, the Dillon Nominees intend to dissolve and liquidate the Company as promptly as practicable (the "Dissolution"). Dillon's recommendation to effect the Dissolution is based on its determination that no reasonable business alternatives will exist for the Company following the Distribution and the Real Estate Sales. Therefore, Dillon believes that, at such time, the Dissolution is the most appropriate course of action.

In the Dissolution, the Company will take all necessary steps to dissolve pursuant to the provisions of the DGCL, including the filing of a Certificate of Dissolution with the Delaware Secretary of State. Upon such a filing, the Company will cease business operations. The Company's corporate existence will continue thereafter, but solely for the purpose of liquidating any remaining assets, winding up its business affairs, paying its liabilities and distributing any cash remaining to stockholders.

The exact timing and details of the Distribution, the Real Estate Sales and the Dissolution will depend on a variety of factors and legal requirements. Dillon and the Dillon Nominees can give no assurance that the Distribution, the Real Estate Sales and the Dissolution will each be consummated or as to the timing of such events if they are consummated. Although the Dillon Nominees currently intend to propose the Distribution, the Real Estate Sales and the Dissolution generally on the terms described above, it is possible that, as a result of substantial delays in the ability of the Dillon Nominees to effect such transactions, information hereafter obtained by the Dillon Nominees, changes in general economic or market conditions or in the business of the Company or other presently unforeseen factors, the Distribution, the Real Estate Sales and the Dissolution may not be so proposed, or may be delayed or abandoned (whether before or after stockholder authorization or consent). Although it has no current intention to do so, the Dillon Nominees expressly reserve the right to propose the Distribution, the Real Estate Sales and the Dissolution on terms other than described above, if they, in the exercise of their fiduciary duties, believe such action to be appropriate.

Valuation

While Mr. Dillon has from time to time publicly expressed his views as to potential ranges of values for the Shares, neither Dillon nor any of the Dillon Entities has conducted any formal valuation or liquidation analyses with respect to the Company or its properties, and neither Dillon nor any of the Dillon Entities is able to accurately determine or predict the value of the amounts which would be received by the Company's stockholders pursuant to the Distribution, the Real Estate Sales and the Dissolution.

Potential Adverse Consequences

Dillon is not aware of any adverse consequences to the Company with respect to its proposed strategy other than with respect to triggering change of control provisions installed by Craig in the Craig Line of Credit and the New Preferred Stock.(Footnote 4) Dillon does not believe the other adverse consequences discussed in the Company Preliminary Proxy Statement are applicable or would foreclose such strategy. Specifically, Dillon has stated that any distribution of Fidelity shares to stockholders would only be of freely transferable shares and would occur after March 1995 when registration rights would be available and the current restriction on market trading in 100,000 share blocks would have terminated. Dillon also has indicated that the Dillon Nominees intend to exercise their fiduciary duties in maximizing stockholder values and would consider alternatives to the Distribution such as a block sale of the Fidelity shares and a distribution of the proceeds if this were to be in the best interest of all stockholders. The Dillon Nominees further intend to conduct an orderly sale of the Company's real estate properties in order to maximize the sales proceeds to the Company. Dillon believes the Company can realize the value of the real estate options held by the Company through the sale of such options, which are all transferable prior to exercise. Finally, in formulating its proposed strategy, Dillon considered the Company's disclosed liabilities, including its liability of up to $3.9 million to Fidelity, and any plan of dissolution recommended by the Dillon Nominees would, as required by Delaware law, take into account all liabilities of the Company.

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(Footnote 4) The election of the Dillon Nominees would, depending upon whether the issuance of the New Preferred Stock is invalidated, pursuant to the Delaware Litigation or otherwise (see "BACKGROUND OF THE PROXY SOLICITATION"), either permit Craig to accelerate its original $6.2 million loan to the Company or to accelerate the remaining $950,000 loan and require the Company to repurchase the New Preferred Stock at a premium, for a total cost to the Company of $6.2 million plus accrued dividends of 3% per annum plus a premium of approximately $39,000 per month, pro rated, from the date of issuance to the date of redemption of the New Preferred Stock. Although Dillon has not approached any financing sources with respect to the Company's obtaining funds to enable it to meet such obligations, Dillon believes that financing, secured by such assets, would be available, based upon the fact that Craig was willing to supply the Craig Line of Credit and the Company's statements with respect to its real estate assets in the Form 10-Q (see "DILLON'S STRATEGY FOR THE COMPANY - Real Estate Sales"), although there can be no assurance on this point. To Dillon's knowledge, the Company has only one employment agreement outstanding, a two-year contract with its President, Steve Wesson, for $225,000 per year expiring in August 1996, and such contract does not terminate upon a change of control of the Company. Dillon is not aware of any other costs which would be occasioned by a change of control of the Company.

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Stockholder Vote

Pursuant to Section 271 and Section 275 of the Delaware General Corporation Law (the "DGCL"), respectively, the approval of stockholders owning a majority of the outstanding stock of the corporation entitled to vote thereon is required to effect a sale of substantially all of the assets, or a dissolution, of such corporation. The Dissolution will require a vote pursuant to Section 275 of the DGCL. Whether the Distribution and/or the Real Estate Sales will require stockholder approval may depend upon the order and timing of such transactions which, as stated above, will be determined by the Dillon Nominees, if elected, consistent with their fiduciary duties. The Dillon Nominees intend to seek any

such approvals necessary in order to carry out such transactions, but will not submit any such transactions to a stockholder vote unless then required under Delaware law. If any vote is taken, Dillon and its affiliates intend to vote any Shares owned by them in favor of such actions.

Federal Income Tax Consequences

Dillon does not have sufficient financial information to determine the exact federal income tax consequences of its planned strategy upon the Company and its stockholders. In general, Dillon believes that the Distribution and the Real Estate Sales will be taxable events to the Company causing the Company to recognize gains or losses on its holdings of Fidelity shares and real estate assets upon their distribution or sale, respectively. Dillon believes that the Company has net operating losses available which may be carried forward to offset gains in this respect. In addition, Dillon believes that the distribution to a stockholder of Fidelity shares at any time and the distribution to a stockholder of cash upon complete liquidation of the Company will each be treated as a return of such stockholder's basis in the Shares to the extent of such stockholder's basis, and a capital gain to the extent that such distribution exceeds the stockholder's basis, in the Shares.

THE FOREGOING DISCUSSION OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, EACH STOCKHOLDER SHOULD CONSULT HIS OR HER OWN TAX ADVISOR WITH RESPECT TO TAX CONSEQUENCES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

REGULATORY APPROVALS

Because the Company is registered with the OTS as a savings and loan holding company, questions exist as to the applicability to the Proxy Solicitation and the Consent Solicitation, insofar as they relate to the election of more than one-third of the Board, of the OTS regulations set forth in Part 574 of Title 12 of the Code of Federal Regulations governing acquisitions of control of savings associations and savings and loan holding companies (the "OTS Control Regulations"). By letter dated November 3, 1994 (the "OTS Letter"), Dillon has sought interpretive advice from the OTS regarding the applicability of the OTS Control Regulations to the Proxy Solicitation and the Consent Solicitation. The OTS Letter also requests a determination from the OTS that, if the OTS concludes that the OTS Control Regulations apply to the Company by virtue of its holding company registration status and without regard to whether or not the Company has control of a savings association, the OTS will refrain from initiating or recommending enforcement action against the Dillon Entities if Dillon acquires and exercises proxies or obtains a written consent of stockholders enabling Dillon to elect more than one-third of the Board without first filing a change of control notice or rebuttal of control submission pursuant to the OTS Control Regulations.

Although the OTS has indicated that it will respond promptly to Dillon's November 3, 1994 letter, there can be no assurance whether a favorable response will be received prior to the Annual Meeting. If the OTS advises Dillon that the Proxy Solicitation and the Consent Solicitation are governed by the OTS Control Regulations, or if Dillon determines that it would otherwise be more expeditious than waiting for a response to its November 3 letter, it is Dillon's present intention then to file with the OTS a rebuttal of control submission or a change of control notice.

A rebuttal of control submission by Dillon would [^] set forth the facts and circumstances which support Dillon's contention that no actual control relationship would exist, within the meaning of the OTS Control Regulations and applicable federal law, if Dillon acquired proxies enabling it to elect the Dillon Nominees. Within 20 days of its receipt of a rebuttal submission, the OTS may accept or reject the submission or request additional information. If additional information is requested, the OTS must notify Dillon within 15 days of its receipt of such additional information whether the rebuttal submission is deemed to be sufficient. Once the submission is deemed sufficient, the Consent Solicitation could begin.

In lieu of a rebuttal submission or in the event that a rebuttal submission is not deemed sufficient by the OTS, Dillon may

file a change of control notice with the OTS. The period for determining the completeness of a change of control filing is 30 days. During such 30 day period, the OTS may request additional information. If additional information is provided, the OTS must notify Dillon within 15 days of the receipt of such additional information as to the sufficiency of the notice. Once the notice is deemed sufficient, the OTS must accept or reject the notice within 60 days, subject to extension for up to 30 days and further extension for two additional periods of 45 days each.

Actions Prior to OTS Clearance; Adjournment and Withholding Proxies to Defeat Quorum

Dillon's GREEN proxy card by its terms may not be voted for the election of directors unless and until Dillon has received advice from the OTS confirming that the OTS Control Regulations will not preclude Dillon from holding proxies to vote for the directors at the Annual Meeting or Dillon is otherwise able to hold such proxies without violating such Regulations. The GREEN proxy card by its terms may be voted against Proposal 2 (seeking authorization of additional shares), unless the stockholder otherwise directs, and against Proposal 3 (granting authority to the Board to adjourn the Annual Meeting), if presented. Furthermore, pursuant to the discretionary authority conferred in Dillon's GREEN proxy card, Dillon may vote its proxies to adjourn the Annual Meeting from time to time prior to the vote for election of directors or determine not to present its proxies at the Annual Meeting or any adjournment thereof in order to defeat a quorum if Dillon is not permitted pursuant to OTS Control Regulations to hold proxies to vote for the election of the Company's Board of Directors. Dillon's choice of alternative will depend upon which alternative Dillon believes most likely to achieve its objective of delaying a vote on the election of directors until it is permitted to vote its proxies in such election and will take into account the known facts and circumstances at such time, including the number of valid, unrevoked proxies it then believes it holds and its view of management's holdings. If a quorum is not present at the Annual Meeting or any adjournment thereof, no action may be taken by stockholders then present other than to adjourn the Meeting. In such event, it would be Dillon's intention to seek to adjourn or otherwise delay the Annual Meeting until such time as it [^] is permitted pursuant to OTS Control Regulations to hold proxies to vote for the election of more than one-third of the Company's Board of Directors in accordance with the OTS Control Regulations. If any motion to adjourn the Annual Meeting is defeated prior to the time that Dillon is permitted pursuant to OTS Control Regulations to hold proxies for the election of directors, then Dillon would be unable to vote for the election of directors and will vote its proxies against Proposal 2, unless the stockholder otherwise directs, and in its discretion on any other proposal to come before the Annual Meeting. In the event Dillon were to abandon its attempts to elect the Dillon Nominees, either because Dillon determined it could not ultimately satisfy the OTS Control Regulations or otherwise, it would be Dillon's intention to cease any further attempt to adjourn or otherwise delay the Annual Meeting and, at such Annual Meeting, would [^] be unable to vote any proxies as to the election of directors and would vote any proxies it held against Proposal 2, unless the stockholder otherwise directs. Until the Annual Meeting is held with a quorum present and a vote is taken on the election of directors, the Company's current Board of Directors will continue to serve. While Dillon cannot predict the length of the potential delay, if required, caused by Dillon's actions to comply with the OTS Control Regulations, Dillon expects that any such delay would [^] be approximately 90 days. [^] Dillon has been advised by the OTS and Delaware counsel that the above-described course of action is permissible pursuant to the OTS Control Regulations and under Delaware law, respectively.[^]

[^] Dillon will publicly announce the OTS responses to the OTS Letter as promptly as practicable upon receipt thereof by making a release to the Dow Jones News Service. Stockholders can obtain information as to the current status of OTS clearance by calling the following toll-free number: 1-800-455-6034.

MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING

Proposal 1: Election of Directors

Dillon proposes that the Dillon Nominees named below be elected as directors of the Company, to serve until the next Annual Meeting of Stockholders and until their successors shall have been duly elected and qualified.

The accompanying GREEN proxy card will be voted in accordance with the stockholder's instructions on such GREEN proxy card. As to the election of directors, stockholders may vote for the election of the entire slate of Dillon Nominees or may withhold their votes by marking the proper box on the GREEN proxy card. Stockholders also may withhold their votes from any of the Dillon Nominees by writing the name of such Dillon Nominee in the space provided on the GREEN proxy card. If the enclosed GREEN proxy card is signed and returned and no direction is given, it will be voted FOR the election of each of the Dillon Nominees.

The directors are to be elected by a plurality of the votes cast. Withheld votes and broker non-votes (i.e., Shares held by a broker or nominee which are represented at the Annual Meeting, but with respect to which such broker or nominee is not empowered to vote on a particular proposal) will not be counted toward a nominee's achievement of a plurality but may be counted for purposes of obtaining a quorum at the Annual Meeting.

Each of the Dillon Nominees has consented to serve as a director of the Company, if elected. Dillon does not expect that any of the Dillon Nominees will be unable to stand for election, but in the event that one or more vacancies in the slate of Dillon Nominees should occur unexpectedly, Shares represented by the accompanying GREEN proxy card will be voted for a substitute candidate or candidates selected by Dillon, provided that Dillon does not intend to vote proxies received for any substitute for an unaffiliated Dillon Nominee who is not also unaffiliated with Dillon.

Delaware law provides, in effect, that the Board shall consist of such number of persons as is fixed by, or in the manner provided in, the Company's By-Laws. The By-Laws of the Company provide that there shall be five directors. In the event the Board acts to reduce the number of directors to fewer than five, the persons named as proxies on the enclosed GREEN proxy card will vote in favor of the appropriate number of Dillon Nominees (or substitute nominees as provided above). Should the Board act to increase the number of directors to greater than five, such proxies will vote in favor of the five Dillon Nominees (or substitute nominees as provided above) and will abstain as to any remaining positions, since the proxies named on the enclosed GREEN proxy card cannot vote for more than five nominees. In such event, Dillon presently intends to nominate additional nominees and distribute new proxy cards in compliance with the rules of the Commission.

Of the five Dillon Nominees, one (Mr. Dillon) is employed by or otherwise affiliated with Dillon, and the remaining four are neither employed by nor affiliated with Dillon. None of the Dillon Nominees is affiliated with or has or has had any business relationship with the Company, other than as a stockholder.

The Dillon Nominees are listed below and have furnished to Dillon the following information concerning their principal occupations, business addresses and certain other matters. All Dillon Nominees are citizens of the United States.

Dillon Nominees

Roderick H. Dillon, Jr., 38, has served as Chief Investment Officer of Dillon Capital Management Limited Partnership, an investment advisory and management firm which manages over $50 million in assets, since July 1993. In such capacity, Mr. Dillon actively manages investments in over 50 public companies, including over five companies in the thrift industry. From June 1986 through June 1993, Mr. Dillon was Vice President of Loomis, Sayles & Co., Inc., an investment advisory firm. In such capacity, Mr. Dillon managed approximately $300 million in separate equity portfolios and co-managed the Loomis Sayles Small Cap Fund. Investments

managed by Mr. Dillon included those in numerous financial institutions such as Coast Savings, Westcorp and First Republic. Mr. Dillon's business address is Suite 1410, 21 East State Street, Columbus, Ohio 43215-4228.

Bradley C. Shoup, 36, is a Partner in Batchelder & Partners, Inc., a financial advisory firm, and has held such position since 1988. In such capacity, Mr. Shoup has served as a financial advisor to various public companies. From 1987 until 1988, Mr. Shoup was an independent corporate finance consultant engaged in the venture capital and energy industries. Mr. Shoup was a Financial Analyst with Mesa Petroleum Co. from 1984 until 1986, responsible for identifying and evaluating investment opportunities. Mr. Shoup's business address is 4180 La Jolla Village Drive, Suite 560, La Jolla, California 92037.

Timothy M. Kelley, 36, is Secretary, Treasurer and General Counsel of Donald W. Kelley & Associates, Inc., a real estate consulting and development firm, and has held such position since 1984. In such capacity, Mr. Kelley is actively engaged in real estate development, investment, acquisition and financing activities, as the firm and affiliated entities own more than 4,300 apartment units. Mr. Kelley also serves as Vice President, Secretary and a director of an affiliated company, Oakwood Management Company, which manages over 80 apartment projects consisting of more than 8,800 apartment units. Mr. Kelley's business address is 250 E. Broad Street, 11th Floor, Columbus, Ohio 43215.

Ralph V. Whitworth, 39, has served as President of Whitworth & Associates, a corporate consulting firm, since 1988. From 1986 until 1993, Mr. Whitworth was President of United Shareholders Association, a prominent shareholder rights group. In such capacity, Mr. Whitworth served as chief strategist, spokesman and negotiator for, among other things, negotiations which resulted in agreements with 46 public companies to improve corporate governance and shareholder rights. From 1989 until 1992, Mr. Whitworth served as President of Development at United Thermal Corporation which owns the district heating systems for the cities of Baltimore, Philadelphia, Boston and St. Louis. Mr. Whitworth also served on United Thermal's Board of Directors until December 1993 when the company was merged with Trigen Energy Corporation. Mr. Whitworth currently serves on the Boards of Directors of Catalyst Vidalia Corporation, the developer and manager of a 200 megawatt hydroelectric facility on the Mississippi River, and CD Radio, Inc., a satellite radio company. Mr. Whitworth's business address is 801 Pennsylvania Avenue, N.W., Suite 747, Washington, D.C. 20004.

Jordan M. Spiegel, 32, is Executive Vice President of A. B. Laffer, V. A. Canto & Associates, an economic consulting firm, and has held such position since 1987. In such capacity, Mr. Spiegel manages the firm's corporate finance advisory business through its wholly owned subsidiary Laffer Advisors Incorporated, and currently serves as a financial advisor to over 20 different companies. Prior to 1987, Mr. Spiegel was an equity securities analyst with Crowell, Weedon & Co., the largest private regional brokerage house in Southern California, specializing in, among other things, real estate investment trusts. Mr. Spiegel's business address is Regents Square One, 4275 Executive Square, Suite 330, La Jolla, California 92037.

Dillon has agreed to indemnify each of the Dillon Nominees against all liabilities, including liabilities under the federal securities laws, in connection with this proxy solicitation and such person's involvement in the operation of the Company, including the Distribution, the Real Estate Sales and the Dissolution, and to reimburse such Dillon Nominee for his out-of-pocket expenses.

Dillon strongly encourages you to vote on the enclosed GREEN proxy card FOR each of the Dillon Nominees listed above.

The ability of Dillon to hold proxies for the election of the Dillon Nominees (but not with respect to other matters being considered at the Annual Meeting) is dependent upon the receipt of advice from the OTS with respect to the applicability of the OTS Control Regulations to the solicitation of proxies for the election of directors at the Annual Meeting. See "REGULATORY APPROVALS." Therefore, the GREEN proxy card provides that it cannot be voted with respect to the election of directors unless and until Dillon

has received advice from the OTS confirming that the OTS Control Regulations will not preclude Dillon from holding proxies to vote for directors at the Annual Meeting, or Dillon is otherwise able to hold such proxies without violating such Regulations. Unless such condition is met prior to the date of the Annual Meeting, or any adjournment thereof (see "ADJOURNMENT AND WITHHOLDING PROXIES TO DEFEAT QUORUM"), then the GREEN proxy cards will not be voted with respect to the election of directors.

Proposal 2: Authorization of Additional Shares of Common Stock

The Company Preliminary Proxy Statement indicates that the Company's current Board has approved and is seeking the approval of the Company's stockholders of an amendment to the Company's Restated Certificate of Incorporation to double the authorized number of Shares from the 10,000,000 currently authorized to 20,000,000. Currently, according to the Company Preliminary Proxy Statement, only 6,669,924 Shares are outstanding, as well as 1,329,114 shares of New Preferred Stock which are convertible into Shares.

Dillon believes that the Company's stockholders should not approve such an increase in the authorized number of Shares. The Dillon Nominees believe that, since the Shares are currently trading at or near all-time low levels and the current actions of the Board are not maximizing stockholder value, the Company's stockholders should not authorize additional Shares for sale at this time. The Company Preliminary Proxy Statement does not offer any specific plan for such additional Shares, and does not offer any rationale for such proposal other than to "have flexibility to raise equity capital in the future," or to conduct a rights offering. Dillon believes that a rights offering would not be in the interest of the Company's public stockholders, absent a substantial increase in the market price for the Shares. Dillon and the Dillon Nominees have already indicated above their plans for the Company in the event the Dillon Nominees are elected. The Distribution, the Real Estate Sales and the Dissolution will not require any additional Shares to be issued.

Furthermore, as Dillon believes the issuance of the New Preferred Stock demonstrates, authorized but unissued Shares could be used in the future by the Company in ways that would diminish the relative equity and voting rights of public stockholders or otherwise make it more difficult to effect a change in control of the Company or replace the Company's Board of Directors, for instance through a private sale to purchasers allied with management to increase management's voting "bloc" or to decrease the percentage stock ownership of a third party seeking to gain control of the Company. Any such share issuances could also have the effect of impeding an offer for the Shares, or an unsolicited business combination or asset sale proposal, even if such an offer or proposal were favored by a majority of the Company's stockholders not affiliated with the Company.

Stockholders are referred to the Company Preliminary Proxy Statement for a description of the Company's existing common stock and the Company's undetermined plans with respect to additional issuances of common stock, other than a possible rights offering.

The accompanying GREEN proxy card will be voted in accordance with the stockholder's instruction on such GREEN proxy card. As to the Company's Proposal 2, stockholders may vote for or against or abstain from voting on such Proposal. If the enclosed GREEN proxy card is signed and returned and no direction is given, it will be voted AGAINST Proposal 2. In order to become effective, Proposal 2 would require the affirmative vote of a majority of the Shares outstanding and of a majority of the Voting Stock outstanding. Withheld votes and broker non-votes will, therefore, have the same effect as a vote against Proposal 2.

Dillon intends to vote AGAINST the Company's Proposal 2 and strongly recommends that all other stockholders also vote AGAINST such Proposal.

Proposal 3: Adjournment

The Company Preliminary Proxy Statement indicates a proposal to authorize the Board to adjourn the Annual Meeting in its

discretion to a later date and states that the proposal will require the affirmative vote of a majority of the Voting Stock present in person or by proxy at the Annual Meeting. Pursuant to the discretionary authority granted in the GREEN proxy card, it is Dillon's intention to vote its proxies against Proposal 3. See "ADJOURNMENT AND WITHHOLDING PROXIES TO DEFEAT QUORUM" for a further discussion of Dillon's intentions with respect to an adjournment of the Annual Meeting.

ADJOURNMENT AND WITHHOLDING PROXIES TO DEFEAT QUORUM

The GREEN proxy card confers upon the holders the right to vote upon any other matters as may properly come before the Annual Meeting, including but not limited to any proposal to adjourn or postpone the Annual Meeting from time to time. The GREEN proxy card does not permit Dillon to hold proxies to vote with respect to the election of directors unless and until Dillon has received advice from the OTS confirming that the OTS Control Regulations will not preclude Dillon from holding proxies to vote for directors at the Annual Meeting, or Dillon is otherwise able to hold such proxies without violating such Regulations (see "REGULATORY APPROVALS"). Unless such condition is met prior to the date of the Annual Meeting or any adjournment thereof, then Dillon will be unable to vote the GREEN proxy cards [^] with respect to the election of directors. It is Dillon's current intention to vote its proxies for an adjournment of the Annual Meeting from time to time, or to determine not to present its proxies at the Annual Meeting or any adjournment thereof in order to defeat a quorum if at the time of the Annual Meeting or any adjournment thereof Dillon has not received advice from the OTS confirming that the OTS Control Regulations will not preclude Dillon from holding proxies to vote for the Board of Directors at the Annual Meeting and Dillon is not otherwise able to hold such proxies without violating such Regulations. Dillon's choice of alternative will depend on which alternative Dillon believes most likely to achieve its objective of delaying a vote on the election of directors until it is permitted pursuant to OTS Control Regulations to vote its proxies in such election and will take into account the known facts and circumstances at such time, including the number of valid, unrevoked proxies it then believes it holds and its view of management's holdings. If any motion to adjourn the Annual Meeting is defeated prior to the time that Dillon is permitted pursuant to OTS Control Regulations to hold proxies for the election of directors, then Dillon would be unable to vote for the election of directors and will vote its proxies against Proposal 2, unless the stockholder otherwise directs, and in its discretion on any other proposal to come before the Annual Meeting. Until the Annual Meeting is held with a quorum present and a vote is taken on the election of directors, the Company's current Board of Directors will continue to serve. While Dillon cannot predict the length of the potential delay, if required, caused by Dillon's actions to comply with the OTS Control Regulations, Dillon expects that any such delay would [^] be approximately 90 days. Dillon will publicly announce the OTS response to the OTS Letter as promptly as practicable upon receipt thereof by making a release to the Dow Jones News Service. Stockholders can obtain information as to the current status of OTS clearance by calling the following toll-free number: 1-800-455-6034.

The affirmative vote of a majority of the Voting Stock present in person or by proxy at the Annual Meeting is required to adjourn the Meeting. A quorum could be defeated if a majority of the Voting Stock was not present in person or by proxy at the Annual Meeting. Withheld votes and broker non-votes will not be counted toward achievement of such majority vote for an adjournment but may be counted for purposes of obtaining a quorum at the Annual Meeting.

VOTING AND PROXY PROCEDURES

Shares represented by properly executed GREEN proxy cards will be voted as directed or, if no direction is indicated, will be voted FOR the election of each of the Dillon Nominees (Proposal 1) and AGAINST the authorization of additional Shares (Proposal 2). A GREEN proxy card will not be voted for the election of all

the Dillon Nominees as directors if authority to do so is specifically withheld on the GREEN proxy card and will not be voted for the election of any Dillon Nominee whose name is written in the indicated space on the GREEN proxy card. Dillon may vote its proxies to adjourn the Annual Meeting, or determine not to present its proxies at the Annual Meeting in order to defeat a quorum if Dillon has not received advice from the OTS confirming that the OTS Control Regulations will not preclude Dillon from holding proxies to vote for the election of directors at the Annual Meeting, and Dillon is not otherwise able to hold such proxies without violating such Regulations. In the event that compliance with the OTS Control Regulations is necessary for Dillon to hold proxies to elect more than one-third of the Board and Dillon has not obtained the required approval prior to the Annual Meeting or any adjournment thereof, the GREEN proxy card will not, by its terms, be voted for the election of directors but will be voted against Proposals 2 (seeking authorization of additional Shares) and 3 (seeking to grant discretion to the current Board to adjourn the Annual Meeting), unless otherwise directed. If any other matters are properly brought before the Annual Meeting, such proxies will be voted on such matters as Dillon, in its sole discretion and consistent with the federal proxy rules, may determine. Unless voted or revoked in the manner provided below, such proxy will expire twelve months from the date executed.

For the proxy solicited hereby to be voted, the enclosed GREEN proxy card must be signed, dated and returned to Dillon, c/o Garland Associates, Inc., P.O. Box 3355, Grand Central Station, New York, New York 10163-3355, in time to be voted at the Annual Meeting. Execution of a GREEN proxy card will not affect your right to attend the Annual Meeting and to vote in person. Any proxy may be revoked at any time prior to the Annual Meeting by delivering written notice of revocation or a later dated proxy to Dillon, c/o Garland Associates, Inc., or to the Secretary of the Company at Citadel Holding Corporation, 600 North Brand Boulevard, Glendale, California 91203, or by voting in person at the Annual Meeting. ONLY YOUR LATEST DATED PROXY WILL COUNT AT THE ANNUAL MEETING.

Subject to any court action (see "BACKGROUND OF THE PROXY SOLICITATION"), only holders of record as of the close of business on November 14, 1994 (the "Record Date") will be entitled to vote at the Annual Meeting. If you sold your Shares before the Record Date (or acquired them without voting rights attached after the Record Date), you may not vote such Shares. If you were a stockholder of record on the Record Date, you will retain the voting rights in connection with the Annual Meeting even if you sell or sold such Shares after the Record Date. Accordingly, it is important that you vote the Shares held by you on the Record Date or grant a proxy to vote such Shares whether or not you still own such Shares.

If your Shares are held in the name of a brokerage firm, bank or nominee on the Record Date, only it can vote your Shares and only upon receipt of your specific instructions. Accordingly, please contact the person responsible for your account and give instructions for your Shares to be voted.

According to the Company Preliminary Proxy Statement, 6,669,924 Shares were outstanding as of November 14, 1994 and eligible to vote. On November 10, 1994, the Company issued 1,329,114 shares of New Preferred Stock. Each Share and each share of the New Preferred Stock outstanding is entitled to one vote, voting as a single class, on each matter to be voted at the Annual Meeting. There were 7,999,038 Voting Stock outstanding as of November 14, 1994.

SOLICITATION EXPENSES AND PROCEDURES

The entire expense of preparing, assembling, printing and mailing this Proxy Statement and the accompanying form of proxy, and the cost of soliciting proxies, will be borne by Dillon. Dillon intends to seek reimbursement from the Company for these expenses if the Dillon Nominees are elected to the Board, and such reimbursement will not be submitted to a vote of the stockholders of the Company, since Dillon will benefit only to the extent that all stockholders benefit from its efforts.

In addition to the use of the mails, proxies may be solicited by the Dillon Nominees and certain employees or affiliates of Dillon by telephone, telegram, personal solicitation, and live or

prerecorded audio or video presentations, for which no compensation will be paid to such individuals. Banks, brokerage houses and other custodians, nominees and fiduciaries will be requested to forward the solicitation material to the customers for whom they hold Shares, and Dillon will reimburse them for their reasonable out-of-pocket expenses.

Dillon has retained Garland Associates, Inc. for advisory, information agent and proxy solicitation services, for which Garland Associates, Inc. will be paid a fee of $4,000, and will be reimbursed for its expense charges, which are anticipated to be approximately $2,500. Dillon has also agreed to indemnify Garland Associates, Inc. against certain liabilities and expenses in connection with its engagement, including certain liabilities under the federal securities laws. Garland Associates, Inc. will solicit proxies from individuals, brokers, bank nominees and other institutional holders. Approximately five persons will be utilized by Garland Associates, Inc. in its solicitation efforts, which may be made by telephone, telegram, facsimile and in person.

Dillon estimates that total expenditures relating to the Proxy Solicitation will be approximately $_____ (of which $_____ is estimated to be incurred with respect to litigation filed by the Company), including fees payable to Garland Associates, Inc. directly attributable to the Proxy Solicitation. To date, Dillon has spent approximately $_____ of such total estimated expenditures.

STOCKHOLDER PROPOSALS FOR 1995 ANNUAL MEETING

Any proposal of a stockholder to be presented at the 1995 Annual Meeting of Stockholders must be received in the Office of the Secretary of the Company by the date specified in the Company Proxy Statement in order to be considered for inclusion in the Board's Proxy Statement and form of proxy relating to that Meeting.

VOTING YOUR SHARES

Whether or not you plan to attend the Annual Meeting, we urge you to vote FOR the election of the DILLON NOMINEES (Proposal 1) and AGAINST the authorization of additional Shares (Proposal 2) by so indicating on the enclosed GREEN proxy card and immediately mailing it in the enclosed envelope. You may do this even if you have already sent in a different proxy solicited by the Board. It is the latest dated proxy that counts. Execution and delivery of a proxy by a record holder of Shares will be presumed to be a proxy with respect to all Shares held by such record holder unless the proxy specifies otherwise.

YOUR VOTE IS IMPORTANT.

PLEASE MARK, SIGN, DATE AND RETURN THE GREEN PROXY CARD TODAY.

IF YOU HAVE ALREADY SENT A PROXY CARD TO THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE FOR THE ELECTION OF THE DILLON NOMINEES AND AGAINST PROPOSAL 2 BY MARKING, SIGNING, DATING AND MAILING THE ENCLOSED GREEN PROXY CARD.

SCHEDULE I

PARTICIPANTS IN THE PROXY SOLICITATION

Set forth below is the name, business address and present occupation or employment or business of the "participants" in the Proxy Solicitation, other than the Dillon Nominees. None of the participants has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) during the past ten years.

Participant	Business Address	Description of Business or Present Principal Occupation
Dillon Investors, L.P.	Suite 1410 21 East State Street Columbus, OH 43215-4228	A limited partnership, of which Roderick H.

		Dillon, Jr. is the sole general partner, principally engaged in the purchase and sale of securities for its own account.
Roderick H. Dillon, Jr. - - IRA	Suite 1410 21 East State Street Columbus, OH 43215-4228	An individual retirement account, of which Roderick H. Dillon, Jr. is the sole beneficiary.
Roderick H. Dillon, Jr. Foundation	Suite 1410 21 East State Street Columbus, OH 43215-4228	A charitable foundation, of which Roderick H. Dillon, Jr. is the sole trustee.
Bradley C. Shoup - IRA	Suite 560 4180 La Jolla Village Drive La Jolla, CA 92037	An individual retirement account, of which Bradley C. Shoup is the sole beneficiary.

SCHEDULE II

BENEFICIAL OWNERSHIP OF
COMPANY SHARES BY PARTICIPANTS IN THE SOLICITATION

On the date hereof, Dillon is the record holder of 647,000 Shares, and together with the other Dillon Entities beneficially owns, directly or indirectly, an aggregate of 659,000 Shares, including the Shares held of record by Dillon (representing in the aggregate approximately 9.88% of the 6,669,924 Shares outstanding and approximately 8.24% of the 7,999,038 Voting Stock outstanding, both as of November 14, 1994, according to the Company Preliminary Proxy Statement).(Footnote 1) Mr. Shoup, through an IRA for which he is the sole beneficiary, beneficially owns 2,000 Shares (representing approximately .03% of the outstanding Shares and approximately .025% of the outstanding Voting Stock). Messrs. Kelley, Whitworth and Spiegel do not own any Shares. The Shares now owned by each "participant" in the Proxy Solicitation were purchased in the transactions described in Schedule IV hereto.

Except as otherwise set forth in this Schedule II, none of Dillon, the Dillon Nominees or any associate of any of the foregoing persons or any other person who may be deemed a "participant" in the Proxy Solicitation is the beneficial or record owner of any Shares. Except as otherwise set forth in this Schedule II or in Schedule IV, none of Dillon, the Dillon Nominees or any associate of any of the foregoing persons or any other person who may be deemed a "participant" in the Proxy Solicitation has purchased or sold any Shares within the past two years, borrowed any funds for the purpose of acquiring or holding any Shares, or is or was within the past year a party to any contract, arrangement or understanding with any person with respect to any Shares. There is not any currently proposed transaction to which the Company or any of its subsidiaries was or is a party, in which any of Dillon, the Dillon Nominees or any associate or immediate family member of any of the foregoing persons or any other person who may be deemed a "participant" in the Proxy Solicitation had or will have a direct or indirect material interest. None of Dillon, the Dillon Nominees or any associate or any of the foregoing persons or any other person who may be deemed a "participant" in the Proxy Solicitation has any arrangement or understanding with any person with respect to any future employment by the Company or its affiliates, or with respect to any future transactions to which the Company or its affiliates will or may be a party.

_____

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

SCHEDULE III

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AS A GROUP

The following table sets forth, based solely on the Company Preliminary Proxy Statement, the security ownership of certain persons, other than the participants in the Proxy Solicitation, who have advised the Company that as of November 14, 1994, each "beneficially" owned more than 5% of the outstanding Shares or Voting Stock, and the beneficial ownership of Shares and Voting Stock by all directors and officers of the Company as a group as of November 14, 1994.

Name and Address	Amount and Nature of Beneficial Ownership(Fn 1)	Percentage of Class
Craig Corporation 116 North Robertson Boulevard Los Angeles, CA 90048	1,996,126(Fn 2)	10.0% of Shares 24.9% of Voting Stock
Lawndale Capital Management, Inc., Andrew E. Shapiro, Diamond A Partners, L.P., and Diamond A Investors, L.P. One Sansome Street, Suite 3900 San Francisco, CA 94104	420,100	6.3% of Shares 5.25% of Voting Stock
All directors and executive officers as a group (5 persons)	1,996,126(Fn 2)	10.0% of Shares 24.9% of Voting Stock

Except as otherwise noted, the information concerning the Company contained in this Proxy Statement has been taken from or is based upon documents and records on file with the Commission and other publicly available information. Although Dillon does not have any knowledge that would indicate that any statements contained herein based upon such documents and records are untrue, Dillon does not take any responsibility for the accuracy or completeness of the information contained in such documents and records, or for any failure by the Company to disclose events that may have occurred and may affect the significance or accuracy of any such information but which are unknown to Dillon.

(Footnote 1 ["fn 1"]) Except as otherwise indicated, the persons listed as beneficial owners of the Shares have the sole voting and investment power with respect to such Shares.

(Footnote 2 ["fn 2"]) Includes the 1,329,114 shares of New Preferred Stock issued by the Company to Craig on November 10, 1994, which shares are immediately convertible into Shares.

SCHEDULE IV

TRANSACTIONS IN SHARES OF CITADEL HOLDING CORPORATION BY PARTICIPANTS IN THE SOLICITATION

Purchases since November ___, 1992 were made as shown below. All transactions were effected in open market transactions and, unless otherwise indicated, entered into by Dillon.

Transaction	Number	Per Share

Date	of Shares	Price(Fn 1)	Total Price
03/17/93(Fn 2)	5,000	$20.22	$101,104
03/17/93(Fn 3)	1,000	20.22	20,224
05/04/93(Fn 4)	5,000	12.72	63,604
05/04/93(Fn 5)	1,000	12.72	12,724
01/27/94	27,500	6.27	172,299
01/28/94	75,000	7.05	528,775
02/04/94	10,000	6.43	64,275
02/04/94	75,000	6.55	491,275
02/04/94	8,000	6.55	52,425
02/07/94	7,500	6.31	47,350
02/08/94	7,500	6.19	46,412
02/09/94	10,000	6.30	63,025
02/09/94	200	6.43	1,285
02/15/94	700	6.34	4,435
02/16/94	5,800	6.44	37,348
02/22/94	20,800	6.38	132,789
02/23/94	10,000	6.55	65,525
02/24/94	11,200	6.18	69,185
02/25/94	15,000	6.18	92,650
03/02/94	1,200	5.95	7,135
03/04/94	28,000	6.05	169,425
03/08/94	30,000	5.80	174,025
03/14/94	55,100	5.00	275,729
03/16/94	248,500	4.54	1,128,215
04/22/94(Fn 6)	2,000	6.07	12,140
TOTALS:	661,000		$3,833,378

_____

(Footnotes to chart)
1) Rounded to the nearest cent.
2) Purchased by Roderick H. Dillon, Jr. - IRA.
3) Purchased by Roderick H. Dillon, Jr. Foundation.
4) Purchased by Roderick H. Dillon, Jr.
5) Purchased by Roderick H. Dillon, Jr. Foundation.
6) Purchased by Bradley C. Shoup - IRA.

_____

If your Shares are held in the name of a brokerage firm, bank or bank nominee, only they can vote your Shares and only upon your specific instructions. Accordingly, please contact the persons responsible for your account and instruct them to execute the GREEN proxy card.

WE URGE YOU TO VOTE FOR THE ELECTION OF THE DILLON NOMINEES AND AGAINST PROPOSAL 2 BY MARKING, SIGNING, DATING AND MAILING THE ENCLOSED GREEN PROXY CARD. THE FAILURE TO DO SO MAY BE THE EQUIVALENT OF A VOTE AGAINST MAXIMIZING STOCKHOLDER VALUE.

If you have any questions or require any additional information concerning the vote of your Shares at the Annual Meeting, please contact:

Garland Associates, Inc.
PROXY SOLICITORS

_____

(212) 866-0095

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

- -FOOTNOTE 1-

[^] Craig had previously received approval [^] from the OTS to purchase [^] more than 10% but less than 25% of the outstanding Shares [^]. However, such approval would have expired on October 23, 1994 [^] if Craig's ownership of Shares did not exceed 10% on

such date. The issuance of the 74,300 Shares to Craig on October 21, 1994 enabled Craig to buy additional Shares [^] without any further regulatory delay, so long as its holdings did not exceed 25% of the outstanding Shares. Craig had stated in Amendment No. 13 to its Schedule 13D filed with the Commission on October 26, 1994 that it would have been unwilling to file an agreement with the OTS to avoid [^] the regulatory delay because such an agreement "would have substantially limited Craig's ability to exercise an influence over the business and affairs of" the Company.

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

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

- -FOOTNOTE 4-
The election of the Dillon Nominees would, depending upon whether the issuance of the New Preferred Stock is invalidated, pursuant to the Delaware Litigation or otherwise (see "BACKGROUND OF THE PROXY SOLICITATION"), either permit Craig to accelerate its original $6.2 million loan to the Company or to accelerate the remaining $950,000 loan and require the Company to repurchase the New Preferred Stock at a premium, for a total cost to the Company of $6.2 million plus accrued dividends of 3% per annum plus a premium of approximately $39,000 per month, pro rated, from the date of issuance to the date of redemption of the New Preferred Stock. Although Dillon has not approached any financing sources with respect to the Company's obtaining funds to enable it to meet such obligations, Dillon believes that financing, secured by such assets, would be available, based upon the fact that Craig was willing to supply the Craig Line of Credit and the Company's statements with respect to its real estate assets in the Form 10-Q (see "DILLON'S STRATEGY FOR THE COMPANY -Real Estate Sales"), although there can be no assurance on this point. To Dillon's knowledge, the Company has only one employment agreement outstanding, a two-year contract with its President, Steve Wesson, for $225,000 per year expiring in August 1996, and such contract does not terminate upon a change of control of the Company. Dillon is not aware of any other costs which would be occasioned by a change of control of the Company.

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

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

- -FOOTNOTE 2-
Includes the 1,329,114 shares of New Preferred Stock issued by the Company to Craig on November 10, 1994, which shares are immediately convertible into Shares.

- -FOOTNOTE 1-
Rounded to the nearest cent.

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

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

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

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

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

- ---------- COMPARISON OF FOOTERS ----------

- -FOOTER 1-

#

- -FOOTER 2-

T:\CGARNER\DILLON\[^] PROXY.010

PRELIMINARY COPY

[front of proxy card]

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

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

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

1. ELECTION OF DIRECTORS: ___ FOR all ___ WITHHOLD AUTHORITY to

nominees listed below (except as marked to the contrary below)	vote for all nominees listed below

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

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

2. AMENDMENT OF RESTATED CERTIFICATE OF INCORPORATION TO INCREASE AUTHORIZED COMMON STOCK FROM 10,000,000 TO 20,000,000 SHARES:

FOR ___ AGAINST ___ ABSTAIN ___

(Continued on reverse side)

[REVERSE OF PROXY CARD]

The shares represented hereby will be voted in accordance with the directions given in this proxy. If not otherwise directed herein, shares represented by this proxy will be voted FOR all nominees listed in Proposal 1 and AGAINST Proposal 2. The shares represented hereby may be voted to adjourn the Annual Meeting, or the proxies named herein may determine not to present this proxy at the Annual Meeting in order to defeat a quorum, if Dillon has not received advice from the OTS confirming that the OTS Control Regulations will not preclude Dillon from holding proxies to vote for directors at the Annual Meeting, and Dillon is not otherwise able to hold such proxies without violating such Regulations. If any other matters are properly brought before the Annual Meeting, such proxies will be voted on such matters as such persons, in their sole discretion and consistent with the federal proxy rules, may determine.

Dated: _____, 1994

(Signature)

(Signature if jointly held)

Title:

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

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

PRELIMINARY COPY [^] - NOVEMBER [^] 29, 1994

DILLON INVESTORS, L.P.
21 East State Street, Suite 1410
Columbus, [^] Ohio 43215-4228
[^] (614) 222-4200

Dear Fellow Stockholders of Citadel Holding Corporation:

Dillon Investors, L.P. ("Dillon"), the beneficial owner of 659,000 shares of Common Stock of Citadel Holding Corporation (the "Company"), seeks your proxy to elect its nominees to the Board of Directors of the Company and to defeat [^] a proposal to double the authorized shares of Common Stock to be put forth by the Company's management at the Annual Meeting of Stockholders scheduled for December 12, 1994. [^] We are asking you to vote FOR PROPOSAL 1 and AGAINST PROPOSAL 2 on the endorsed GREEN proxy card.

Like most of you, Dillon is simply an investor in the Company -- it has no ties to management, nor any interest in the business of the Company beyond its pro rata equity interest as a stockholder. Like most of you, Dillon has seen the market value of its investment decline precipitously, to a 10-year low of [^] $2.63 on November [^] 23, 1994. Like most of you, Dillon has seen its percentage interest in the Company substantially diluted by the recent issuance of convertible preferred stock to Craig Corporation, the controlling stockholder of the Company whose Chairman and President serve as the current Chairman and Vice Chairman, respectively, of the Company.

Dillon's sole interest in conducting a proxy contest is to elect a Board which will have as its sole aim maximizing value for ALL stockholders. Unlike James Cotter, current Chairman of both the Company and Craig Corporation, who is publicly reported to have extracted "greenmail" from many companies in the past(Footnote 1), Dillon and its affiliates have no interest in a deal with the Company at the expense of other stockholders.

Dillon's nominees are young and energetic, with substantial experience in investment management (in particular, investments in a variety of public financial institutions), financial advisory services, real estate consulting and development and securities analysis. One, as president of a prominent shareholder rights group, negotiated agreements with 46 public companies to improve corporate governance and shareholder rights.

If elected, the Dillon nominees presently intend, subject to their fiduciary duties, to propose that the Company (i) effect a pro rata distribution of the shares of Fidelity Federal Bank ("Fidelity") currently held by the Company to the stockholders of the Company (the "Distribution"), (ii) effect an orderly sale of the Company's real estate assets at the best available price (the "Real Estate Sales") and (iii) thereafter promptly dissolve and liquidate the Company (the "Dissolution"). Based upon their present understanding of the Company, the Dillon nominees believe that the Distribution, Real Estate Sales and Dissolution, taking place over a reasonable time period, are the best way to maximize value for all the stockholders. Neither Dillon nor any of its affiliates would participate in any transaction with the Company regarding a sale or liquidation of any of the Company's assets, other than pursuant to their pro rata interest as stockholders. The proposed Distribution, Real Estate Sales and Dissolution are fully described [^] under the caption "DILLON'S STRATEGY FOR THE COMPANY" in the enclosed Proxy Statement, and we urge you to read the description carefully. Although management may raise certain "objections" or "concerns," we believe our materials fully address

such concerns. In particular, our nominees will not effect any distribution of Fidelity shares unless all Company stockholders receive freely transferable shares.

(Footnote 1)
An article entitled "What's wrong with a little greenmail?" in the March 6, 1989 issue of Forbes, Inc. profiled Cotter, reporting that "dozens of companies have coughed up greenmail to get rid of Cotter." (Permission to use this quote was neither sought from nor given by Forbes, Inc.)

The Company's last annual meeting was held in May 1993, although its By-Laws called for the holding of this year's meeting on May 19, 1994. The current Board of Directors and management scheduled this year's meeting for December 12th only after receiving a letter from Dillon in October requesting that they do so. Since that time, Dillon believes that all the Board and management have done, as the market price for the Company's Common Stock has continued to decline, is act to attempt to prevent Dillon from offering you a choice and to dilute your voice in the Company by increasing the voting power of Craig Corporation. We have described both our reasons for undertaking this proxy contest and management's responses both to our concerns as a stockholder and our efforts to exercise our stockholder rights [^] under the caption "BACKGROUND OF THE PROXY SOLICITATION" in our Proxy Statement.

[^] YOUR SUPPORT IS VITAL, NO MATTER HOW MANY SHARES YOU OWN! Citadel's current Board reset the record date for the Annual Meeting [^] from November 4, 1994 to November 14, 1994, thereby permitting [^] the Company to issue 1,329,114 shares of voting preferred stock, or approximately 16.6% of the voting power of the Company, to Craig Corporation[^].

[^] DO NOT LET MANAGEMENT STIFLE YOUR VOICE. Read our materials and decide for yourself whether you would be better off with our director nominees as your Board of Directors - a completely independent Board committed to maximizing value for ALL stockholders.

[^] PLEASE MARK, DATE, SIGN AND RETURN THE ENCLOSED GREEN PROXY CARD voting FOR Proposal 1, our director nominees, and AGAINST Proposal 2, authorization of additional Common Stck. Please return our GREEN proxy card promptly[^] and do not [^] return any management blue proxy cards.

[^] Thank you for your consideration and support on this important matter.

Very truly yours,

Roderick H. Dillon, Jr.
on behalf of Dillon Investors, L.P.

IMPORTANT: If your Company shares are held in the name of a broker, bank or other nominee, only they can execute a proxy on your behalf. To ensure that your shares are voted, we urge you to telephone the individual responsible for your account TODAY and direct him or her to execute a [^] GREEN proxy card on your behalf.

[^] For more information, contact Roderick H. Dillon, Jr., General Partner of Dillon Investors, L.P., at (614) 222-4200 (call collect), or:

[^] GARLAND ASSOCIATES, INC.
Proxy Solicitors
212-866-0095
(call collect)

[^] COMPARISON OF HEADERS
- -HEADER 1-
Header Discontinued

- -HEADER 2-
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[^] COMPARISON OF FOOTERS
FOOTER 1-
dillon/transmit.004

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