

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 1995

OR

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

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

Commission file number 1-8625

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

95-3885184  
(IRS Employer Identification No.)

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

90071  
(Zip Code)

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

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

Yes X No  
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Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date. There were 6,003,924 shares of  
Common Stock, \$0.01 par value per share, as of November 13, 1995.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(NOTE 1)

September 30,                      December 31,  
1995    1994  
-----  
(In thousands of dollars)

ASSETS

ASSETS

Cash and cash equivalents	\$ 15,913	\$ 4,805
Investment in Fidelity Federal Bank-held for sale	11	13,405
Rental properties, less accumulated depreciation	21,832	19,858
Other receivables	744	1,219
Other assets	1,221	625
	-----	-----
Total assets	\$ 39,721	\$ 39,912
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Security deposits payable	\$ 260	\$ 227
Accounts payable and accrued liabilities	1,653	3,001
Deferred proceeds from bulk sale	4,000	4,000
Short-term line of credit	--	950
Mortgage notes payable	16,204	13,896
	-----	-----
Total liabilities	22,117	22,074

Commitments and contingencies

STOCKHOLDERS' EQUITY

Serial preferred stock, par value \$.01; 5,000,000 shares authorized, 3% Cumulative Voting Convertible, (\$3.95 or \$5,250,000 stated value)-1,329,114 shares issued and outstanding	13	13
Common stock, par value \$.01, 10,000,000 shares authorized, 6,669,924 shares issued and outstanding	67	67
Paid-in capital	65,197	65,298
Retained deficit	(46,258)	(47,540)
Cost of 666,000 treasury shares	(1,415)	--
	-----	-----
Total stockholders' equity	17,604	17,838
	-----	-----

Total liabilities and stockholders' equity	\$ 39,721	\$ 39,912
	=====	=====

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(NOTE 1)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
	(In thousands of dollars, except per share amounts)			
Real Estate Operations:				
Rental income	\$1,575	\$ 811	\$3,876	\$ 811
Interest income	237	1	481	1
	1,812	812	4,357	812
Real estate operating expenses	760	451	1,922	451
Depreciation and amortization	127	114	343	114
Interest expense	361	284	889	284
General and administrative expenses	659	221	1,423	221
Total expenses	1,907	1,070	4,577	1,070
Gain on sale of rental property	--	--	1,541	--
Net Gain from Real Estate Operations	(95)	(258)	1,321	(258)
Administrative Charge from Fidelity Federal Bank	--	--	--	(785)
Losses of and Write-Down of Investment in Fidelity Federal Bank	--	(58,908)	(39)	(164,883)
Earnings (loss) before income taxes	(95)	(59,166)	1,282	(165,926)
Income tax expense (benefit)	--	--	--	--
Net Earnings (Loss)	\$ (95)	\$(59,166)	\$1,282	\$(165,926)
Earnings (Loss) per share (after preferred stock dividend)	\$(0.02)	\$(8.97)	\$0.19	\$(25.16)

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	1995	1994
	----- (In thousands of dollars)	
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ 1,282	\$(165,926)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of rental property	(1,541)	--
Dividends paid	(101)	--
Amortization of deferred loan items	44	--
Depreciation and amortization	299	114
Other receivable (increase) decrease	(156)	(3,172)
Other assets (increase) decrease	170	(1,522)
Decrease (increase) in liabilities and deferred income	(1,315)	1,901
Deferred proceeds from Bulk Sales agreement	--	4,000
Writedown of investment in Fidelity	--	52,811
Deconsolidation of Fidelity	--	111,959
	-----	-----
Net cash provided by (used in) operating activities	(1,318)	165
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of Fidelity investment	11,938	--
Proceeds from sale of rental properties	8,778	--
Purchase of rental properties	(9,505)	(19,997)
	-----	-----
Net cash provided by (used in) investing activities	11,211	(19,997)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Long-term mortgage borrowings	6,104	13,930
Short-term borrowings	--	6,200
Capitalized financing costs	(143)	(175)
Debt (repayments)	(4,746)	--
	-----	-----
Net cash provided by (used in) financing activities	1,215	19,955
<b>LESS CASH AND CASH EQUIVALENTS OF FIDELITY AT BEGINNING OF PERIOD</b>		
	--	(143,677)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	11,108	(143,554)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		
	4,805	145,961
	-----	-----
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$15,913</b>	<b>\$ 2,407</b>
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid during the period for:		
Interest on mortgages and line of credit	\$ 844	\$ 51
Non-cash transactions:		
Company common stock received in exchange for Fidelity stock	1,415	--
Addition to real estate owned (other assets) by foreclosure of receivable	631	--

See accompanying notes to consolidated financial statements.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1995

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

On August 4, 1994, Citadel Holding Corporation ("Citadel") completed a restructuring (together with the other transactions described below, the "Restructuring") in which, among other things, Citadel's ownership interest in Fidelity Federal Bank was reduced from 100% to approximately 16%. The reduction was a result of Fidelity issuing and selling to investors in a public offering shares of Class A and Class C common stock. As of August 4, 1994, Citadel's investment in Fidelity was reclassified into 4,202,243 shares of Class B common stock of Fidelity. As a result, effective January 1, 1994, Citadel no longer consolidates Fidelity in its financial statements; rather it accounts for its investment on the cost basis. In addition, several other events occurred in the Restructuring, including:

- a. Citadel sold to Fidelity all of the stock of Gateway Investment Services, Inc., previously a wholly owned subsidiary of Citadel.
- b. A newly formed subsidiary of Citadel, Citadel Realty, Inc. ("CRI"), purchased four real properties from Fidelity for a purchase price of \$19.8 million (Fidelity's book value) of which \$13.9 million was financed by Fidelity on a secured basis and the balance of which was financed by Craig Corporation ("Craig"), a significant stockholder of Citadel, under a short-term line of credit (note 4).
- c. Citadel received from Fidelity by way of a dividend (i) one-year transferable options, (the "Building Options" which were subsequently contributed to CRI) to acquire two office buildings in Sherman Oaks and Glendale, California, used in the operations of Fidelity (including its headquarters buildings) for an aggregate exercise price of \$9.3 million, portions of which buildings would be leased back to Fidelity upon the purchase by the Company (note 2), and (ii) Fidelity's interest in a lawsuit filed against the former carrier of Fidelity's directors' and officers' insurance policies, involving certain coverage and indemnity issues, which resulted in Citadel collecting \$2.5 million.
- d. Citadel and Fidelity entered into a Stockholders' Agreement (the "Stockholders' Agreement"), under which Citadel must reimburse Fidelity for certain losses that may be incurred by Fidelity as a result of certain environmental and other representations made by Fidelity in connection with the bulk sale of loans and other assets to certain third parties in connection with the Restructuring. Subject to a \$4 million limit, the Stockholders' Agreement requires Citadel to reimburse Fidelity for losses incurred by Fidelity, in either repurchasing assets (sold in connection with the bulk sale) in the event of breached representations, or curing such breaches.

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

The information for the three and nine months ended September 30, 1994 presents the Company's results of operations, as the holding company of Fidelity, prior to the Restructuring, separate from the results of operations subsequent to the Restructuring. Such 1994 results prior to the Restructuring have been reflected in the statements of operations as losses of Investment in Fidelity.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments of a recurring nature considered necessary for a fair presentation of its financial position as of September 30, 1995 and December 31, 1994, the results of operations for the three months and nine months ended September 30, 1995 and 1994, and its cash flows for the nine months ended September 30, 1995 and 1994. The results of operations for the three and nine month periods ended September 30, 1995 are not necessarily indicative of the results of operations to be expected for the entire year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes required to be in conformity with generally accepted accounting principles. The financial information provided herein, including the information under the heading, "Management's Discussion and Analysis of Financial Condition and Results of Operations," is written with the presumption that the users of the interim financial statements have read, or have access to, the most recent Annual Report on Form 10-K which contains the latest audited financial statements and notes thereto, together with the Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 1994 and for the year then ended.

Cash and Cash Equivalents  
- - - - -

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Included in cash and cash equivalents at September 30, 1995 is approximately \$15.7 million which is being held in institutional money market mutual funds.

Earnings Per Share  
- - - - -

Earnings per share is based on 6,003,924 and 6,595,624 shares, the weighted average number of shares of common stock outstanding during the three months ended September 30, 1995 and 1994, and 6,270,324 and 6,595,624 shares during the nine months ended September 30, 1995 and 1994, respectively. Common stock equivalents (stock options, and Warrants) have been excluded from the computations because their effect was anti-dilutive.

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

NOTE 2 - RENTAL PROPERTIES

The Company's rental properties at September 30, 1995 and December 31, 1994 consist of the following (in thousands):

	September 30, 1995	December 31, 1994
	-----	-----
Land	\$ 7,616	\$ 5,538
Building and improvements	14,648	14,517
	-----	-----
Total	\$22,264	\$20,055
Less accumulated depreciation	(432)	(197)
	-----	-----
Rental properties, net	\$21,832	\$19,858
	-----	-----

At December 31, 1994, rental properties consisted of two apartment buildings and two commercial buildings. During the three months ended March 31, 1995, the Company sold an apartment rental property for approximately \$5.9 million in cash, net of expenses. The sale resulted in a gain of approximately \$980,000 for financial statement purposes. As a result of the sale, approximately \$3,693,000 of a mortgage note payable was assumed and subsequently paid off by the purchaser.

As described in note 1, the Company acquired, by way of dividend, the Building Options. The office buildings subject to the Building Options are used by Fidelity in its operations and are located in Glendale (the "Glendale Building") and in Sherman Oaks (the "Sherman Oaks Building"). On February 2, 1995, the Company exercised the Building Options to purchase the two office buildings. On March 23, 1995, the Company purchased and immediately sold the Sherman Oaks Building for a gain of approximately \$560,000 for financial statement purposes. On May 18, 1995, the Company purchased the Glendale Building. The \$7.12 million exercise price was funded through internal sources and a \$5.34 million five year mortgage from Fidelity, which amortizes on a twenty year basis with interest payable monthly at LIBOR plus 4.5%. The Company paid Fidelity points of 1% plus normal closing costs; such loan is subject to prepayment penalties in year one of 4%, decreasing by 1% each subsequent year.

The Company and Fidelity have entered into a ten year, full service gross lease for four of the six floors of the Glendale Building. The rental rate for the first five years of the lease term is \$26,000 per month (including parking) for the ground floor and approximately \$75,000 per month (including parking), for the fourth through sixth floors. The lease provides for annual rental increases at a rate equal to the lower of the increase in the Consumer Price Index or 3%. After five years, the lease provides that the rental rate for the ground floor will be adjusted to the higher of the then current market rate or the prevailing rental rate in the fifth year of the lease and the rental for the upper floors will be adjusted to the higher of the current market rate or \$1.50 per square foot increased by the annual rental rate increase applied during the first five years of the lease as described in the preceding sentence. Fidelity has the option to extend the lease of the ground floor for two consecutive ten year terms at a market rental rate and has the option to purchase the Glendale Building, if still owned by the Company, at market value at the expiration of the lease.



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

Public Storage occupies 30,879 square feet (two floors) on a lease that expires in April 1996 with a total rental of approximately \$53,900 per month.

NOTE 3 - INVESTMENT IN FIDELITY

At December 31, 1994, the investment in Fidelity consisted of 4,202,243 shares of Class B Common Stock at the fair value which was estimated by management to be \$3.19 per share or a total carrying value of approximately \$13,405,000. At September 30, 1995, the investment in Fidelity consisted of 7,243 shares of Fidelity. During the three months ended June 30, 1995, the Company investment in Fidelity was reduced by (1) the sale of 1,295,000 shares of such Class B Common Stock of Fidelity in consideration for a cash payment of \$2,220,000 and the return of 666,000 shares of the Company's common stock as part of the settlement of litigation with Dillon Investors described below and (2) the sale of 2,900,000 shares for approximately \$9,718,000, net of commissions.

On November 7, 1994, a stockholder, Dillon Investors L.P. ("Dillon Investors"), filed a lawsuit in the Court of Chancery of the State of Delaware. The suit named as defendants the Company, its directors and Craig Corporation, and alleged that the Citadel 3% Cumulative Convertible Preferred Stock and the Common stock sold to Craig during the fourth quarter of 1994 were issued at unfair prices in order to entrench the Board of Directors in power in the face of an unannounced proxy contest and possible consent solicitation by Dillon Investors to take over control of the Board of Directors. The suit sought rescission of the issuance of the Citadel Common and Preferred Stock and the reinstatement of borrowings from Craig under the short term line of credit.

On April 3, 1995, the Company, Craig and Dillon Investors and its affiliates (the "Dillon Parties") entered into settlement agreements to resolve the litigation, and the settlements were consummated on April 13, 1995. Under the settlement agreements, the Dillon Parties purchased from Citadel 1,295,000 shares of Class B Common Stock of Fidelity in exchange for which Citadel received from the Dillon Parties \$2,220,000 and 666,000 shares of the Company's common stock. For financial statement purposes the Company reflected the return of the Company's common stock as treasury stock in the amount of approximately \$1,415,000, or \$2.125 per share. Additionally, all existing litigation among Citadel, Craig and the Dillon Parties was terminated, with mutual releases executed and delivered. The Dillon Parties also agreed, for a period of one year following the closing, not to purchase or acquire any other beneficial interests in any of Citadel's securities, and not to engage in any solicitation of consents or proxies.

The settlement terms also included an agreement by Craig with the Dillon Parties not to exercise, prior to February 4, 1996, its right to tender any shares of the 3% Cumulative Voting Convertible Preferred Stock of the Company for conversion into the Company's common stock without the prior consent of holders of a majority of the outstanding shares of Citadel Common Stock. In exchange for such concession from Craig, the Company agreed to grant Craig a two year warrant to acquire the 666,000 shares of the Company's Common Stock acquired from the Dillon Parties at price of \$3.00 per share, and the Company agreed to reimburse Craig

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

for certain expenses associated with the litigation which amounted to approximately \$62,000.

On April 17, 1995, the Company sold 2,900,000 shares of Fidelity stock resulting in net proceeds of approximately \$9,718,000. The net proceeds, when combined with the proceeds of the Dillon transaction described above, approximated the book value of such Fidelity stock as of December 31, 1994.

NOTE 4 - SHORT-TERM LINE OF CREDIT  
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In May 1995, the Company repaid the \$950,000 outstanding balance of the short-term line of credit with Craig. Pursuant with the terms of the credit agreement the line of credit was canceled at the date of the repayment.

NOTE 5 - TAXES ON INCOME  
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For the three months and nine months ended September 30, 1995, no provision for income taxes was required due to the realization for financial statement purposes of income tax benefits with respect to the tax basis versus the book basis of assets sold.

NOTE 6 - 3% CUMULATIVE VOTING CONVERTIBLE PREFERRED STOCK  
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The Preferred stock was issued to Craig pursuant to a stock purchase Agreement and Certificate of Designation which provides, among other things, that (i) the preferred shares carry a liquidation preference equal to their stated value and bear a cumulative (noncompounded) annual dividend equal to 3% of the stated value, (ii) are convertible under certain circumstances into shares of common stock of the Company, (iii) are redeemable at the option of the Company at any time after November 1997 and (iv) are redeemable (subject to Delaware limitations upon distributions to shareholders) at the option of Craig in the event of a change of control of Citadel. Included as a reduction of additional paid in capital is \$101,500 representing dividends declared to Craig as of September 30, 1995. Such amount represents cumulative dividends earned and declared by the Board from the period of the preferred stock issuance in November 1994 through June 30, 1995. At September 30, 1995, cumulative dividends not yet declared by the Board amounted to \$39,375 for the quarter ended September 30, 1995.

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

Citadel Holding Corporation, a Delaware corporation ("Citadel" and collectively with its directly owned or indirectly wholly owned subsidiary, the "Company"), was incorporated in 1983 to serve as the holding company for Fidelity Federal Bank, a Federal Savings Bank ("Fidelity"). On August 4, 1994, Citadel and Fidelity completed a recapitalization and restructuring transaction (the "Restructuring"), which resulted in (i) the reduction of Citadel's interest in Fidelity from 100% to 16.2%, (ii) the acquisition by the Company, at bulk sale prices from Fidelity, of four real estate owned properties (the "REO Properties"), (iii) the sale by Citadel to Fidelity of its Gateway Investment Services, Inc. ("Gateway") subsidiary for \$1 million, (iv) the transfer to Citadel of Fidelity's interest in certain outstanding litigation, and (v) the receipt by way of dividend from Fidelity of options to acquire at book value two office buildings used by Fidelity in its operations (the "Building Options"). Also in connection with the Restructuring, Citadel agreed to indemnify Fidelity with respect to certain environmental and structural representations and warranties made by Fidelity to certain third party buyers in connection with bulk sales by Fidelity made as a part of the Restructuring, up to a limit of \$4 million (the "Bulk Sale Indemnity").

As a result of the Restructuring, Citadel no longer consolidates Fidelity in its financial statements, rather it accounts for its investment on the cost basis. This change was effective as of January 1, 1994 for purposes of the financial statements included elsewhere in this report, although Fidelity's results of operations through August 4, 1994 are reflected in Citadel's financial statements. Accordingly, no meaningful comparisons can be made between the three months and nine months ended September 30, 1995 with the comparable periods in 1994.

Since the Restructuring, Citadel has been engaged primarily in the ownership and management of commercial and residential property.

RESULTS OF OPERATIONS

The Company's net earnings (loss) for the three months and nine months ended September 30, 1995 were (\$95,000) or \$.02 per share and \$1,282,000 or \$.19 per share, respectively. Included in the earnings for the nine months ended September 30, 1995 is approximately \$1,541,000 from the sale of the Sherman Oaks and Harbor City properties. During the nine months ended September 30, 1995, the Company sold generally all of its investment in Fidelity, which resulted in the Company receiving net cash proceeds of approximately \$11,938,000 and the return of 666,000 shares of the Company's common stock. The net proceeds, when combined with the amount ascribed to the common stock received, approximated the carrying value of such Fidelity stock included in the balance sheet as Investment in Fidelity held for sale at December 31, 1994. The sale of real properties in the first quarter and the sale of Fidelity stock in the second quarter attributed to the significant increase in cash equivalents at September 30, 1995. Accordingly, interest income increased to \$237,000 in the third quarter ended September 30, 1995 as compared to \$168,000 and \$76,000 for the second and first quarter, respectively.

Rental income amounted to \$1,575,000 for the three months ended September 30, 1995 and \$3,876,000 for the nine months ended September 30, 1995. The increase in the third quarter from the previous quarters reflects the rental earnings from the Company's May 1995 acquisition of the Glendale property, somewhat offset by the reduction in earnings from the sale of the Harbor City property.

General and administrative expenses amounted to \$659,000 for the three months ended September 30, 1995 as compared to \$339,000 and \$425,000 for the second and first quarter ended June 30, 1995 and March 31, 1995, respectively. Such increase is attributable to an increase resulting (1) from additional legal fees pertaining to outstanding litigation (see Part II, Item 1 - Legal proceedings) and (2) increased directors fees related to a payment for past services approximating \$192,500 authorized by the Board to the Chairman of the Board. Such increases were offset, in part, by a reimbursement of approximately \$76,000 for consulting services provided by employees of the Company to affiliates of the Company's principal shareholder, Craig Corporation.

REAL ESTATE INTERESTS  
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The table below provides an overview of the properties which constituted all of the real properties owned by the Company at September 30, 1995.

Address	Type	Units/ Sq. Feet	% Leased	Major Tenants	Remaining Lease Term
ARBOLEDA 1661 Camelback Rd. Phoenix, Arizona	Office/ Restaurant	178,000	99	American Express	1-5 years
BRAND 600 N. Brand Glendale, CA	Office	89,000	100	Fidelity/ Public Storage	10 years 7 months
PARTHENIA 21028 Parthenia Canoga Park, CA	Apartment	27 26,000	96	NA	6-12 months
VESELICH 3939 Veselich Ave. Los Angeles, CA	Apartment	216 176,000	95	NA	6-12 months

Arboleda, Phoenix  
-----

Although this property was fully leased at September 30, 1995, American Express, which occupies 58% (100,098 sq. feet) of the property, has previously advised the Company that it does not intend to renew at the expiration of the current term in February 1997. While management believes that the leasing market in Phoenix will continue to strengthen, it is anticipated that significant capital expenditures would be necessary to relet the American Express space and that the space may remain vacant for some time.

Brand, Glendale  
-----

As part of the Restructuring, Citadel acquired, by way of dividend, the Building Options, which were subsequently assigned to Citadel Realty, Inc., its wholly owned subsidiary. The office buildings subject to the Building Options included the Glendale Building which is used by Fidelity in its operations.

With regard to the purchase of the Glendale Building, Fidelity extended a 5 year loan, amortizing over twenty years, at an adjustable rate of interest tied to LIBOR plus 4.5% per annum, adjustable monthly. The Company paid Fidelity points of 1% plus normal closing costs. The loan is subject to prepayment penalties in year one of 4%, decreasing 1% in each subsequent year. Such interest rate was 10.375% at September 30, 1995.

The purchase of the Glendale Building closed on May 18, 1995. The Company funded the \$7.12 million exercise price to purchase the Glendale Building through a borrowing from Fidelity of \$5.34 million with the balance of the funds coming from internal sources.

The Glendale Building is the headquarters building of Fidelity. Citadel and Fidelity have entered into a 10 year, full service gross lease for four of the six floors of the Glendale Building. The rental rate for the first five years of the lease term is \$26,000 per month (including parking) for the ground floor and approximately \$75,000 per month (including parking) for the fourth, fifth and sixth floors. The lease provides for annual rental increases at a rate equal to the lower of the increase in the Consumer Price Index or 3%. After the first five years of the lease term, the rental rate for the ground floor will be adjusted to the higher of the then current market rate or the prevailing rental rate in the fifth year of the lease and the rental rate for the upper floors will be adjusted to the higher of the then current market rate or \$1.50 per square feet increased by the annual rental rate increase applied during the first five years of the lease as described in the preceding sentence. Fidelity will have the option to extend the lease of the ground floor for two consecutive five year terms at a market rental rate and will have the option to purchase the Glendale Building at the market value at the expiration of the lease term, provided that the Company then owns the building. Fidelity is currently attempting to sublease all or a portion of their leased premises.

Public Storage occupies 30,879 square feet (two floors) on a lease that expires in April 1996 with a total rental of \$53,900 per month (\$1.75/sq. ft.). Discussions are continuing with Public Storage with respect to a renewal of their leased premises. In addition, the Company has had discussions with other potential tenants for these premises. No definitive agreements have been reached at this time and the Company can make no assurance that attractive terms will be reached with Public Storage or an alternative tenant.

Parthenia, Canoga Park  
-----

During the period, the apartment complex maintained an occupancy in the high 90%.

Veselich, Los Angeles  
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While the occupancy rate of this property in the last twelve months has ranged from 80% to 95%, the property has historically experienced considerable turnover of tenants. This has resulted in high overhead and reduced cash flows. Management has addressed this issue by carrying out deferred maintenance, increasing marketing expenditures and improving diligence on prospective tenants. This has resulted in occupancy of 90% to 95% during the first six months of 1995. As this property has reached a stabilized occupancy, the Company is currently seeking purchase offers for its interest in the building. The Company can make no assurance that an offer will be made and/or accepted.

FINANCING OF REAL ESTATE INTERESTS

The Company's acquisition of the REO Properties was 100% leveraged: \$13.9 million was obtained in the form of conventional mortgage loans by Fidelity against the Arboleda, Veselich and Western Avenue Properties, while the balance was obtained through drawdowns (\$6.2 million) on an \$8.2 million line of credit (the "Craig Line of Credit") from Craig Corporation ("Craig").

With respect to the Veselich property, Fidelity extended a ten year loan, amortizing over thirty years, at an adjustable rate of interest tied to the one year Treasury rate plus approximately 3.7% per annum, with an initial rate of 7.25%. The loan relating to the Western property was assumed and subsequently paid off by the purchaser when the property was sold in January 1995. The loan secured by the Arboleda property has a seven year term, amortizing over 25 years, with an adjustable rate of interest tied to the six month LIBOR rate plus 4.5% per annum, with an initial rate of 9.25% per annum. The rate on this loan was 10.375% as of September 30, 1995. Fidelity did not provide financing with respect to the Parthenia property.

The remainder of the purchase price of the REO Properties was drawn on the Craig Line of Credit. The Craig Line was initially committed in the amount of \$8.2 million, of which \$6.2 million was immediately drawn down. On November 10, 1994, the Company retired \$5.25 million of the Craig Line of Credit by issuance to Craig of 1,329,114 shares of the Company's 3% Cumulative Voting Convertible Preferred Stock. The remaining \$950,000 of the Craig Line of Credit was retired in May 1995 and, accordingly, the Company has no further funds available under the Craig Line of Credit.

With regard to the purchase of the Glendale Building, Fidelity extended a 5 year loan, amortizing over twenty years, at an adjustable rate of interest tied to LIBOR plus 4.5% per annum, adjustable monthly. The Company paid Fidelity points of 1% plus normal closing costs. The loan is subject to prepayment penalties in year one of 4%, decreasing 1% in each subsequent year. The current rate was 10.375% at September 30, 1995.

On May 1, 1995, the Company obtained a loan of \$765,000 on the Parthenia property. The loan has a term of 30 years, with an adjustable rate of interest at 2.95% over the 11th District cost of funds, amounting to 8.094% at September 30, 1995.

#### BUSINESS PLAN, CAPITAL RESOURCES AND LIQUIDITY

In prior periods, the Company relied almost exclusively on cash flow from the operations of Fidelity and Gateway for its liquidity needs. As a result of the Restructuring on August 4, 1994, Fidelity and Gateway are no longer subsidiaries of the Company, and the Company and its wholly owned subsidiary, CRI, no longer have the benefit of cash flow from these companies to meet the Company's liquidity needs.

The Company expects that its sources of funds in the near term will include cash on hand (\$15.9 million at September 30, 1995), cash flow from the operations of its real estate properties, consulting fees and proceeds from the sale of its properties.

In the short term, uses of funds are expected to include (i) funding of the repair of the earthquake damage to the parking structure of the Glendale Building, (ii) operating expenses, (iii) any amounts that may become payable under the \$4 million Bulk Sale Indemnity, (iv) debt service under the property mortgages and (v) dividends declared, if any, under the Preferred Stock. Management believes that the Company's sources of funds will be sufficient to meet its cash flow requirements for the foreseeable future.

Management is currently evaluating the assets and opportunities available to the Company with a view to developing a new business plan. Among the alternatives under consideration are the continuation and expansion of its real estate operations, the movement into a new line or lines of business, merger or sale of the entire Company, and liquidation. Such alternatives may include the participation with the Company's major shareholder, Craig Corporation and/or its affiliates in land based entertainment businesses such as motion picture exhibition. As management believes that the Company has value as a publicly traded entity with significant assets, management believes it is unlikely that liquidation will be the selected business plan. No conclusions have been reached regarding any of the forgoing alternatives.

The Company has declared and paid dividends amounting to \$101,500 on the 3% Cumulative Voting Convertible Preferred Stock for the period from its issuance in November 1994 through June 30, 1995. At September 30, 1995, cumulative dividends not yet declared by the Board for the quarter ended September 30, 1995 amounted to \$39,375.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The Company, Hecco Ventures I and James J. Cotter were defendants in a civil action filed in 1990 by Alfred Roven in the United States District Court for the Central District of California. The complaint alleged fraud by the Company in a proxy solicitation relating to the Company's 1987 annual meeting of stockholders and breach of fiduciary duty. The complaint sought compensatory and punitive damages in an amount alleged to exceed \$40 million. The complaint grew out of and was originally asserted as a counter claim in an action brought by the Company against Roven to recover alleged short swing profits. In October 1995, the Company, Hecco Ventures I and James J. Cotter were granted summary judgement on all causes of action asserted in the 1990 complaint in federal court. Roven has since filed a notice of appeal from that judgement.

In 1995, Roven has now filed a complaint in the California Superior Court against the Company, Hecco Ventures I and James J. Cotter and, in addition, S. Craig Tompkins and certain other persons, including the Company's outside counsel and certain former directors of the Company, alleging malicious prosecution in connection with the short swing profits litigation. The Company believes that it has meritorious defenses to these claims, and has not reserved any amounts with respect thereto. Defense of the action has been accepted by the Company's insurers. However, additional costs of defense could be material, particularly considering the Company's limited cash flow and operating profits.

Following the Restructuring, Fidelity Federal Bank, a FSB ("Fidelity") has significantly reduced staffing as part of its efforts to reduce costs. Certain terminated employees have threatened, and in one case filed, claims asserting that Citadel is in some manner liable for what is asserted to be wrongful termination of these individuals by Fidelity. In light of the fact that, among other things, these employees were never employees of Citadel and were terminated only after Citadel's interest in Fidelity had been reduced to 16% in essentially non-voting interests in Fidelity, the Company believes it has no liability to these individuals. Defense of this action has been accepted by the Company's insurer's. However, additional costs of defense could be material.

In July 1995, Citadel was named as a defendant in a lawsuit alleging violations of federal securities laws in connection with the offering of common stock of Citadel's then wholly owned subsidiary, Fidelity, in 1994 as part of the previously reported Restructuring. The suit was filed by Harbor Finance Partners in an alleged class action complaint in the United States District Court -Central District of California on July 28, 1995 and named as defendants Citadel, Fidelity, Richard M. Greenwood (Fidelity's chief executive officer and Citadel's former chief executive officer), J.P. Morgan Securities, Inc. and Deloitte & Touche LLP. The suit alleges that false and misleading information was provided by the defendants in connection with Fidelity's stock offering and the defendants knew and failed to disclose negative information concerning Fidelity.

The complaint filed by Harbor Finance Partners raises certain claims previously made in a wrongful termination and defamation action brought by William Strocchio against Fidelity and Citadel, which was filed in Los Angeles



County Superior Court on March 9, 1995. The plaintiff in that case is the former manager of Fidelity's REO Department who alleges that his employment was terminated in violation of public policy and was a result of breaches of his implied employment contract and the implied covenant of good faith and fair dealing. The plaintiff alleges his termination was related to the fact that he objected to various aspects of Fidelity's Restructuring, including the selling of REO properties in bulk sales, as not in the interests of Fidelity, and that he asserted that the same was not fully disclosed to potential investors and to the Office of Thrift Supervision. The plaintiff in this action also seeks damages for defamation and interference with contractual relationship.

Both of these complaints seek damages in an unspecified amount. Citadel believes that these claims against it are without merit and plans to vigorously contest them.

ITEM 2 - CHANGES IN SECURITIES

Not applicable.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

27. Financial Data Schedule.

B. Reports on Form 8-K

None.

SIGNATURES

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

CITADEL HOLDING CORPORATION

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By: /s/ Steve Wesson

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President and Chief  
Executive Officer  
November 13, 1995

/s/ S. Craig Tompkins

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Principal Accounting Officer  
November 13, 1995



9-MOS

DEC-31-1995	JAN-01-1995	SEP-30-1995
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		11
		744
		0
		0
		0
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0		0
		13
0		
	67	
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39,721		
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	4,357	
		0
	3,688	
	(1,541)	
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1,282		
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	0	
		0
	1,282	
	0.19	
	0	