SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1994

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ------- to -------

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

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	95-3885184 (I.R.S. EMPLOYER IDENTIFICATION NO.)
600 NORTH BRAND BOULEVARD GLENDALE, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)	91203 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (818) 551-7450

Indicate by check mark whether 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 12 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 ---.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of Common Stock, par value $.01 per share, and 3% Cumulative Voting Convertible Preferred Stock of Registrant outstanding as of November 10, 1994 was 6,669,924 shares and 1,329,114 shares, respectively.

CITADEL HOLDING CORPORATION

INDEX

PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

ASSETS	SEPTEMBER 30, 1994	DECEMBER 31, 1993
Cash, federal funds sold and other cash equivalents	$ 2,407	$ 145,961
Investment securities held for sale		92,259
Mortgage-backed securities held for sale		91,108
Loans held for sale, at lower of cost or market		367,688
Loans receivable, net of allowances of $64,277 at December 31, 1993		3,345,695
Interest receivable		23,052
Investment in FHLB stock		52,151
Other real estate owned		153,607
Premises and equipment, net		49,247
Other receivables	3,172	
Deferred tax assets	245	1,247
Prepaid expenses	633	
Other assets	644	67,504
Investment in Fidelity Federal Bank	20,486	
Rental properties, less accumulated depreciation	19,921	
TOTAL	$47,508	$4,389,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits		$3,368,643
FHLB advances		326,400
Commercial paper		304,000
Mortgage-backed notes and bonds		100,000
Other borrowings		3,830
Amounts due Fidelity Federal Bank	$ 131	
Security deposits payable	157	
Deferred tax liabilities		14,564
Accounts payable/accrued liabilities	1,613	24,679
Deferred proceeds from bulk sales agreement	4,000	
Subordinated notes		60,000
Short-term line of credit	6,200	
Mortgage note payable	13,930	
Total liabilities	26,031	4,202,116

See notes to consolidated financial statements. (Continued)

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 1994	DECEMBER 31, 1993
STOCKHOLDERS' EQUITY:		
Serial preferred stock, per value $.01 per share; authorized, 5,000,000 shares; no shares outstanding		
Common stock, par value $.01 per share; authorized, 10,000,000 shares; issued and outstanding, 6,595,624 shares at September 30, 1994 and December 31, 1993	$ 66	$ 66
Paid in capital	60,052	60,052
Retained earnings (deficit)	(38,641)	127,285
Total stockholders' equity	21,477	187,403
TOTAL	$ 47,508	$4,389,519

See notes to consolidated financial statements.

(Concluded)

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	QUARTER ENDED SEPTEMBER 30, 1994	QUARTER ENDED SEPTEMBER 30, 1993	NINE MONTHS ENDED SEPTEMBER 30, 1994	NINE MONTHS ENDED SEPTEMBER 30, 1993
	(UNAUDITED)			
REAL ESTATE OPERATIONS:				
Rental income	$ 811		$ 811	
Interest income	1		1	
	812		812	
Real estate operating expenses	451		451	
Depreciation and amortization	114		114	
Interest expense	284		284	
LOSS FROM REAL ESTATE OPERATIONS	(37)		(37)	
FINANCIAL SERVICES OPERATIONS:				
Interest income		$69,187		$221,053
Interest expense		43,767		139,912
NET INTEREST INCOME		25,420		81,141
Provisions for estimated loan losses		19,500		41,500
NET INTEREST INCOME AFTER PROVISION FOR ESTIMATED LOAN LOSSES		5,920		39,641
NONINTEREST INCOME (EXPENSE):				
Loan and other fees		1,432		4,719
Gain (loss) on sales of loans, net		(34)		586
Fee income from investment products		590		3,556
Fee income on deposits and other income		744		2,422
Provision for estimated real estate losses		(4,000)		(21,000)
Real estate operations on specific properties		(6,433)		(14,128)
Gains on sales of mortgage-backed securities, net		917		2,460
Gains on sales of investment securities, net		17		1,963
Total noninterest income (expense)		(6,767)		(19,422)

INCOME (LOSS) FROM FINANCIAL SERVICES OPERATIONS	(847)	20,219

See notes to consolidated financial statements. (Continued)

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	QUARTER ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1993	1994	1993
	(UNAUDITED)			
ADMINISTRATIVE EXPENSE	$ 221	$ 23,489	$ 1,006	$ 67,676
LOSS OF FIDELITY FEDERAL BANK	(58,908)		(164,883)	
LOSS BEFORE INCOME TAXES -	(59,166)	(24,336)	(165,926)	(47,457)
INCOME TAX EXPENSE (BENEFIT)		(9,611)		(17,622)
NET EARNINGS (LOSS)	$ (59,166)	$ (14,725)	$ (165,926)	$ (29,835)
NET EARNINGS (LOSS) PER SHARE	$ (8.97)	$ (2.23)	$ (25.16)	$(5.38)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	6,595,624	6,595,624	6,595,624	5,544,673

See notes to consolidated financial statements.

(Concluded)

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	QUARTER ENDED SEPTEMBER 30, 1994	QUARTER ENDED SEPTEMBER 30, 1993	NINE MONTHS ENDED SEPTEMBER 30, 1994	NINE MONTHS ENDED SEPTEMBER 30, 1993
	(UNAUDITED)			
CASH FLOWS - OPERATING ACTIVITIES:				
Net earnings (loss)	$(59,166)	$ (14,725)	$(165,926)	$ (29,835)
Reconciliation of net earnings (loss) to net cash from operations:				
Provisions for estimated losses		23,500		62,500
Gains on sales of loans and securities		(896)		(5,005)
Capitalized loan origination costs		(587)		(1,310)
Amortization of deferred loan items, net		(219)		(876)
Purchases of investment securities held for sale		(142,131)		(231,960)
Maturities of investments securities held for sale		137,619		172,619
Sales in investment securities held for sale		27,068		55,372
Purchases of investment securities held for trading		(85,238)		(85,238)
Sales of investment securities held for trading		85,181		85,181
Purchases of mortgage-backed securities held for sale		(74,438)		(129,795)
Principal repayments of mortgage-backed securities held for sale		29,446		36,179
Sales of mortgage-backed securities held for sale		107,359		205,588
Originations of loans held for sale		(41,455)		(84,315)
Proceeds from sales of loans held for sale		28,549		72,738
FHLB stock dividend		510		1,139
Depreciation and amortization	114	2,306	114	6,774
Interest receivable decrease		1,564		4,808
Other receivable increase	(3,172)		(3,172)	
Other assets increase	(644)	(9,191)	(644)	(4,889)
Prepaid expense increase	(633)		(633)	
Deferred tax asset increase	(245)		(245)	
Deferred income taxes decrease		(3,931)		(4,420)
Interest payable increase (decrease)		2,484		731
Amounts due Fidelity increase	131		131	
Security deposits payable increase	157		157	
Other liabilities and deferred income increase (decrease)	1,613	(4,609)	1,613	(21,379)
Deferred proceeds from Bulk Sales agreement	4,000		4,000	

Other, net		(374)		(805)
Writedown of investment in Fidelity	52,811		52,811	
Deconsolidation of Fidelity	5,380		111,959	
Operating cash flows, net	346	67,792	165	103,802
CASH FLOWS - INVESTING ACTIVITIES:				
Purchases of investment securities		(71,287)		(96,280)
Maturities of investment securities		56,400		86,400
Principal repayments of mortgage-backed securities				5,537
Loans receivable, net decrease		65,606		131,060

See notes to consolidated financial statements.

(Continued)

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	QUARTER ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1993	1994	1993
	(UNAUDITED)			
Real estate investment (additions) dispositions, net	$(19,997)	$ (369)	$ (19,997)	$ 2,840
Sales of real estate		12,921		30,705
Premises and equipment (additions), net		(1,259)		(4,615)
Other, net		(475)		(2,006)
Investing cash flows, net	(19,997)	61,537	(19,997)	153,641
CASH FLOWS - FINANCING ACTIVITIES:				
Demand deposits and passbook savings, net increase (decrease)		(7,405)		(50,930)
Certificate accounts, net increase (decrease)		85,368		(103,496)
Proceeds from FHLB advances		40,000		200,000
Repayment of FHLB advances		(75,000)		(425,000)
Short-term borrowings increase (decrease)	6,200	(52,700)	6,200	309,301
Mortgage note increase	13,930		13,930	
Repayments of long-term borrowings		(62,000)		(162,000)
Loan fee increase	(175)		(175)	
Proceeds from stock rights offering, net				31,378
Financing cash flows, net	19,955	(71,737)	19,955	(200,747)
Less cash and cash equivalents of Fidelity at beginning of period	(90,747)		(143,677)	
Net increase (decrease) in cash and cash equivalents	(90,443)	57,592	(143,554)	56,696
Cash and cash equivalents at beginning of period	92,850	109,366	145,961	110,262
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,407	$166,958	$ 2,407	$ 166,958
SUPPLEMENTAL CASH FLOW INFORMATION - Cash paid during the period for:				
Interest on deposits, advances and other borrowings	$ 51	$ 39,545	$ 51	$ 133,439
Income taxes		1,139		1,184
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Additions to real estate owned		65,383		123,033
Transfers from investment portfolio to held-for-sale portfolio:				
Loans receivable				4,314
Investment securities				37,486
Mortgage-backed securities				224,688

See notes to consolidated financial statements.

(Concluded)

---

1. 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, a Federal Savings Bank ("Fidelity" and the "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 ("FFB Class A Common Stock" and "FFB Class C Common Stock," respectively). Citadel's investment in Fidelity was reclassified into 4,202,243 shares of Class B common stock of Fidelity ("FFB Class B Common Stock" or, together with FFB Class A Common Stock and FFB Class C Common Stock, "FFB Common Stock"). As a result (and, for purposes of the financial statements contained in this report, 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 significant 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 ("Gateway").

b. A newly-formed subsidiary of Citadel, Citadel Realty, Inc. ("CRI"; Citadel and its subsidiaries, including CRI, are referred to herein as the "Company"), purchased four real properties (the "Citadel Purchase Assets") from Fidelity for a purchase price of $19.8 million of which $13.9 million was financed by Fidelity on a secured basis and the balance of which was financed by Craig Corporation, a significant stockholder of Citadel ("Craig"), under a short-term line of credit (the "Citadel Purchase").

c. Citadel received from Fidelity by way of dividend (i) one-year transferable options (subsequently contributed to CRI) to acquire two office buildings (the "Office Buildings") used in the operations of Fidelity (including its headquarters buildings) for an aggregate exercise price of $9.3 million (the "Office Building Options"), portions of which buildings would be leased back by Fidelity upon exercise of such options, 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 (the "D&O Litigation");

d. Citadel and Fidelity entered into a Stockholders' Agreement (the "Stockholders' Agreement"), under which, among other things, Citadel must reimburse the Bank for certain losses that may be incurred by the Bank as a result of certain environmental and other representations (the "Recourse Representations") made by the Bank in connection with bulk sales (the "Bulk Sales") of loans and other assets ("Bulk Sale Assets") to certain third parties in connection with the Restructuring. Subject to the $4 million limit, the Stockholders' Agreement requires Citadel to reimburse the Bank for losses incurred by the Bank in either repurchasing Bulk Sale Assets in the event of breached Recourse Representations or curing such breaches (the "Bulk Sale Indemnity").

The foregoing historical information for the three and nine months ended September 30, 1994 presents the Company's results of operations for the two months subsequent to the closing of the Restructuring (the "closing") separate from the results of operations of the Company (including Fidelity and Gateway) prior to the Restructuring.

For the period prior to the closing of the Restructuring, administrative expenses have been recorded consistent with previous allocations made to Citadel by Fidelity. Subsequent to the closing, Citadel's investment in Fidelity has been accounted for under the cost basis of accounting.

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of various normal accruals) necessary to present fairly its financial position, its results of operations and its cash flows. The results of operations for the nine month period ended September 30, 1994 are not indicative of the results of operations to be expected for the entire year of 1994.

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" ("MD&A"), 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 MD&A as of December 31, 1993 and for the year then ended.

2. LOSS OF FIDELITY FEDERAL BANK

Effective August 4, 1994, Citadel is carrying its investment in Fidelity on the cost basis. Prior to that date, Fidelity was consolidated with Citadel for financial statement purposes. The loss of Fidelity is reflected as a single line item in the 1994 statement of operations.

The loss of Fidelity for the periods below consisted of the following:

	Three Months Ended	Nine Months Ended
	September 30, 1994	
	($ in 1,000)	
Loss from operations through August 4, 1994	$ 6,097	$112,072
Write-down of investment in Fidelity	52,811	52,811
	$58,908	$164,883

The write-down of the investment in Fidelity of $52,811,000 is based on 4,202,243 shares of Class B Common Stock received in the Restructuring at $4.875 per share, or a total value of $20,486,000. Such amount per share was deemed to be the fair value giving effect to the Bank's operating results for the third quarter of 1994 and the current trading range of FFB Class A Common Stock. Included in the write-down of the investment in Fidelity is the effect of the proceeds received from the settlement of the D&O Litigation, the write-down on uncollectible loans, and the deferral of a portion of the proceeds received from the Bulk Sale Asset agreement relating to the Bulk Sale Indemnity. Reference is made to Fidelity's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 for further information regarding the results of operations of Fidelity for the periods covered hereby. Such report has been filed as an exhibit to this report.

* * * * * *

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

RESTRUCTURING AND THE RESTRUCTURED COMPANY

On August 4, 1994, the Company completed a Restructuring described under "Item 1-Financial Statements-Note 1-Basis of Presentation" above. The Restructuring included a public offering by Fidelity of 21, 577,141 shares of FFB Common Stock, which resulted in the reduction of Citadel's equity interest in Fidelity from 100% to approximately 16%. Information contained in this Form 10-Q regarding the Bank (including information regarding the Bank's policies, procedures and plans) was provided to Citadel by Bank personnel and is included herein based upon assurances by the Bank as to the accuracy of such information. As a result of the Restructuring, Citadel no longer wholly-owns the Bank and is not in a position to verify the accuracy of such information.

The results of the Restructuring are materially less favorable to the Company than had been previously anticipated primarily due to limited equity investor interest associated with the lingering uncertainty of the California economy, the results of the January 1994 Northridge earthquake, the higher than expected costs of Restructuring, continued weakness exhibited by Fidelity's loan portfolio, and the less than anticipated proceeds of the Bulk Sales. Other contributing factors included the effect of recent interest rate increases and the costs associated with the redemption by Fidelity of certain subordinated notes in connection with the Restructuring. Citadel continues to be registered as a Savings and Loan Holding Company subject to examination and regulation by the Office of Thrift Supervision ("OTS"). While Citadel does not currently participate in the management and direction of Fidelity, Citadel intends to continue its registration as a savings and loan holding company in order to be in a position to better protect its investment in Fidelity. At the present time, this investment constitutes approximately 43.1% of the book value of Citadel's assets and 95.4% of Citadel's book net worth.

Following is additional information regarding the Restructuring and related transactions. The descriptions below of the documents entered into by the Company in connection with the Restructuring are necessarily summary in nature and are qualified in their entirety by the complete terms and conditions of such documents, which documents have been filed as exhibits to Citadel's Form 10-Q for the quarter ended June 30, 1994.

Citadel Purchase

The Citadel Purchase Assets included three apartment complexes totaling 388 units located in Southern California, purchased for $13.9 million, and a 178,000 square foot office building in Phoenix, Arizona, purchased for $5.9 million.

Fidelity has financed $13.9 million of the purchase price of three of the four Citadel Purchase Assets by making three separate loans to CRI secured by the respective properties. With respect to each of two of the apartment complexes, Fidelity has extended a 10-year loan, amortizing over 30 years, at an adjustable rate of interest tied to the one-year Treasury rate plus approximately 3.70% per annum, with an initial interest rate of 7.25%. The loan secured by the office building has a seven-year term, amortizing over 25 years, with an adjustable rate of interest tied to the six-month LIBOR rate plus 4.50% per annum, with an initial rate of 9.25% per annum. This loan is guaranteed by Citadel. In addition, CRI borrowed $6.2 million from Craig under an $8.2 million line of credit (the "Craig Line of Credit") to finance the balance of the purchase price of the Citadel Purchase Assets. See "Craig Line of Credit" below.

The table below provides an overview of the Citadel Purchase Assets owned by the Company at the end of the third quarter of 1994.

ADDRESS	TYPE	UNITS/SQUARE FEET	% LEASED AT 9/30/94	MAJOR TENANTS	REMAINING LEASE TERMS	LAST APPRAISAL	
						APPRAISED VALUE	APPRAISAL DATE
ARBOLEDA 1661 Camelback Rd., Phoenix, Arizona	Office/ Restaurant	178,000	99.8	American Express	1-5 Yrs.	/(1)/	June 30, 1994
VESELICH 3939 Veselich Ave. Los Angeles, California	Apartment	216 176,000	91.2	None	6-12 months	/(2)/	June 16, 1994
PARTHENIA 21028 Parthenia Canoga Park, California	Apartment	27 26,000	44	None	6-12 months	/(3)/	Nov. 12, 1993
WESTERN 23200 S. Western Ave. Harbor City, California	Apartment	145 98,000	99.3	None	6-12 months		June 14, 1994
					TOTAL APPRAISED VALUE:	$25.635 million	

NOTES

(1) This appraisal was prior to American Express' announcement that they will leave this facility in February 1997. The appraisal assumed that American Express exercises an extension option under the lease to 2002.
(2) "As is" value.
(3) Of the 27 units in this complex, 21 were significantly damaged in the January 1994 Northridge earthquake. The appraisal predates the earthquake.

Due to the complexity of valuing real estate and changing market conditions, the values provided by independent appraisers are indicative only and do not take into account, among other things, changes in market condition, tenancy renewals and other significant events.

Arboleda, Phoenix

Although this property was 100% leased at September 30, 1994, American Express Company, which occupies 58% (100,098 sq. ft.) of the property, announced 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 would remain vacant for some time. With the uncertainty regarding the American Express lease and certain planning issues on an adjacent site, management believes it to be unlikely that proceeds would be maximized by a current disposition.

Veselich, Los Angeles

While the occupancy rate of this property in the last 12 months has ranged from 80% to 95%, this property has historically experienced considerable turnover of tenants. This has resulted in high overhead and reduced cash flows. Management is planning to address this issue by carrying out deferred maintenance, increasing marketing expenditures and improving diligence on prospective tenants. It is expected that the property will be stabilized at near to full occupancy in some time in 1995, but there can be no assurance on this point.

Parthenia, Canoga Park

Of the 27 units in this complex, 21 were significantly damaged in the January 1994 Northridge earthquake. The Company has since completed appropriate repairs. The apartment complex remained 33% occupied during the earthquake renovation, and occupancy had increased to 44% by September 30, 1994. It is anticipated that it will take 6 - 12 months to complete the releasing of the property.

Western, Harbor City

During the last several months, this property has consistently operated at 99% occupancy with low tenant turnover. Nonetheless, this property is held for sale since it does not meet the Company's criteria for retention.

Craig Line of Credit

In order to acquire the Citadel Purchase Assets, CRI borrowed $13.9 million from Fidelity (see "Citadel Purchase" above) and $6.2 million from Craig. The amounts borrowed from Craig were part of the $8.2 million Craig Line of Credit. The Craig Line of Credit is guaranteed by Citadel, which guarantee is secured by a pledge of all of the stock of CRI and a negative pledge of all of the assets of Citadel.

The Craig Line of Credit matures and is due and payable in full on August 5, 1995, subject to CRI's right, if it satisfies certain conditions and pays an extension fee, to extend the line for an additional six months to February 5, 1996. Borrowings under the Craig Line of Credit bear interest at prime plus

3%, and there is a 0.5% annual fee on the average undrawn balance under the line. CRI paid a 2.5% commitment fee at origination of the Craig Line of Credit, and, if CRI were to elect to extend the maturity date of the line, it would be required to pay a 1% extension fee. The Craig Line of Credit was recently restructured with $5.25 million of the outstandings being converted into preferred stock and the availability under the line of credit being reduced to $950,000, all of which is currently outstanding. See Item 2, below.

James J. Cotter, the Chairman of the Board, also is the Chairman of the Board and a director of Craig. S. Craig Tompkins, the Vice-Chairman of the Board, Secretary, Treasurer and Principal Accounting Officer of Citadel, is also the President and a director of Craig. As of September 30, 1994, Craig owned approximately 9% of the outstanding common stock of Citadel ("Common Stock"), and made the Craig Line of Credit available to facilitate the Restructuring and Recapitalization. The Craig Line of Credit was approved by the full Board of Directors of Citadel as a part of the Restructuring, with Messrs Cotter and Tompkins abstaining. In the absence of the Craig Line of Credit, Citadel would not have been able to purchase the Citadel Purchase Assets.

Office Building Options

As part of the Restructuring, Citadel also acquired by way of dividend the Office Building Options, which were assigned to CRI. The Office Buildings subject to the Office Building Options are located in Glendale (the "Glendale Building") and in Sherman Oaks (the "Sherman Oaks Building"), respectively, and the aggregate exercise price of the Office Building Options is $9.3 million, which is equal to the aggregate net book value of the Office Buildings as of June 30, 1994 on the books of Fidelity. At September 30, 1994, the Company did not have the financial resources available to exercise these options.

The table below provides an overview of the Office Buildings:

ADDRESS	TYPE	UNITS/SQUARE FEET	% LEASED AT 9/30/94	MAJOR TENANTS	LEASE TERM
GLENDALE BUILDING 600 North Brand Blvd., Glendale, California	Office	89,000	100	Fidelity; Public Storage	(1)
SHERMAN OAKS BUILDING 14455 Ventura Blvd., Sherman Oaks, California	Office	26,300	100	Fidelity	7 years (2)

NOTES:

(1) For Fidelity, 10 years from the exercise of the Office Buildings Option; for Public Storage, to 1996.
(2) 7 years from the exercise of the Office Buildings Option.

Third-party appraisals on the Office Buildings indicate that the market value of the Office Buildings could be up to $3 million above the exercise price of the Office Building Options, before costs the Company would incur in connection with the exercise, which may be significant.

The following provides certain additional information regarding the Office Buildings:

Glendale Building

This is the headquarters building of Fidelity. Management continues to evaluate the property, including ascertaining the likely costs of repairing the January 1994 Northridge earthquake damage to the car parking structure and whether the main structure was damaged in that earthquake.

Upon exercise of the Office Building Option with respect to this property, Citadel and Fidelity would enter into a 10-year, full service gross lease for four of the six floors of the building the terms of which have been fully negotiated, except that, if the option were to be exercised after February 4, 1995, the rental rates would be adjusted to market rentals and would be subject to OTS approval. The rental rate of the first five years of the lease term would be approximately $26,600 per month including parking for the ground floor and approximately $75,000 per month including parking for the fourth, fifth and sixth floors. This lease would provide for annual rental increases at the lower of the increase in the Consumer Price Index ("CPI") 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 would be adjusted to the higher of the then 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 would have the option to extend the lease of the ground floor for two consecutive five year terms at a market rental rate and would have the option to purchase the Glendale Building at a market rate at the expiration of the lease term, provided that Citadel then owns the building.

While management believes that the Glendale Building is well situated, the value of both Office Buildings is tied in significant part to the credit-worthiness and future prospects of Fidelity. Management has tentatively decided to pursue the exercise of the option with respect to this building. No financing commitment has yet been obtained.

Sherman Oaks Building

This property was heavily damaged in the Northridge earthquake. Renovation work required by the earthquake has been completed and Fidelity is now operating a branch in the building.

Upon exercise of the Office Building Option with respect to this property, Fidelity and Citadel would enter into a seven-year, triple net, master lease the terms of which have been agreed upon, except that, if the option were to be exercised after February 4, 1995, the rental rates would be adjusted to market rentals and would be subject to OTS approval. Fidelity would pay approximately $29,950 per month in rent, including parking. The rental would increase each year at the lower of the increase in the CPI or 4%. At the expiration of the master lease term, Fidelity would have the option to enter into a lease of the ground floor for two consecutive five year terms at a market rental rate.

Management has determined that the property does not meet its criteria for retention. Consequently, the property has been listed for sale. The Company has made a preliminary determination to exercise the Office Building Option with respect to this building and expects to finance the exercise from cash on hand.

D&O Litigation

In connection with the Restructuring, Fidelity also transferred to Citadel its interest in the D&O Litigation. Fidelity had obtained a substantial monetary judgment against the defendant insurance carrier, which was reversed and remanded by the Ninth Circuit Court of Appeals in December 1993. On remand, the trial court rendered a subsequent judgment in favor of Fidelity of approximately $2.9 million. In October, 1994, Citadel received $2.5 million cash in final settlement of this litigation. A receivable for such amount was recorded as of September 30, 1994.

Bulk Sale Indemnity

Deferred proceeds in the amount of $4 million have been included in the September 30, 1994 balance sheet, representing the contingent liability of Citadel under the Bulk Sale Indemnity. As of November 15, 1994, Fidelity had made claims for approximately $3.9 million under that indemnity. The Company has not yet determined the extent to which, if any, these claims are meritorious.

Description of FFB Class B Common Stock

Under the terms of the Amended and Restated Charter S of Fidelity (the "Amended Charter"), Citadel, as holder of FFB Class B Common Stock, is entitled to limited voting rights. Holders of FFB Class B Common Stock are permitted to vote only (i) with respect to any amendment, modification or waiver of the Amended Charter that would adversely affect the rights of the FFB Class B Common Stock (including, without limitation, any increase or decrease in the percentage of shares of FFB Class B Common Stock outstanding required to approve any such amendment, modification or waiver), in which case any such amendment, modification or waiver will not be effective without the prior affirmative vote of the holders of the majority of the FFB Class B Common Stock at the time outstanding voting as a separate class and (ii) on a merger or consolidation of the Bank or a sale or exchange of all or substantially all of the assets of the Bank on which the holders of FFB Class A Common Stock have the right to vote, in which event the holders of FFB Class A Common Stock and FFB Class B Common Stock will vote together as one class, (iii) together with the holders of the FFB Class A Common Stock and the FFB Class C Common Stock, voting as a single class, on any dissolution of the Bank or (iv) as otherwise required by law.

The holders of FFB Class B Common Stock are entitled to receive dividends pari passu with the holders of FFB Class A Common Stock and FFB Class C Common Stock, out of funds legally available therefor, subject to the restrictions of the Bank's regulators and the payment of preferential amounts of which any class of stock having preferences over the FFB Common Stock is entitled. Upon liquidation, dissolution or winding up of the Bank, holders of the FFB Class B Common Stock are entitled to share ratably and pari passu with holders of FFB Class A Common Stock and FFB Class C Common Stock in all assets remaining after the payment of all liabilities of the Bank and of any preferential amounts to which any class of stock having preferences over the FFB Common Stock is entitled.

Upon the sale or transfer of any shares of FFB Class B Common Stock by Citadel to any person that is not an affiliate of Citadel, such transferred shares will automatically be converted into shares of FFB Class A Common Stock. In addition, any outstanding shares of FFB Class B Common Stock will automatically be converted into shares of FFB Class A Common Stock if such outstanding shares represent less than 10% of the total outstanding FFB Common Stock on a fully-diluted basis. The conversion rate for the FFB Class B Common Stock will be one-to-one.

Pursuant to a Registration Rights Agreement entered into with the Bank (the "Registration Rights Agreement"), Citadel and any person who acquires shares of FFB Class B Common Stock or FFB Class A Common Stock issuable upon conversion of the shares of FFB Class B Common Stock (the "Registrable Securities") is entitled to certain registration rights with respect to such shares, subject to the terms and conditions of the Registration Rights Agreement. At any time on or after the end of the first fiscal year ending after the closing of the Reorganization and before March 31, 1998, the holder or holders of more than 50% of the Registrable Securities may require the Bank to register all or a portion of the Registrable Securities under OTS regulations, subject to certain restrictions, provided that no registration statement filed by the Bank pursuant to any such demand shall become effective prior to the date of filing by the Bank of its Annual Report on Form 10-K for the first fiscal year ending after the date of the Closing (the "Form 10-K Filing Date"). No more than three demands may be made pursuant to such registration rights. Furthermore, if, at any time before March 31, 1999, the Bank proposes to register any of its FFB Common Stock under the OTS regulations for purposes of an offering or sale in a primary or secondary offering, the Bank may be required to include any or all shares of Registrable Securities as directed by the holders thereof. Subject to certain limitations, the Bank is required to bear all registration and selling expenses in connection with the registration of the Registrable Securities.

The Stockholders' Agreement provides restrictions on the transfers of shares of FFB Class B Common Stock. Except pursuant to the exercise of its registration rights described above, no holder of FFB Class B Common Stock may sell publicly shares of FFB Class B Common Stock representing more than 5% of the total outstanding Common Stock of the Banks on a fully-diluted basis during any 30-day period without the prior approval of the Board of Directors of the Bank. In addition, if shares of FFB Class B Common Stock representing more than 5% of the total outstanding FFB Common Stock on a fully-diluted basis are proposed to be sold privately to any person or, if after giving effect to such private sale, the transfers (including any of the transferee's affiliates or any "group" (as defined) of which the transferee is a member) would own more than 5% of the outstanding Common Stock of the Bank on a fully diluted basis, then except in connection with distributions by Citadel of such shares to its stockholders, Fidelity will have an assignable right of first refusal with respect to the shares of FFB Class B Common Stock proposed to be sold. Upon any distribution of FFB Class B Common Stock by Citadel to its stockholders, by dividend or otherwise, any Citadel stockholder will be entitled to convert all or portion of the shares of FFB Class B Common Stock so distributed to the extent that such shares when added to all other shares of FFB Class B Common Stock owned immediately prior to the distribution by such stockholder and any shares of FFB Class B Common Stock owned immediately prior to the distribution by all other members of any "group" of which such stockholder is a member, do not exceed five percent of all outstanding shares of FFB Common Stock of the Bank.

In addition, for a period commencing six months after the Closing and ending 18 months after the Closing, Fidelity has the right to redeem, subject to the approval of OTS and the approval of the stockholders of Citadel, any outstanding shares of FFB Class B Common Stock owned by Citadel or its affiliates (each a "Citadel Person"), in excess of the number of shares of FFB Common Stock held by the then largest stockholder of the Bank (other than Citadel), at a redemption price (the "Redemption Price") equal to either (a) 110% of the market price of the FFB Class A Common Stock, assuming it is then listed on a national securities exchange or admitted for quotation on the National Association of Securities Dealers Automated Quotation System, or (b) if the FFB Class A Common Stock is not so listed or quoted 100% of the book value per share of all FFB Common Stock as of the most recent quarterly balance sheet date; provided that no such redemption shall be made in anticipation of any merger, consolidation, sale of all or substantially all of Fidelity's assets, distribution (other than any ordinary cash dividend), or any other transaction involving the receipt by holders of any class of FFB Common Stock of any cash or other property. Fidelity will be required to notify each Citadel Person holding shares of FFB Class B Common Stock of its intention to exercise such right to redeem shares. After receiving such notice, such Citadel Person will have the option to distribute any or all of the shares of FFB Class B Common Stock it owns to its stockholders, in which case Fidelity will redeem only the shares of FFB Class B Common Stock, if any, not so distributed by such Citadel Person.

Tax Sharing

The tax sharing agreement between Citadel and Fidelity was terminated prior to the Closing. At the Closing, Citadel and Fidelity entered into a tax disaffiliation agreement (the "Tax Disaffiliation Agreement") that sets out each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state, local and foreign taxes for periods before and after the Closing and related matters such as the filing of tax returns and the conduct of Internal Revenue Service and other audits. In general, under the Tax Disaffiliation Agreement, Fidelity will be responsible for (1) all adjustments to the tax liability of Fidelity and its subsidiaries for period before the Closing to operations of Fidelity, (ii) any tax liability of Fidelity and its subsidiaries for the taxable year that begins before and ends after the Closing in respect of that part of the taxable year through the end of the date of the Closing, and (iii) any tax liability of Fidelity and its subsidiaries for periods after the Closing. For this purpose, Gateway is deemed to be a subsidiary of Fidelity at all relevant times and any liability for taxes for such period ending on or before the Closing shall be measured by Citadel's actual liability for taxes for such period, after applying tax benefits otherwise available to Citadel attributable to such period. With certain exceptions, Fidelity will be entitled to any refunds of taxes relating to its tax liabilities.

In general, Citadel will be responsible for all tax liabilities of Citadel and its subsidiaries (other than Fidelity and its subsidiaries) for all periods prior to disaffiliation. Citadel will be entitled to any refunds of taxes relating to its liabilities.

Management

Steve Wesson has been appointed as President and Chief Executive Officer of the Company. Mr. Wesson was initially retained to develop a plan for the retention by Citadel of approximately $500 million in gross book value of the assets ultimately sold to third parties in the Bulk Sales. From 1989 until he joined the Company in 1993, Mr. Wesson served as CEO of Burton Property Trust Inc., the U.S. real estate subsidiary of The Burton Group PLC. In this position he was responsible for the Restructuring and eventual disposal of the company's assets in the U.S. Mr. Wesson succeeds Richard M. Greenwood, who resigned from his positions with Citadel and continues as the President and Chief

Executive Officer of Fidelity. All officers of Citadel, other than Heidi Wulfe, Senior Vice President, Controller and Chief Accounting Officer, resigned their offices effective as of the Closing. Ms. Wulfe resigned her positions with Citadel effective August 23, 1994. On September 15, 1995, S. Craig Tompkins was appointed Secretary, Treasurer and Principal Accounting Officer of Citadel.

Upon the closing of the Restructuring, Directors Donald Boulanger, Mel Goldsmith, Richard M. Greenwood and Zelbie Trogden resigned as directors of Citadel and Fidelity and Ralph B. Perry III resigned as a Director of Fidelity. Directors Peter W. Geiger and Alfred Villasenor, Jr. resigned as directors of Fidelity but, along with Directors James J. Cotter and S. Craig Tompkins (who were not directors of Fidelity) will continue as directors of Citadel. Steve Wesson was also elected as a Citadel Director. Messrs. Goldsmith, Greenwood and Perry were reelected as directors of Fidelity along with five new directors not previously associated with the Company, who were elected effective upon the Closing. Mr. James J. Cotter will continue as the Chairman of the Board of Citadel, and Norman Barker, Jr., a former Chairman of the Board of Directors of First Interstate Bank of California, became the Chairman of the Board of Fidelity.

Citadel Loan to Former Chief Executive Officer

As part of Mr. Greenwood's compensation package when the joined Citadel, Citadel extended an interest-free loan to Mr. Greenwood in the amount of $240,000, payable on demand. The loan was made principally to refinance a loan extended to Mr. Greenwood by his previous employer. At the Closing, this loan was converted into a 2-year term loan, with 9% interest accrual to commence 6 months after the Closing. Accrued interest is payable monthly in arrears.

BUSINESS PLAN, CAPITAL RESOURCES AND LIQUIDITY OF THE COMPANY

In prior periods, Citadel has relied almost exclusively on Fidelity and Gateway for its liquidity needs. As a result of the Closing of the Restructuring on August 4, 1994, Fidelity and Gateway have ceased to be subsidiaries of Citadel, and Citadel and its wholly-owned subsidiary CRI can no longer rely on these companies for liquidity.

Management of the Company is currently evaluating the assets and opportunities available to the Company with a view to developing a new business plan. Management currently anticipates that the Company will (i) seek to dispose of its FFB Class B Common Stock, (ii) work to maximize the value of its current real estate holdings and (iii) exercise the options to purchase the Office Buildings. However, no final conclusions have been reached regarding any of the foregoing aspects of such business plan.

The Company expects that its sources of funds in the near term will include cash on hand ($2.4 million on September 30, 1994 and including $2.5 million collected after that date in settlement of the D&O Litigation), cash flow from the operations of its real estate properties, if any, and proceeds from asset sales. Although, the Company has no right to require its FFB Class B Common Stock to be registered for sale until the Form 10-K Filing Date (which is not expected to occur prior to March 31, 1995), management is actively exploring ways in which to dispose of these securities and reduce its exposure to Fidelity.

Uses of funds are expected to include (i) funding of the exercise price of the Office Building Options, (ii) capital expenditures with respect to the Company's real estate assets, (iii) operating expenses, (iv) any amounts that may become payable under the $4 million Bulk Sale Indemnity and (iv) debt service under the Craig Line of Credit and the loans obtained from Fidelity to finance the acquisition of the four Citadel Purchase Assets.

As discussed above, the Craig Line of Credit matures on August 5, 1995, subject to possible extension. All amounts outstanding thereunder (approximately $950,000 at November 18, 1994) will become due and payable on the maturity date. Current sources of funds may or may not be sufficient to make such payment. Management is currently exploring ways of raising additional cash (among other things in order to retire the remaining Craig Line of Credit and to exercise the Office Building Options), including asset sales, refinancings and equity and debt offerings or a combination of the foregoing. The Company believes that the above sources of funds will be sufficient to cover its basic operating needs for at least 12 months; however there can be no assurance that the Company will be able to raise additional funds sufficient to cover its other cash needs or that it will be able to do so on favorable terms.

FINANCIAL HIGHLIGHTS

As discussed throughout this report, upon closing of the Restructuring on August 4, 1994, the Company's operations changed from a financial services holding company to a company whose principal assets consist of shares in Fidelity and real estate. As a result, textual comparisons between the Company's operating results for the quarter and nine months ended September 30, 1994 and the equivalent periods during 1993 are not meaningful and have been omitted.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On November 7, 1994, Dillon Group commenced an action in the Court of Chancery of the State of Delaware (the "Delaware Action") against Citadel, its directors and Craig seeking an order declaring that shares of Citadel issued to Craig on October 21, 1994 (see Item 2 - "Changes of Securities," below) were not properly issued and enjoining Craig from voting such shares or counting such shares towards a quorum at the Annual Meeting scheduled for December 12, 1994, determining that any shares issued by Citadel after November 4, 1994 shall not be voted or counted towards a quorum at the Annual Meeting, and preliminarily and permanently enjoining the directors of Citadel from issuing any shares of stock of Citadel prior to the Annual Meeting. After a hearing, the Court denied the application on the ground that Dillon had failed to make an adequate record justifying the relief sought without prejudice to renewal of an application for preliminary relief if additional shares of Citadel are issued. The Court has set January 4, 1995 as the trial date for this action. On November 14, 1994, the Dillon Group amended its Complaint to include challenges to the issuance to Craig of certain shares of Preferred Stock on November 11, 1994. See Item 2, below. Citadel and its directors believe this case is without merit and intend to vigorously defend themselves. As discussed below, the Board of Directors believes that the issuances of shares to Craig are in the best interests of Citadel and its stockholders. On November 16, 1994, Citadel filed certain counter claims in the Delaware Action seeking to invalidate any election of Dillon Group's nominees based upon a consent solicitation initiated by Dillon Group and a bylaw amendment proposed by Dillon Group. Citadel also filed a lawsuit in the United States District Court for the Central District of California (the "Federal Action"), against the Dillon Group and the Dillon nominees seeking injunctive relief against each defendant pursuant to Section 13(d) of the Securities Exchange Act of 1934 on the ground that defendants have failed to disclose and have misrepresented various material facts required to be disclosed in filing with the SEC under Section 13(d).

ITEM 2. CHANGES IN SECURITIES

Issuance of Common Stock

Commencing shortly after the Restructuring, Citadel began to explore with Craig the possibility of Craig making an additional equity infusion in Citadel for working capital purposes. Citadel formed a special committee (the "Special Committee") of the independent directors of the Board (which included all of the directors other than Messrs. Cotter and Tompkins) to negotiate the terms of such an equity infusion. On October 21, 1994, Citadel, after approval by the Special Committee, issued 74,300 shares of Common Stock, to Craig at a purchase price of $3.85 per share. The transaction provided capital to Citadel and increased Craig's equity stake in Citadel to just above 10%. Because Citadel has remained a registered savings and loan holding company following the Restructuring, acquisition of more than 10% of Citadel's equity can require the approval of the OTS. Craig advised Citadel that it previously received such OTS approval, and that such approval would expire on October 23, 1994 unless Craig's equity interest increased above 10% prior to its expiration. Once Craig's equity interest exceeded 10%, however, Craig would be permitted under its OTS approvals to acquire additional equity in Citadel without obtaining additional OTS approvals. Accordingly, this transaction both increased Citadel's working capital and preserved Craig as a potential source of future equity financing without new OTS approval. On November 17, 1994, Citadel shares closed at $3-7/16.

Issuance of Preferred Stock In Debt Restructuring

On November 10, 1994, Citadel issued 1,329,114 shares (the "Preferred Shares") of 3% Cumulative Voting Convertible Preferred Stock to Craig at a price of $3.95 per share (the "Debt Restructuring"). Payment was made in the form of cancellation of $5,250,000 of indebtedness owed to Craig under the Craig Line of Credit. In connection with the Debt Restructuring, the Craig Line of Credit was reduced to $950,000, all of which is currently drawn.

The Debt Restructuring was reviewed and approved by the Special Committee. The members of the Special Committee determined that, without the issuance of the Preferred Shares, Citadel would likely be forced to liquidate its assets, including its shares of Fidelity, under a "distress sale" circumstance to pay the indebtedness under the Craig Line of Credit, thereby reducing prospects for maximizing the value of Citadel's assets. The Special Committee was especially concerned that the lack of a liquid market for Fidelity stock might impede Citadel's ability to maximize its value in a forced disposition to meet Citadel's obligations under the Craig Line of Credit. The Special Committee was also concerned that it might be unable to identify any alternative sources of equity or receive sufficient proceeds from a sale of the Fidelity shares to pay the Craig Line of Credit as the maturity date drew nearer, particularly if there was a further deterioration of Fidelity's financial condition. The conversion of the debt to equity has improved Citadel's cash flow by converting floating rate debt bearing an interest rate of prime plus 3% into a fixed cumulative dividend of 3%

(which is not a liability on Citadel's balance sheet until declared), and has expanded Citadel's equity base while reducing Citadel's leverage.

The Special Committee received the written opinion of Wedbush Morgan Securities ("Wedbush"), dated November 10, 1994, that, based upon and subject to the matters set forth therein, the consideration received by Citadel for the issuance of the Preferred Shares is fair, from a financial point of view, to the public stockholders of Citadel. In rendering its opinion Wedbush, among other things, compared the financial and stock market information for Citadel with similar information for certain other companies whose securities are publicly traded and considered the likelihood that Citadel could sell the Preferred Shares or a similar security to another purchaser on better terms. Wedbush is an investment banking firm and a member of the New York Stock Exchange and other principal stock exchanges in the United States, and is regularly engaged as part of its business in the valuation of businesses and securities for corporate, estate tax and other purposes in connection with mergers and acquisitions, private placements and negotiated underwritings. A copy of the Wedbush opinion has been filed as an exhibit to Citadel's Current Report on Form 8-K (the "Preferred Stock 8-K") filed with the SEC on November 14, 1994. In retaining Wedbush, the Special Committee noted, among other things, the absence of any prior representation by Wedbush of Craig.

Set forth below is a description of certain terms of the issuance of the Preferred Shares. Such description is summary in nature and is qualified in its entirety by reference to the Certificate of Designation and the related stock purchase agreement with Craig, which was filed as exhibits to the Preferred Stock 8-K. Holders of the Preferred Shares will have the right to convert such shares into Common Stock at any time at a conversion ratio based upon the market price of Common Stock, subject to certain limitations. In addition, the Preferred Shares are subject to automatic conversion into Common Stock under certain circumstances if Citadel undertakes a rights offering of Common Stock to its stockholders. Citadel has the option to redeem the Preferred Shares at any time after November 10, 1997 at a premium. Holders of Preferred Shares have the right to require Citadel to purchase their shares at a premium under certain circumstances, including a "Change in Control." A Change in Control is defined as the occurrence of either of the following events: (i) any person, entity or "group" (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules thereunder) other than Craig, and its successors and affiliates, acquires beneficial ownership of over 35% of the outstanding voting securities of Citadel; or (ii) the directors of Citadel as of October 10, 1994 (the "Current Directors"), and any future directors ("Continuing Directors") of Citadel who have been elected or nominated by a majority of the Current Directors or the Continuing Directors, cease to constitute a majority of the Board of Directors. The terms of the Craig Line of Credit also provide Craig with the right to require Citadel to pay the indebtedness thereunder upon a change in control.

The Preferred Shares vote jointly (not as a separate class) with the Common Stock on most matters, including the election of directors, with each Preferred Share entitled to one vote. Holders of the Preferred Shares will have the opportunity to purchase part of any new issuance of voting securities of Citadel to preserve their respective percentage voting interests. If a court of competent jurisdiction issues any ruling, judgment, injunction, decree or order that prohibits Craig from voting the Preferred Shares at any meeting of Citadel stockholders or pursuant to any written consent of Citadel stockholders, in which vote or consent the Preferred Shares would otherwise be entitled to participate, or invalidates any such vote or consent of such Preferred Shares, then Craig will have the right to rescind its purchase of the Preferred Shares. Upon any such rescission, the debt under the Craig Line of Credit would be reinstated and would bear interest as though it had been outstanding on a continuous basis. At November 18, 1994, the effective rate of interest on the Craig Line of Credit was 11.5%. The Certificate of Designations for the Preferred Shares, establishing the voting powers, preferences and relative rights of the Preferred Shares, and the definitive Preferred Stock Purchase Agreement between Citadel and Craig have been included as exhibits to the Preferred Stock 8-K.

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 -

4.1	Certificate of Designation relating to 3% Cumulative Voting Convertible Preferred Stock*
4.2	Preferred Stock Purchase Agreement dated November 10, 1994 by and between Citadel and Craig*
4.3	Stock Purchase Agreement by and between Citadel and Craig**
10.1	Employment agreement between the Company and Steve Wesson
27	Financial Data Schedule
99	Financial Statements and Related Notes Contained in the Quarterly Report on Form 10-Q of Fidelity for the Quarter Ended September 30, 1994.

(b) Reports on Form 8-K -

(i) Current Report on Form 8-K of Citadel filed with the SEC on August 4, 1994.
(ii) Current Report on Form 8-K of Citadel filed with the SEC on August 12, 1994.
(iii) Current Report on Form 8-K of Citadel filed with the SEC on October 25, 1994.
(iv) Current Report on Form 8-K of Citadel filed with the SEC on November 14, 1994.

- -----------------
* Filed as an exhibit to the Current Report listed under Item 6(b)(iv).
** Filed as an exhibit to the Current Report listed as Item 6(b)(iii).

SIGNATURES

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

CITADEL HOLDING CORPORATION
(Registrant)

Date: November 21, 1994 By: /s/ Steve Wesson
Steve Wesson
President and Chief Executive Officer

Date: November 21, 1994 By: /s/ S. Craig Tompkins
Principal Accounting Officer

EXHIBIT 10.1

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is entered into as of the dates set forth below, between CITADEL HOLDING CORPORATION, a Delaware corporation ("Citadel") and STEVE WESSON ("Executive").

In consideration of the mutual promises contained herein, Citadel and Executive agree as follows:

1. EFFECTIVE DATE. The effective date (the "Effective Date") of this Agreement is August 4, 1994.

2. EMPLOYMENT. As of the Effective Date, Citadel hereby employs Executive to render the services specified herein upon the terms and conditions and for the compensation herein provided, and Executive hereby agrees to render the services as specified.

3. TERM OF EMPLOYMENT. Unless otherwise extended by agreement of the parties, Executive's employment hereunder will commence as of the Effective Date set forth above and will end on the earliest of:

(a) a date two years from the Effective Date (this Agreement shall be automatically renewed for consecutive one-year periods unless either party gives notice of non-renewal at least 30 days prior to the end of the initial two-year term hereof or prior to the end of any annual renewal hereof);

(b) the date of termination of Executive's employment as defined herein (paragraphs 6 or 7); or

(c) the date of Executive's death.

4. SERVICES TO BE RENDERED. Subject to the terms and conditions of this Agreement, Executive will be employed as Chief Executive Officer of Citadel at its principal office, and he will promote the business affairs and business interests of Citadel faithfully and diligently. Executive further agrees to serve in such other executive positions with Citadel, or with the affiliates or subsidiaries thereof, as Citadel may direct or to which he may be elected from time to time, provided that such positions are consistent, and not in conflict, with his position and executive duties on behalf of Citadel. Executive, in the ordinary course of his duties, shall report to the Chairman of the Board of Citadel. It is further agreed that the titles, reporting responsibilities and duties of such other executive positions may be changed or eliminated at any time. Executive will perform the usual and customary duties of Chief Executive Officer and of any additional positions he may hold, and he is granted the usual and customary power and authority associated with each such office, subject to the respective provisions of the Certificate of Incorporation and By-laws of Citadel. Citadel will not assign to Executive any duties or responsibilities that are inconsistent with the position, duties, responsibilities or status of Chief Executive Officer, change his title as Chief Executive Officer, require him to relocate his principal office to a location outside Los Angeles County or materially change his reporting responsibilities or materially diminish his authority or status.

5. SALARY; REIMBURSEMENT OF EXPENSES; PERQUISITES; BENEFITS; BONUSES; DEFERRED COMPENSATION.

(A) SALARY. For services rendered hereunder Executive will be paid an annual base salary of $175,000, payable semi-monthly, or in such other regular reasonable periodic installments as may be established by Citadel.

(B) EXPENSE REIMBURSEMENT AND PERQUISITES. Citadel will pay or reimburse Executive for all reasonable travel, business entertainment and other expenses reasonably and necessarily incurred by Executive in the performance of his obligations under this Agreement. During the term of this Agreement Citadel will provide Executive with an expense allowance of $1,150 a month for the use of an automobile. Citadel will reimburse Executive for all initiation fees and dues associated with membership in those professional and social clubs which are approved either by the Chairman of the Board of Directors, or by the Board of Directors, of Citadel. It is agreed that all equity memberships will be the property of and will be in the name of Citadel if permitted by the club. If not so permitted, Executive agrees that upon the termination of his employment he will pay to Citadel the then fair market value of such equity membership should he decide to retain such membership, or alternatively, he immediately will at the option of Citadel either (a) seek to sell such membership at fair market value and pay the proceeds of such sale, if any, to Citadel, or (b) transfer the membership without charge to Citadel's nominee.

(C) HEALTH AND MEDICAL INSURANCE. Executive shall be entitled to participate in all medical, dental, life insurance, and disability plans, if any, which may be established by Citadel. The intention is to establish at least minimum reasonable employee benefits, including medical insurance, and vacation accrual, as well as the benefits described in subparagraph (b) above. Executive acknowledges that, at the current time, Citadel has no such plans. It is contemplated that, until such time as it has a health and medical plan, Citadel will provide health and medical insurance benefits covering Executive, his spouse and children, through the purchase of an individual policy of health/medical insurance. Such insurance will be subject to reasonable terms and conditions pertaining to coverage, and will not be required to cover pre-existing conditions. Until such time as such insurance policy has been obtained, Citadel will reimburse Executive for payments made by Executive under any COBRA coverage available to him.

(D) OTHER FRINGE BENEFITS. Executive shall be entitled to participate in all retirement, profit sharing, savings, and stock options plans, if any, which may be established by Citadel. Executive acknowledges that, at the current time, Citadel has no such plans. It is contemplated, however, that Citadel will adopt a stock option plan and that Executive will be granted under that plan a ten year option to acquire 33,000 shares of Citadel Common Stock, which options will vest 11,000 immediately upon date of grant, 11,000 on August 4, 1995, and the remaining 11,000 on

August 4, 1996. The exercise price will be fixed at the average closing price for Citadel common stock during the thirty day period following the date of the public release of Citadel's results for the quarter ended September 30, 1994.

(E) ANNUAL BONUS. Citadel shall pay Executive a minimum annual bonus of $50,000, paid in two equal installments on the 31st day of December and July, the first payment due on December 31, 1994. In addition to the minimum annual bonus, Executive will be eligible each year for a discretionary bonus, the amount of which will be determined each year by the Board of Directors in the exercise of its sole and absolute discretion.

6. TERMINATION OF EMPLOYMENT BY CITADEL. Citadel may terminate Executive's employment under this Agreement for any reason, with or without cause, as defined below. Upon termination of Executive's employment by Citadel without cause he shall receive those benefits to which he is entitled under then existing plan provisions and applicable law; he shall receive, without limitation, all salary, expense, bonus, and other payments and property, if any, owed to him by Citadel as of the date of termination; finally, Executive shall be entitled to severance as set forth in paragraph 8 below. Upon termination of Executive's employment by Citadel for cause, all of Executive's rights to salary, fringe benefits and all other payments and perquisites from Citadel will terminate prospectively to the maximum extent permitted by applicable law and plan provisions. Any such termination by Citadel will be effective upon 15 days' written notice, which

notice will state that the termination is for cause and briefly will describe the factual basis for such cause. Citadel may suspend Executive from all duties during this 15-day period. If such ground for cause can be cured, and Executive is able to cure within the 15-day notice period, then such termination shall not become effective. In the event of termination for cause, Executive shall be entitled to accrued salary, and expenses to the date of such written notice but Executive shall not be entitled to any severance or other payments pursuant to paragraphs 6, 7 or 8. As used herein, "cause" means dishonesty, misconduct, incompetence, fraud, breach of fiduciary duty, a material failure or refusal to perform stated or assigned duties, a knowing violation of any material law, rule or regulation (other than traffic violations or similar offenses) or of any cease-and-desist order, or material breach of any provision of this Agreement.

7. TERMINATION OF EMPLOYMENT BY EXECUTIVE. Executive may terminate his employment under this Agreement, with or without cause as defined below, at any time upon 90 days' prior written notice to Citadel. Citadel may suspend Executive from all duties during such 90-day period. Upon any such termination by Executive of this Agreement without cause, all of Executive's rights to salary, fringe benefits, and all other payments and perquisites will terminate prospectively to the maximum extent permitted by applicable law and plan provisions. Upon any such termination by Executive with cause, Executive will receive payments and benefits as if his employment had been terminated by Citadel without cause

as defined in paragraph 6. As used in this paragraph only, "cause" means only a material breach by Citadel of any provision of this Agreement. Nothing in this Section will vitiate any of Citadel's obligations or Executive's rights with respect to any termination by Citadel of Executive's employment.

8. SEVERANCE PAYMENTS DUE UPON CERTAIN TERMINATIONS. In the event of termination of Executive's employment prior to the end of the employment term defined in paragraph 3(a) above and other than a termination for "cause" pursuant to paragraph 6, or a termination by Executive without "cause" pursuant to paragraph 7, or upon Executive's death, Executive will receive those benefits to which he is entitled under plan provisions and applicable law. He will also receive all salary, expense and other payments and property, if any, owed to him by Citadel as of the date of termination. If any such event of termination occurs during the initial two-year term of this Agreement, Citadel agrees to pay Executive severance compensation in the amount of $18,750 (one-twelfth of $225,000) for each month (or portion thereof for each partial month) then remaining of the term of this Agreement but with a minimum severance of $225,000. If any such event of termination occurs during any annual renewal of this Agreement, Citadel agrees to pay Executive severance of $225,000. Any such amounts are payable in a lump sum within 30 days or in 12 equal monthly installments, at the sole discretion of Citadel. Citadel acknowledges and agrees that Executive will be entitled to receive all payments provided for herein regardless of any income which

Executive may receive from other sources after any such termination. Any severance payments due to Executive, in the event of his death, may be payable to Executive's estate or such beneficiaries as he may have designated in writing.

9. <u>FULL-TIME EMPLOYMENT; CONFIDENTIALITY.</u>

(A) <u>FULL-TIME EMPLOYMENT.</u> Executive will devote his full time, energies and attention to perform all of his duties to Citadel under this Agreement. In addition, Executive will not engage in any business, civic or other activities that would interfere with the performance of his duties hereunder. Executive further agrees that he will not perform services, whether or not for compensation, for any person or entity which competes directly or indirectly with Citadel without the prior consent of the Board of Directors of Citadel.

(B) <u>CONFIDENTIALITY.</u> Except as may be required in the ordinary course of performing his duties hereunder, Executive shall not at any time, whether during or after the termination of his employment (other than to promote and advance the business of Citadel (for purposes of subparagraphs 9(b) (c) and (d) "Citadel" shall also include Fidelity Federal Bank, FSB, and any related entities and any subsidiaries or portfolio companies of Citadel), knowingly reveal to any person or entity any trade secrets or confidential business information concerning Citadel, including but not limited to its research results and activities, marketing plans and strategies, pricing and costing policies, customer lists and accounts, business or financial information of Citadel which have come to Executive's knowledge as a result of his employment with Citadel.

(C) RETURN OF ALL CORPORATE PROPERTY AND DOCUMENTS. Upon the termination of his employment, Executive immediately will return to Citadel all property of Citadel, including without limitation, all documents and information, however maintained (including computer files, tapes and recordings), concerning Citadel or acquired by Executive in the course and scope of his employment, company-owned automobile(s), keys, credit cards and the like.

(D) RIGHT TO EQUITABLE RELIEF. If Executive commits a breach, or threatens to commit a breach, of any of the provisions of this paragraph, Citadel shall have the right to have such provisions specifically enforced by any court having competent equity jurisdiction, and nothing in Section 11 shall be interpreted to the contrary.

10. REGULATORY JURISDICTION. It is presently contemplated that this Agreement and Citadel's obligations hereunder will not be subject to the regulatory jurisdiction of the Office of Thrift Supervision ("OTS"), Federal Deposit Insurance Corporation ("FDIC"), Office of the Controller of the Currency ("OCC"), or any other similar regulatory agency with jurisdiction over banks or thrift institutions (the OTS, FDIC, OCC, and other regulatory agencies are hereafter referred to collectively as "Regulatory Agencies"). However, should any of the Regulatory Agencies assert jurisdiction over Citadel, then unless, and until, Citadel is

successful in establishing that no such jurisdiction is lawful, Citadel shall have no obligation under this Agreement (and thus shall have no liability under this Agreement for any failure) to make all or any part of any payment required by any provision of this Agreement or to satisfy any obligation under any provision of this Agreement provided Citadel is prohibited from making such payment or satisfying such obligation in whole or in part by: (a) any applicable law, statute, rule or regulation administered by such Regulatory Agencies; or (b) any order (whether temporary or final), directive or instruction issued by, or any agreement or commitment imposed upon Citadel (and related entities) by such Regulatory Agencies, or any of them. Citadel agrees to use its best efforts to establish that no such jurisdiction is lawful or to remove, clarify or amend any such order so that Citadel can perform all of its payment or other obligations set forth in this Agreement.

11. ARBITRATION. Any controversy, dispute or claim arising out of, relating to or concerning this Agreement, the breach of this Agreement, the employment of Executive, or the termination of Executive's employment will be resolved pursuant to this paragraph.

(a) Any controversy, dispute or claim arising out of, relating to or concerning this Agreement, the breach of this Agreement, the employment of Executive, or the termination of Executive's employment shall be settled by arbitration in Los Angeles, California in accordance with the Labor Arbitration

Rules of the American Arbitration Association (the "AAA") then existing. (Should the AAA publish rules designed to accomplish the arbitration of employment disputes between employees not represented by a union and their employers or recommend the use of other rules, then those rules will be utilized in lieu of the Labor Arbitration Rules.) This agreement to arbitrate will be specifically enforceable. Judgment upon any award rendered by an arbitrator may be entered in any court having jurisdiction.

(b) Subject to subparagraph (a) above, any demand for arbitration shall be filed with the AAA and served on the other party at any time within the period covered by the applicable statute of limitations.

(c) One arbitrator will be appointed by both parties in the following manner: the AAA will furnish the parties with a list of potential arbitrators. All such arbitrators must be attorneys. If either party objects to all of the names on the list, the AAA will provide the parties with an alternative list of potential arbitrators. In no event may a party reject more than one list. Notice of rejection must be given to the AAA within seven (7) business days of receipt of the list. Once a particular list has been accepted by both parties, the parties alternatively will eliminate the names of the arbitrators until only one name remains. That remaining person will be appointed the arbitrator. The parties will draw lots to decide which party will eliminate the first name from the list. Either party may have the proceedings recorded by a reporter at that party's expense. If both parties request a transcript, the cost of the reporter will be shared equally by the parties. The cost of the arbitrator will be shared equally by the parties.

(d) The arbitrator will have no authority to extend, modify or suspend any of the terms of this Agreement. The arbitrator will make his award in writing and shall accompany it with an opinion discussing the evidence and setting forth the reasons for his award.

(e) The arbitrator shall have the power to make all factual determinations and rule on all issues of law. The arbitrator shall have the power to award all reasonable compensatory damages, but not exemplary damages. Any award rendered by the arbitrator shall be final and binding upon each party to the arbitration and unreviewable for error of law or legal reasoning of any kind and any such award may be confirmed, and judgment on such award may be entered, in any court of competent jurisdiction.

(f) If the rules of the AAA differ from those of this paragraph, the provisions of this Agreement will control.

12. GENERAL PROVISIONS.

(A) NOTICES. Any notice required or permitted to be given under this Agreement will be deemed given only when it is in fact received by the addressee. The addressee shall advise the party sending notice of the date of receipt if so requested.

(B) ENTIRE AGREEMENT. Any previous written or oral employment agreement(s) between Executive and Citadel or any affiliate or subsidiary thereof, is hereby cancelled. This

Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all prior or contemporaneous negotiations, discussions, or preliminary or final agreements, written or oral.

(C) GOVERNING LAW. This Agreement will be governed by and construed in accordance with the laws of the State of California.

(D) NO ASSIGNMENT. This Agreement is personal to Citadel and to Executive and may not be assigned or delegated by any party without the written consent of the other party.

(E) NO WAIVER. No party's failure to enforce any provision or provisions of this Agreement will be construed in any way as a waiver of any such provision or provisions, or prevent that party thereafter from enforcing each and every other provision of this Agreement.

(F) WITHHOLDING TAXES. Executive agrees and understands that payroll taxes will be withheld from the amounts payable hereunder in accordance with applicable law as determined by Citadel.

(G) PARTIAL INVALIDITY. The invalidity or unenforceability of any provision or portion of this Agreement will not affect the validity or enforceability of the other provisions or portions of this Agreement.

(H) AMENDMENTS. No modification, amendment or waiver of any provision hereof will be binding or valid unless in writing and executed by both parties.

(I) INTERPRETATION. Both parties have been represented by counsel who have participated in the preparation of this Agreement. Accordingly, no interpretation or construction of any provision will be influenced by the identity of the draftsperson thereof.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year set forth below.

CITADEL HOLDING CORPORATION
A DELAWARE CORPORATION

Date: October __, 1994

By /S. Craig Tompkins/

S. Craig Tompkins
Vice Chairman of the Board

EXECUTIVE

Date: October __, 1994

/Steve Wesson/

Steve Wesson

CONSENT OF SPOUSE

Steve Wesson and I have been married for over 4 years. I have read the foregoing Executive Employment Agreement (the "Agreement"). I understand that the Agreement can be read or interpreted as directly or indirectly affecting my community property rights or entitlements or my power to dispose of such rights to which I might have some interest by virtue of laws governing community property or otherwise. I approve and consent to the foregoing Agreement and any affect on my rights or entitlements set forth therein; I acknowledge the receipt of valuable consideration by Steve Wesson pursuant to the Agreement.

DATED: October ___, 1994.

/ Caroline Wesson /

____

Caroline Wesson

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND CONSOLIDATED STATEMENT OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
DEC-31-1994
JAN-01-1994
SEP-30-1994
2,407
0
3,172
0
0
6,457
19,997
76
47,508
8,101
13,930
66
0
0
21,411
47,508
811
812
0
565
165,889
0
284
(165,926)
0
(165,926)
0
0
0
(165,926)
(25.16)
(25.16)

EXHIBIT 99

FIDELITY FEDERAL BANK, A FEDERAL SAVINGS BANK

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIDELITY FEDERAL BANK, A FEDERAL SAVINGS BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except per share amounts)

	September 30, 1994 (Unaudited)	December 31, 1993
Assets:		
Cash federal funds sold	$ 70,780	$ 142,853
Investment securities available for sale (September 30, 1994 at fair value; December 31, 1993 at amortized cost, fair value $92,512)	69,573	$ 92,259
Investment securities held to maturity	25,000	--
Mortgage-backed securities available for sale (September 30, 1994 at fair value; December 31, 1993 at amortized cost, fair value $91,298)	41,111	91,108
Loans and real estate held for bulk sale	36,721	--
Loans held for sale, at lower of cost of market	295,398	367,688
Loans receivable, net of allowances of $51,551 and $83,832 at September 30, 1994 and December 31, 1993, respectively	3,012,427	3,344,363
Interest receivable	7,841	23,049
Investment in FHLB and FRB stock	46,385	52,151
Owned real estate, net	15,095	153,307
Premises and equipment, net	50,768	49,226
Intangible assets, net	809	2,098
Other assets	28,540	65,877
	$ 3,700,448	$ 4,383,979
Liabilities and Stockholders' Equity:		
Liabilities:		
Deposits	$ 2,653,414	$ 3,368,664
FHLB Advances	342,700	326,400
Commercial paper	400,000	304,000
Mortgage-backed notes	100,000	100,000
Other borrowings	--	3,830
Deferred tax liabilities	--	14,789
Other liabilities	29,542	24,012
Subordinated notes	--	60,000
	$ 3,525,656	$ 4,201,695
Stockholders' equity:		
Serial preferred stock, par value $.01 per share; authorized, 5,000,000 shares; no shares outstanding	--	
Common Stock:Class A Common stock, par value $.01 per share; 73,000,000 shares authorized; 19,860,474 shares outstanding at September 30, 1994 and no shares outstanding at December 31, 1993	199	
Class B Common stock, par value $.01 per share; 14,000,000 shares authorized; 4,202,243 shares outstanding at September 30, 1994 and 4,202,243 (as reclassified) shares outstanding at December 31, 1993	42	
Class C Common stock, par value $.01 per share; 3,000,000 shares authorized; 1,907,143 shares outstanding at September 30, 1994 and no shares outstanding at December 31, 1993	19	
Paid-in capital	179,431	70,647
Unrealized loss on securities available for sale	(2,885)	
Retained (deficit) earnings	(2,014)	111,595
	$ 174,792	$ 182,284
	$ 3,700,448	$ 4,383,979

See notes to consolidated financial statements.

FIDELITY FEDERAL BANK, A FEDERAL SAVINGS BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)

	Quarter ended September 30, 1994	Quarter ended September 30, 1993	Nine months ended September 30, 1994	Nine months ended September 30, 1993
	(Unaudited)			
Interest Income:				
Loans	$ 53,911	$ 64,915	$ 171,473	$ 206,916
Mortgage-backed securities	537	2,337	2,315	8,511
Investment securities and other	2,952	1,846	8,296	5,449
Total interest income	57,400	69,098	182,084	220,876
Interest Expense:				
Deposits	27,038	30,821	81,520	95,393
FHLB Advances	5,144	3,771	12,564	13,729
Other borrowings	6,365	7,347	17,572	25,356
Subordinated notes	643	1,843	4,329	5,529
Total interest expense	39,190	43,782	115,985	140,007
Net Interest Income	18,210	25,316	66,099	80,869
Provision for estimated loan losses	3,000	19,500	43,612	41,500
Net Interest Income after Provision for Estimated Loan Losses	15,210	5,816	22,487	39,369
Noninterest Income (Expense):				
Loan fee income	1,235	1,400	3,128	4,381
Gains (losses) on loans held for sale, net	566	(34)	(3,766)	586
Fee income from investment products	1,110	--	2,551	--
Fee income on deposits and other income	970	777	3,204	2,760
	3,881	2,143	5,117	7,727
Provision for estimated real estate losses	(1,459)	(4,000)	(7,826)	(21,000)
Direct costs of real estate operations, net	(3,007)	(6,433)	(8,191)	(14,128)
	(4,466)	(10,433)	(16,017)	(35,128)
Gains (losses) on sales of securities, net	(681)	934	(933)	4,423
Gain on sale of branches	5,048	--	5,048	--
Provision for estimated loss on assets held for bulk sale	(2,500)	--	(59,018)	--
Total noninterest income (expense)	1,282	(7,356)	(65,803)	(22,978)
Operating Expense:				
Personnel and benefits	11,257	11,053	35,527	31,993
Occupancy	3,461	3,297	10,656	9,376
FDIC insurance	2,297	2,428	7,261	6,201
Professional services	2,664	2,229	8,090	5,908
Office-related expenses	1,782	1,689	5,061	4,379
Marketing	232	772	1,822	2,068
General insurance	435	339	1,231	994
Bank clearing charges	531	452	1,661	1,402
Restructuring and Recapitalization charges and expenses	1,296	--	14,146	--
Other general and administrative	769	(140)	895	80
Total operating expense	24,724	22,119	86,350	62,401
Loss Before Income Taxes	(8,232)	(23,659)	(129,666)	(46,010)
Income tax benefit	--	(9,302)	(16,057)	(17,125)
Net Loss	$ (8,232)	$ (14,357)	$ (113,609)	$ (28,885)
Net Loss Per Common Share	$ 0.46	$ (3.42)	$ (12.87)	$ (6.87)
Weighted Average Common Shares Outstanding	17,925,306	4,202,243	8,826,865	4,202,243

See notes to consolidated financial statements.

FIDELITY FEDERAL BANK, A FEDERAL SAVINGS BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	QUARTER ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1993	1994	1993
	(UNAUDITED)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$ (8,232)	$ (14,357)	$ (113,609)	$ (28,885)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Provisions for estimated loan and real estate losses	4,459	23,500	51,438	62,500
Provision for loss on assets held for bulk sale	2,500	--	59,018	--
Gain on sale of branches	(5,048)	--	(5,048)	--
Losses (gains) on sale of loans and securities	115	(896)	4,713	(5,005)
Capitalized loan origination costs	149	(587)	(259)	(1,310)
Amortization of deferred loan items, net	274	(219)	(191)	(876)
Purchases of securities held for trading	--	(85,238)	--	(85,238)
Proceeds from sales of securities held for trading	--	85,181	--	85,181
Originations of loans held for sale	(65,375)	(41,455)	(105,867)	(84,315)
Purchases of loans held for sale	(78,705)	--	(91,534)	--
Proceeds from sales of loans held for sale	56,362	45,914	278,409	72,738
FHLB stock dividend	(623)	510	(1,973)	1,139
Depreciation and amortization	1,631	2,305	5,055	6,769
Decrease in interest receivable, net	16,528	1,562	15,209	4,810
Decrease (increase) in other assets, net	5,269	(8,662)	46,506	(5,720)
Decrease in deferred income tax benefit	--	(3,841)	(13,699)	(4,316)
Increase in interest payable	3,876	2,484	679	731
Increase (decrease) in other liabilities, net	3,569	(2,912)	1,624	(18,830)
Other items	500	(287)	946	(628)
Net cash (used in) provided by operating activities	(62,751)	3,002	131,417	(1,255)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of investment securities available for sale	(18,958)	(120,537)	(24,032)	(196,959)
Maturities of investment securities available for sale	--	115,619	--	150,619
Proceeds from sales of investment securities available for sale	18,988	24,969	18,988	51,877
Purchases of investment securities held to maturity	--	(71,287)	--	(96,280)
Maturities of investment securities held to maturity	--	56,400	--	86,400
Purchases of mortgage-backed securities ("MBS") available for sale	--	(74,438)	(54,812)	(129,795)
Principal repayments of MBS	2,597	29,446	10,229	36,179
Proceeds from sales of MBS available for sale	43,550	107,359	137,102	205,588
Purchases of MBS held to maturity	--	--	--	5,537
Proceeds from sales of assets held for bulk sales	337,901	--	337,901	--
(Increase) decrease in loans receivable, net	(74,598)	48,241	(153,147)	131,060
Net dispositions (additions) of real estate investments	11,682	(369)	11,161	2,840
Proceeds from sales of real estate owned	61,689	12,921	73,783	30,705
Purchase of Gateway Investment Services , net	523	--	523	--
Net additions of premises and equipment	(372)	(1,259)	(2,606)	(4,611)
Other items	200	(475)	200	(2,006)
Net cash provided by investing activities	383,202	126,590	355,290	271,154

(Continued on following page)

FIDELITY FEDERAL BANK, A FEDERAL SAVINGS BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)
(DOLLARS IN THOUSANDS)

	QUARTER ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1993	1994	1993
	(UNAUDITED)			
CASH FLOWS FROM FINANCING ACTIVITIES:				
(Decrease) increase in deposits	$ (7,293)	$ 76,206	$ (75,231)	$ (55,907)
Deposits sold in branch sale	(340,019)	--	(340,019)	--
Proceeds from FHLB Advances	255,000	40,000	405,000	200,000
Repayments of FHLB Advances	(335,000)	(75,000)	(388,700)	(425,000)
Increase (decrease) in short-term borrowings	38,900	(52,700)	92,170	309,301
Net proceeds from issuance of common stock	108,000	--	108,000	--
Repayments of long-term borrowings	(60,000)	(62,000)	(60,000)	(162,000)
Capital contribution from shareholder	--	--	--	18,000
Net cash used in financing activities	(340,412)	(73,494)	(558,780)	(215,606)
Net (decrease) increase in cash and cash equivalents	(19,961)	56,098	(72,073)	54,293
Cash and cash equivalents the beginning of the period	90,741	108,250	142,853	110,055
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 70,780	$ 164,348	$ 70,780	$ 164,348
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid (received) during the period for:				
Interest expense	$ 36,346	$ 39,545	$ 116,400	$ 133,359
Income taxes	--	1,124	(40,949)	1,124
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Additions to real estate acquired through foreclosure	$ 14,080	$ 17,809	$ 95,277	$ 140,842
Loans originated to finance sale of real estate acquired through foreclosure	17,024	4,926	25,721	11,243
Investment securities transferred from available for sale to held to maturity	25,000	--	25,000	--
Transfers from loan and investment portfolio to held-for-sale:				
Loans receivable	64,123	--	80,636	4,314
Investment securities	--	--	--	37,486
Mortgage-backed securities	--	--	--	224,688
Mortgage loans exchanged for MBS	44,453	--	44,453	--
Issuance of stock to bondholders	1,000	--	1,000	--

See notes to consolidated financial statements.

FIDELITY FEDERAL BANK, A FEDERAL SAVINGS BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

On August 4, 1994, Fidelity Federal Bank, A Federal Savings Bank, ("Fidelity"), and its former sole stockholder, Citadel Holding Corporation (''Citadel''), completed major aspects of a plan of restructuring and recapitalization (the ''Restructuring and Recapitalization''), pursuant to which Fidelity raised approximately $109 million in net new equity and Citadel's ownership interest in Fidelity was reduced to 16.2% of the outstanding common stock. Citadel's ownership interest was reclassified into 4,202,243 shares of Class B Common Stock, which class has limited voting rights. All share and per share amounts have been restated to retroactively reflect the reclassification.

Unless the context otherwise requires, Fidelity and its subsidiaries are referred to in this Quarterly Report on Form 10-Q (the "Form 10-Q") on a consolidated basis as the "Bank." All references to the "Bank" with respect to the period after August 4, 1994 include Gateway Investment Services, Inc. ("Gateway"), which was a wholly-owned subsidiary of Citadel during a portion of the periods covered hereby and on August 3, 1994 became a wholly-owned subsidiary of Fidelity. For more detailed information regarding the Restructuring and Recapitalization and the various transactions incidental thereto, see Item 2--''Management's Discussion and Analysis of Financial Condition and Results of Operations--Restructuring and Recapitalization."

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of various normal accruals) necessary to present fairly its financial position, its results of operations and its cash flows. Certain reclassifications have been made to prior years' consolidated financial statements and other financial information to conform to the 1994 presentation. The results of operations for the quarter or the nine-month period ended September 30, 1994 are not necessarily indicative of the results of operations to be expected for the entire year of 1994.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all information and footnotes required for interim financial statement presentation. The financial information provided herein, including the information under the heading Item 2--''Management's Discussion and Analysis of Financial Condition and Results of Operations'' (''MD&A''), is written with the presumption that the users of the interim financial statements have read, or have access to, the Bank's Offering Circular on Form OC dated July 12, 1994, as supplemented by the Supplement to Offering Circular dated August 1, 1994 (as so supplemented, the "Offering Circular"), which contains the latest available audited financial statements, as of December 31, 1993 and notes thereto, together with the MD&A as of such date.

Supplementary Loss per Share Data

Net loss per share would have been $0.32 and $0.55 for the quarters ended September 30, 1994 and 1993, respectively, and $4.37 and $1.11 for the nine months ended September 30, 1994 and 1993, respectively, assuming (a) 21,767,617 shares of Class A and Class C common stock were issued at the beginning of each respective period and (b) Citadel's previously existing share of common stock was reclassified into 4,202,243 shares of Class B Common Stock at the beginning of each respective period.

2. INVESTMENT SECURITIES AND MORTGAGE-BACKED SECURITIES

The following table summarizes the Bank's securities at September 30, 1994:

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	AGGREGATE FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Available for Sale:				
U.S. Treasury and agency securities......................	$ 72,872	$ --	$ (3,299)	$ 69,573
Mortgage-backed securities ("MBS").......................	41,976	--	(865)	41,111
	114,848	--	(4,164)	110,684
Held to Maturity:				
U.S. agency securities.................................	25,000	--	--	25,000
	$139,848	$ --	(4,164)	$ 135,684
Available for Sale:				
Net unrealized losses, investment securities............				$ (4,164)
Net unrealized gains, hedging activities................				808
Deferred income tax benefit.............................				471
Net unrealized losses reported in stockholders' equity				(2,885)

As a part of its asset/liability management activities, during the quarter ended September 30, 1994, the Bank purchased and sold $20.0 million of available for sale U.S. Treasury securities and recognized a loss on sale of $15,000. To reduce the effects of declines in the value of its available for sale investment securities portfolio, the Bank manages a hedging program related to such securities. Unrealized gains from such hedging activities associated with a portion of the portfolio totaled $0.3 million before income taxes for the quarter ending September 30, 1994 and $0.8 million for the nine months ended September 30, 1994.

There were no investments in securities held for trading outstanding at September 30, 1994. During the quarter ended September 30, 1994, the Bank transferred $25.0 million of U.S. agency securities from the available for sale portfolio to the held to maturity portfolio.

The following table presents the Bank's securities at September 30, 1994 by contractual maturity. Actual maturities on MBS may differ from contractual maturities due to prepayments.

	MATURITY				
	WITHIN 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS TO 10 YEARS	OVER 10 YEARS	TOTAL
	(DOLLARS IN THOUSANDS)				
U.S. Treasury and agency securities:					
Available for sale.....................................	$ 6,548	$ 62,715	$ 310	$ --	$ 69,573
Held to maturity.......................................	--	25,000	--	--	25,000
MBS available for sale....................................	--	5,333	--	35,778	41,111
	$ 6,548	$ 93,048	$ 310	$35,778	$135,684