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CT HOLDINGS INC
Form 10KSB
April 14, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

COMMISSION FILE NUMBER: 0-08718

CT HOLDINGS, INC.
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	75-2432011 (I.R.S. EMPLOYER IDENTIFICATION NO.)
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8750 N. CENTRAL EXPRESSWAY, SUITE 100, DALLAS, TEXAS 75231
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(214) 520-9292
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE EXCHANGE ACT: NONE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE EXCHANGE ACT:

COMMON STOCK, PAR VALUE \$.01 PER SHARE
(TITLE OF CLASS)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference to such filing requirements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenue from continuing operations for its most recent fiscal year \$ 0

As of April 13, 2004, the last reported sale price of the Company's common stock was \$ 0.045 per share. The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Company was \$1,763,044 as of April 13, 2004.

As of April 13, 2004, there were 58,545,928 shares of common stock, \$.01 par

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value per share, outstanding.

Transitional Small Business Disclosure Format. Yes [] No [X]

CT HOLDINGS, INC.
FORM 10-KSB
ANNUAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2003
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This Annual Report on Form 10-KSB contains forward-looking statements that involve known and unknown risks and uncertainties. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Company's expectations, beliefs, intentions or strategies regarding the future. In this Report, the words anticipates,

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believes, expects, estimates, intends, future and similar expressions identify forward-looking statements. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed elsewhere in this Report under the heading Factors That May Affect Future Operating Results as well as those discussed elsewhere in this Report, and the risks discussed in our Securities and Exchange Commission filings.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW OF CT HOLDINGS

Since 1996 CT Holdings, Inc. (the "Company" or "CT Holdings") has provided management expertise including consulting on operations, marketing and strategic planning and has been a source of capital to early stage technology companies. The Company was incorporated in Delaware in 1992. The business model is designed to enable the companies with whom the Company acquires or invests to become market leaders in their industries. The strategy during the years since 1996 has led to the development, acquisition and operation of technology based businesses with compelling valuations and strong business models. The goal is to realize the value of these investments for the Company's shareholders through a subsequent liquidity event such as a sale, merger or initial public offering of the investee companies.

At December 31, 2003, the Company held an investment in Parago Inc. ("Parago"), with no carrying value recorded for this investment in Parago on the balance sheets at December 31, 2003 and 2002. Parago was formed in 1999 as an application service provider ("ASP") and Internet based business process outsourcer that provides an online suite of offerings designed to increase sales, reduce costs, retain customers and increase client profitability. These services include online promotional management, online rebate processing, proactive email, online surveys, and customer data warehousing, analysis and reporting. Parago's comprehensive integrated suite of outsourced customer care solutions are marketed across multiple industry lines.

Prior to December 2001, our ownership percentage in Parago exceeded 20% and accordingly our investment had been accounted for under the equity method of accounting. The carrying value of the investment in Parago was reduced to zero due to the recognition of our proportionate share of equity in Parago's losses under the equity method of accounting. In December 2001 Parago entered into an equity financing arrangement for which the Company declined to participate and as a result, the Company's ownership percentage fell to less than 1%. Since December 2001, the investment has been accounted for using the cost method of accounting. Parago reported its first unaudited operating profit during the year ended December 31, 2003. While we believe that Parago has been successful in executing its business plan there can be no assurance that Parago will remain profitable or that an acceptable return on our investment in Parago will be achieved in the foreseeable future.

At December 31, 2003, the Company holds an investment in River Logic, Inc. ("River Logic") which also has no carrying value recorded on the balance sheets at December 31, 2003 and 2002. In May 2000, CT Holdings acquired a minority interest in River Logic which develops decision-support applications for corporations across many industries. Using COR Technology, a rapid-application

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development system, developers at River Logic create applications that enable industry professionals to model complex enterprises and explore financial relationships on a desktop computer or laptop. Embedded analytics allow end-users to understand the financial implications of critical business decisions easily by manipulating graphical icons that model their enterprise. We accounted for our investment in River Logic using the cost method because our ownership percentage was below the 20% ownership requirement to use the equity method of accounting. Due to the economic conditions affecting information technology spending in 2002 and River Logic's results of operations in 2002 the Company wrote down the carrying value of the investment in River Logic to zero during the year ended December 31, 2002. During the year ended December 31, 2003, River Logic raised cash through the issuance of preferred stock and notes payable. We believe that our investment in River Logic may provide an acceptable return on investment in the future but there can be no assurance that an acceptable return may be achieved in the foreseeable future.

CITADEL DISTRIBUTION

On May 17, 2002, CT Holdings completed the spin-off of Citadel Security Software Inc. ("Citadel") through the declaration of a pro rata dividend distribution to CT Holdings shareholders (the "Distribution"). The Distribution consisted of one (1) share of Citadel common stock for every four (4) shares of CT Holdings (the "Distribution Ratio") held by CT Holdings shareholders as of May 6, 2002, the Record Date. Following the Distribution on May 17, 2002, Citadel became an independent company and CT Holdings retained no ownership interest in Citadel. The Distribution is intended to be a tax free distribution for U.S. federal tax purposes. The results of operations and the cash flows for the period from January 1, 2002 through May 17, 2002 of Citadel are presented as discontinued operations in the statement of operations for the year ended December 31, 2002.

On the Distribution Date, CT Holdings and Citadel entered into a series of agreements including a distribution agreement, a transition services agreement, an indemnity agreement and a tax disaffiliation agreement which provides for, among other things, the principal corporate transactions required to effect the Distribution, to provide for an orderly transition to the status of two independent companies and to define the continuing relationship between Citadel and CT Holdings after the Distribution. These agreements remained in effect at December 31, 2003, and the transition services agreement expires in May 2004.

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OVERVIEW OF PARAGO

We formed Parago in 1999 through the contribution of some technology assets acquired in the late 1990's during the growth period of Internet electronic commerce industry. Parago provides a proprietary, promotional marketing technology platform that helps clients reduce promotional program costs, increase sales, and enhance customer relationships.

Parago's services include:

- Technology applications that automate and optimize both traditional and non-traditional promotional marketing initiatives
- On-line and off-line rebate management
- Patent-pending upsell/cross-sell application
- Transaction data client reporting

Many companies today use promotional marketing programs such as rebates, buy-one-get-one-free and instant discounts to entice customers and hopefully drive some measure of customer satisfaction and loyalty. But while these programs may be effective for acquisition, they most often fail when it comes to retention as there is little focus on customer satisfaction.

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Parago's solutions seek to change the way companies think about rebates and other promotional tools. Currently rebates are viewed as a necessary evil required to remain competitive. However, all parties have been dissatisfied with the status quo. By implementing Parago's solutions, clients can turn these flawed tactical, one-way customer acquisition initiatives into strategic, two-way customer retention imperatives. By leveraging the power of the Internet and innovative technology Parago takes the pain of traditional, short-term promotional marketing programs like rebates and converts it into long-term gain and competitive advantage in the form of lower costs, increased sales and better customer relationships.

Parago's products, PromoCenter, ClickChoice and KnowledgeCenter, have all been developed collectively with the objective of leveraging Internet-based technology, processes and resources to make promotional marketing programs more efficient and effective resulting in an improved bottom line and happier customers for its clients. Parago offers a Continuous Customer Interaction business model powered by three fully integrated business centers dedicated to automating and optimizing promotions like rebates thereby creating significant competitive advantage for Parago's clients.

- PromoCenter: A client-branded site where customers can search for current promotional information, initiate the redemption process, obtain continuously updated claim status and take advantage of upsell/cross-sell opportunities.
- ClickChoice: A patent-pending, fully integrated application that provides customers the ability to upgrade their promotion to higher valued products or services while reducing client's promotional expense.
- KnowledgeCenter: A powerful transactional data collection and reporting environment that provides fresh, accurate and usable information reporting.

At December 31, 2003, the Company holds 20,000 shares of Parago common stock and warrants to purchase 28.8749 shares of Series A-3 convertible preferred stock (convertible into 2,887 shares of common stock), after giving effect to 1 for 1000 reverse stock split in connection with Parago's Series E preferred stock offering in December 2001 to February 2002, in which the Company elected not to participate. In February 2004, our CEO loaned us \$30,000 in order for us to exercise our warrants to purchase shares of Series A-3 convertible preferred stock, pursuant to a promissory note secured by a pledge of the preferred stock. In February 2004, our CEO elected to exercise an exchange right whereby he exchanged 5,000,000 (pre-1:1000 reverse stock split) shares of Parago, Inc. common stock for 6,000,000 shares of CT Holdings common stock. The CEO has waived his right to receive these shares until such time as the shares become authorized. In December 2001 and January 2002 Parago raised equity financing of approximately \$15.0 million. We elected not to participate in the equity financing and as a result, our ownership percentage in Parago was reduced to approximately 1%. Our investment in Parago has no carrying value on our balance sheet as a result of applying the equity method of accounting prior to our investment falling below the 20% ownership requirement for applying the equity method of accounting. Parago has recently recorded an unaudited profit for the year ended December 31, 2003 and although Parago has had a history of operating losses, we believe that our initial \$50,000 investment in Parago represented by 20,000 shares of common stock, 28.8749 shares of Series A-3 convertible preferred stock (convertible into 2,887 shares of Parago common stock) and an additional 5,000 shares (5,000,000 pre reverse split shares) received in February 2004 when the CEO exercised his exchange right may ultimately provide an appropriate return.

OVERVIEW OF RIVER LOGIC

In May 2000, CT Holdings acquired a less than 20% minority ownership interest in River Logic. River Logic develops and markets enterprise optimization technologies and decision support applications. Recognizing a need in the marketplace, River Logic created strategic-level, process modeling tools and approaches for helping senior managers suggest, evaluate, and understand the impact of business decisions as they relate to the overall profitability of their organizations. River Logic's optimization tools integrate several technologies such as mixed integer optimization, visual process modeling, accounting, and constraint theory to bring together the best active financial planning and profitability tools on the market.

The Enterprise Optimizer tool suite provides a structured process for modeling an enterprise, identifying material relationships, uncovering hidden value, and measuring the impact of decisions and relationships as they relate to the bottom-line profit of the entire organization. With Enterprise Optimizer, quickly developing a powerful and robust model that combines operational processes, profit implications, and financial analysis can be achieved without programming or understanding of the theoretical or mathematical principles used.

A new user of Enterprise Optimizer may quickly become a productive modeler and financial analyst. River Logic's tools allow flexibility in abstracting organizational data so that the time-to-value for building valid and valuable models is very short without any loss in functionality. The power of the embedded expert knowledge base is that it automatically translates visual diagrams into mathematical representations that are validated, verified, optimized, and processed by several hundred algorithms and analytical procedures. Financial reports such as income statements, balance sheets, and cash flow statements are automatically prepared and analyzed.

River Logic's XLerator Server enables users to quickly re-purpose content products and other intellectual property using standard applications and delivery mediums to reduce the product development cycle and quickly generate new revenue streams. XLerator provides the power to securely and transparently organize, share and publish internal and external information and data across an extended organization or to customers.

The Company holds an ownership interest in River Logic of approximately 8% at December 31, 2003. River Logic is an early stage software company, has a history of operating losses and requires additional funding to continue operations and to attain profitability. Since the initial investment in May 2000, River Logic has raised additional capital through the issuance of preferred stock and other equity securities. The Company periodically evaluates the carrying value of its ownership interests in its investee companies taking into consideration, among other factors, the investee company's valuation following recent infusions of capital. The Company views the pricing of recent capital transactions with unrelated third parties as a measure of the fair value of the investment in River Logic.

In June 2002, River Logic entered into an equity credit line financing arrangement at a valuation substantially below the carrying value of the investment in River Logic. As a result of the lower valuation, general information technology industry conditions during the year ended December 31, 2002 and lower operational performance by River Logic during the year ended December 31, 2002, the Company believed that the net realizable value of the investment has been permanently impaired, is now zero and accordingly, the Company wrote down its investment in River Logic to zero at December 31, 2002. During the year ended December 31, 2003, River Logic reported an operating loss

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and raised additional cash through the issuance of notes payable and preferred stock. While we believe that our investment in River Logic will be successful there can be no assurance that River Logic become profitable in the foreseeable future.

EMPLOYEES

As of December 31, 2003 and 2002, CT Holdings had no employees. Pursuant to the transition services agreement between Citadel and CT Holdings all employees employed by CT Holdings prior to the May 17, 2002 were transferred to Citadel after the Distribution. Approximately five employees of Citadel including the CEO and CFO spend up to 20% to 33% of their time managing the business development activities of CT Holdings. Citadel receives a transition services fee from CT Holdings for administrative services including the costs of the shared employees. The transition services agreement expires in May 2004. Our CEO also serves as CEO and a director of Citadel, and a director of Parago and River Logic. Our CFO serves as CFO of Citadel, and another of our directors serves as a director of Citadel.

GOVERNMENT REGULATION

Government regulation has not had a material effect on the conduct of our business to date.

ACCOUNTANT'S REPORT

We have received a report from our independent auditors for our year ended December 31, 2003 containing an explanatory paragraph that describes the uncertainty regarding our ability to continue as a going concern due to our recurring operating losses and our significant working capital deficiency. Please see Management's Discussion and Analysis - Liquidity and Capital Resources,

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Factors That May Affect Future Operating Results and Note A to our financial statements for discussions of some of the conditions that could impact our ability to continue operations under the current business conditions.

FORWARD-LOOKING STATEMENTS

The following discussion contains forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others things, those risk factors set forth in this section and elsewhere in this report. We identify forward-looking statements by words such as may, should, could, expects, plans, anticipates, believes, estimates, predicts, potential, or continue or similar terms that refer to the future. We cannot guarantee future results, levels of activity, performance or achievements.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Investing in our common stock involves a high degree of risk. Any of the following risks could materially adversely affect our business, operating results and financial condition and could result in a complete loss of your investment.

In addition to the other information in this Report, the following factors

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should be considered carefully in evaluating the Company and its business. This disclosure is for the purpose of qualifying for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. It contains factors that could cause results to differ materially from such forward-looking statements. These factors are in addition to any other cautionary statements, written or oral, which may be made or referred to in connection with any such forward-looking statement.

The following matters, among other things, may have a material adverse effect on the business, financial condition, liquidity, or results of operations of the Company. Reference to these factors in the context of a forward-looking statement or statements shall be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those in such forward-looking statement or statements. Before you invest in our common stock, you should be aware of various risks, including those described below. Investing in our common stock involves a high degree of risk. You should carefully consider these risk factors, together with all of the other information included in this Report, before you decide whether to purchase shares of our common stock. Our business and results of operations could be seriously harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose part or all of your investment.

GENERAL RISKS

WE HAVE RECEIVED A GOING CONCERN REPORT FROM OUR AUDITORS, HAVE A HISTORY OF NET LOSSES AND WILL NEED ADDITIONAL FINANCING TO CONTINUE AS A GOING CONCERN.

We received a report from our independent auditors for our year ended December 31, 2003 containing an explanatory paragraph that describes the uncertainty regarding our ability to continue as a going concern due to our recurring operating losses and a significant working capital deficiency. Historically, we have incurred recurring operating losses and have a significant stockholders' deficit at December 31, 2003 of approximately \$1,379,000. We had no cash balance or current assets at December 31, 2003 and current liabilities total approximately \$1,379,000. We have no access to capital at December 31, 2003 and we have no plans to raise capital, nor have we identified sources of capital. In the past our funding needs of the business have been provided by financings through short-term notes payable and additional investments from related parties, including our Chief Executive Officer, however there can be no assurance that such funds will be available from these related parties. The Company has been and continues to be dependent upon outside financing to perform its business development activities, make investments in new technology companies and to fund operations.

Our plans to continue to support and expand our business development activities are limited due to a lack of identification of near term capital. As a result, it is unlikely that the implementation of the Company's business strategy will generate positive cash flow in the foreseeable future. Achieving positive cash flow is currently highly dependent upon obtaining liquidity from our investments in unconsolidated affiliates. We have no plans at December 31, 2003 to raise additional capital to invest in new business opportunities. We estimate that we will need to raise up to \$1.4 million to settle liabilities and to continue to support our incubator and business development activities. Historically, we have obtained short-term funding from our Chief Executive Officer or Directors of the Company. The amount of capital and the timing of any future financing have not

been determined and there can be no assurance that we will be able to raise new

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capital or that sources of capital would be available at terms we would be willing to accept.

We have made investments in entities that we believe may provide liquidity to the Company in the long term and we believe that our investments in Parago and River Logic have been successful. Parago has recently attained profitability. As is expected in early stage companies, River Logic has not been profitable and has had to scale back operations. Historically both companies have experienced cash flow deficiencies. The current private equity and venture capital market conditions have limited the availability of investment capital for investment in private companies. In addition, we have not participated in the additional capital infusions since our initial investments and as a result, our ownership percentage in both investee companies has been diluted. Our ownership percentage in Parago is less than 1% and approximately 8% in River Logic and the carrying values of both investments have been written down to zero.

While the performance of the investee companies to date has been as expected, there can be no assurance that we will ever achieve liquidity from these investments. In addition, there can be no assurance that our plans will be successful or what other actions may become necessary in the future. Until we are able to create liquidity from our investments through sale to a strategic investor, an initial public offering or some other liquidity transaction, we will continue to require working capital to fund operating expenses. Although we have been successful raising capital in the past, an inability to raise capital may require us to sell assets. Such actions could have a material adverse effect on our business and operations and result in charges that could be material to the Company's business and results of operations. At December 31, 2003 we have not identified sources of capital nor do we have any plans to raise capital to settle liabilities or to fund business development activities.

OUR BUSINESS FOCUS IS THE DEVELOPMENT AND ACQUISITION OF EARLY STAGE COMPANIES; HENCE, WE WILL ENCOUNTER NUMEROUS RISKS ASSOCIATED WITH OUR BUSINESS FOCUS AND OUR PRIOR OPERATING HISTORY MAY NOT BE A MEANINGFUL GUIDE TO EVALUATING OUR FUTURE PERFORMANCE.

Our business model is designed to enable the companies in whom we invest or acquire to become market leaders in their industries. Our strategy over the years has led to the development, acquisition and operation of technology based businesses with strong business models and compelling valuations. We believe that the anticipated growth in technology creates strong opportunities for us to increase shareholder value by investing in early stage ventures well positioned for growth in their respective marketplaces. We will attempt to increase the value of each investee by providing management, marketing and financial expertise along with financial capital and then realize this new value through a subsequent liquidity event such as a sale, merger or initial public offering of the investee companies. However, the impact of any advice and expertise may be limited due to a lack of a significant ownership percentage in any of our investees and the lack of available capital.

In May 2002, we were successful in spinning off Citadel into a standalone company through the pro-rata dividend distribution of Citadel common stock to shareholders of CT Holdings. At December 31, 2003 we held investments in two companies, Parago and River Logic. However the investments have no carrying value on the balance sheet of the Company at December 31, 2003 and 2002 due to general economic and information technology market conditions, as well as historical performance of the investee companies. During 2003 we looked for businesses and technologies in which to invest but economic and stock market conditions along with a general decline in the availability of private and public capital available to us has prevented us from making any additional investments and there can be no assurance that these factors will improve so that the Company can continue to execute its business plan.

Other than our formation and development of Citadel, Parago and River Logic, we have a brief history in executing our business strategy. As a consequence, our prior operating history may not provide a meaningful guide to our prospects in emerging markets. Moreover, our business model and prospects must be considered in light of the risk, expense and difficulties frequently encountered by companies in early stages of development, particularly companies in new and rapidly evolving markets. We may be unable to execute our strategy of developing our business due to numerous risks, including the following:

- We may be unable to identify or develop relationships with attractive emerging companies.
- Any companies that we are able to attract may not succeed and the value of our assets and the price of our common stock could consequently decline.
- Our business model is unproven and depends on the willingness of companies to participate in our business development model and collaborate with each other and us.
- Our expenses will increase as we build the infrastructure necessary to implement this model.
- We face competition from incubators, some of which are publicly traded companies, venture capital companies and large corporations; many of these competitors have greater financial resources and brand name recognition than we do, which may make it difficult for us to effectively compete.
- We will require additional capital resources in order to implement our business model and we may not be able to obtain these resources on attractive terms, if at all.

WE HAVE INVESTED IN EARLY STAGE VENTURES; AND THERE CAN BE NO ASSURANCE THAT OUR INVESTMENTS WILL PROVE TO BE FINANCIALLY ATTRACTIVE.

We have developed and invested in Parago and River Logic (our "investees" or "investee companies") and completed the spin-off transaction of Citadel in May 2002. Inasmuch as our investee companies are early stage ventures, it is difficult to judge their future prospects. Economic, governmental, industry and internal company factors outside of our control affect each of our investee companies.

CT HOLDINGS DOES NOT HAVE ACCESS TO THE CASH FLOW OR ASSETS OF CITADEL, AND HAS BEEN UNABLE TO OPERATE PROFITABLY FOLLOWING THE DISTRIBUTION

Historically, since prior to the Distribution the businesses that comprise each of Citadel and CT Holdings were under one ultimate parent, they were able to rely, to some degree, on the earnings, assets and cash flow of each other for capital requirements. After the Distribution, CT Holdings has not been able to rely on the security software business for such requirements. Following the Distribution, CT Holdings continues to maintain its own credit and banking relationships and perform its own financial and investor relations functions. Because a significant number of key employees of CT Holdings have been employed by Citadel following the Distribution, there can be no assurance that CT Holdings will be able to successfully put in place the financial, administrative and managerial structure necessary to continue to operate as an independent public company, or that the development of such structure will not require a significant amount of management's time and other resources.

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WE MAY INCUR SIGNIFICANT COSTS TO AVOID INVESTMENT COMPANY STATUS AND MAY SUFFER OTHER ADVERSE CONSEQUENCES IF WE ARE DEEMED TO BE AN INVESTMENT COMPANY.

We may incur significant costs to avoid investment company status and may suffer other adverse consequences if we are deemed to be an investment company under the Investment Company Act of 1940. Some of our contemplated equity investments in other businesses may constitute investment securities under the 1940 Act. A company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of its total assets, subject to certain exclusions. Investment companies are subject to registration under, and compliance with, the 1940 Act unless a particular exclusion or Securities and Exchange Commission safe harbor applies. If we were to be deemed an investment company, we would become subject to the requirements of the 1940 Act. As a consequence, we would be prohibited from engaging in some businesses or issuing our securities and might be subject to civil and criminal penalties for noncompliance. In addition, certain of our contracts might be voided, and a court-appointed receiver could take control of us and liquidate our business. Following the Distribution of Citadel, we may be deemed to be an investment company unless we qualify for a safe harbor within the time permitted under the 1940 Act.

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Although we have yet to make any investments in the investment securities of companies other than Citadel, Parago, and River Logic, such investments, if and when made, could fluctuate in value, which may cause the value of such securities to exceed 40% of our total assets. Unless an exclusion or safe harbor were available to us, we would have to attempt to reduce our investment securities as a percentage of our total assets. This reduction could be accomplished in a number of ways, including the disposition of investment securities and the acquisition of non-investment security assets. If we were required to sell investment securities, we may sell them sooner than we may otherwise have preferred. These sales may be at depressed prices and we might never realize anticipated benefits from, and may incur losses on, these investments. Some investments may not be sold due to contractual or legal restrictions or the inability to locate a suitable buyer. Moreover, we may incur tax liabilities when we sell assets. We may also be unable to purchase additional investment securities that may be important to our operating strategy. If we decide to acquire non-investment security assets, we may not be able to identify and acquire suitable assets and businesses.

OUR STOCK IS TRADED IN THE OVER THE COUNTER MARKET.

Our common stock was de-listed from the NASDAQ SmallCap Market on May 17, 2001, because we did not meet the NASDAQ's requirements for continued listing. Our common stock now trades on the OTC Bulletin Board. The OTC Bulletin Board is generally considered to be a less efficient market, and our stock price, as well as the liquidity of our common stock, may be adversely impacted as a result.

WE ARE INVOLVED IN LEGAL PROCEEDINGS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS

We are involved in legal proceedings as described in PART I Item 3. Legal Proceedings and from time to time, we may be subject to other legal proceedings, including but not limited to claims that we have infringed the intellectual property rights of others, product liability claims, or other claims incidental to our business. While we intend to defend such lawsuits, adverse decisions or settlements, and the costs of defending such suits, could have a material adverse effect on our business.

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OUR EARNINGS AND STOCK PRICE ARE SUBJECT TO SIGNIFICANT FLUCTUATIONS.

Due to the factors noted in this Report, our earnings and stock price have been and may continue to be subject to significant volatility, particularly on a quarterly basis. We have experienced no revenue or earnings which have had an immediate and significant adverse effect on the trading price of our common stock. This may occur again in the future.

FAILURE TO QUALIFY AS A TAX-FREE TRANSACTION COULD RESULT IN SUBSTANTIAL LIABILITY

CT Holdings and Citadel intend for the Distribution to be tax-free for U.S. federal income tax purposes. Neither CT Holdings nor Citadel has requested an advance ruling from the Internal Revenue Service, or any opinion of their tax advisors, as to the tax consequences of the Distribution. No assurance can be given that the Internal Revenue Service or the courts will agree that the Distribution is tax-free.

If the Distribution does not qualify for tax-free treatment, a substantial corporate tax would be payable by the consolidated group of which CT Holdings is the common parent measured by the difference between (1) the aggregate fair market value of the Citadel Shares on the Distribution Date and (2) CT Holdings' adjusted tax basis in the Citadel Shares on the Distribution Date. The corporate level tax would be payable by CT Holdings. However, Citadel has agreed under certain circumstances to indemnify CT Holdings for all or a portion of this tax liability. In addition, under the applicable treasury regulations, each member of CT Holdings' consolidated group (including Citadel) is severally liable for such tax liability.

Furthermore, if the Distribution does not qualify as tax-free, each CT Holdings stockholder who received Citadel Shares in the Distribution would be taxed as if he had received a cash dividend equal to the fair market value of his Citadel Shares on the Distribution Date.

Even if the Distribution qualifies as tax-free, CT Holdings could nevertheless incur a substantial corporate tax liability under Section 355(e) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code or the Code), if CT Holdings or Citadel were to undergo a change in control (whether by acquisition, additional share issuance or otherwise) pursuant to a plan or series of related transactions which include the Distribution. Any transaction which occurs within the four-year period beginning two years prior to the

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Distribution is presumed to be part of a plan or series of related transactions which includes the Distribution unless CT Holdings establishes otherwise. Under certain circumstances, Citadel would be obligated to indemnify CT Holdings for all or a portion of this substantial corporate tax liability under the tax disaffiliation agreement.

RISKS RELATED TO OUR INVESTEES

The following are some risks related to the business of Parago and River Logic, our investees, and should be considered in addition to the risk factors described in this Report. Any of these factors could have a material adverse effect on us.

THERE CAN BE NO ASSURANCE THAT OUR INVESTEES WILL COMPLETE AN INITIAL PUBLIC OFFERING OR OTHER LIQUIDITY EVENT.

There can be no assurance that any of our investees will complete an initial

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public offering, merger, sale or other liquidity event. The failure to complete an offering or other liquidity event such as an acquisition by a third party could have a material adverse effect on our stock price. You cannot be assured that an initial public offering or other liquidity event will occur in the near future or ever at all. Even if a liquidity event is achieved, we may not receive material proceeds from a liquidity event because of the existence of other securities with preferences to the securities we hold or if the price received by the investee company is not sufficient to generate a favorable return to us. In addition, we have agreed to convert the shares of Parago common stock issued in connection with the acquisition of 2-Lane Media by Parago into up to 500,000 of our shares at the option of the 2-Lane Media shareholders, and in May 2002 we exchanged 1,200 Parago shares held by some of the 2-Lane Media shareholders into 139,806 shares of our common stock. Pursuant to the terms of the subscription agreements between Parago and some of its stockholders, we may be required to issue up to 414,000 shares of our common stock based on a conversion price of \$3.75 per share (above the fair market value on the dates of issuance) at the option of such stockholders. In May 2002, the Company exchanged 16,000 shares of the Company's common stock for 40 shares of Parago common stock with one of these shareholders. In February 2004, our CEO elected to exercise an exchange right whereby he exchanged 5,000,000 (pre 1:1000 reverse split shares) shares of Parago common stock for 6,000,000 shares of CT Holdings common stock. These provisions could have the effect of diluting our stockholders if the market price for our stock is above that price at the time of conversion.

WE MAY NOT BE ABLE TO EFFECT THE DISTRIBUTION OF PARAGO SHARES.

We previously announced that we intend to distribute shares of Parago common stock to our shareholders upon compliance with the Securities and Exchange Commission (SEC) requirements applicable in connection with the proposed distribution and upon the expiration of a 180 day lockup agreement between the underwriters of Parago's previously proposed initial public offering and us. If there are problems associated with compliance with SEC requirements or state law, then the distribution of Parago shares may be delayed or may not occur. There can be no assurance that we will complete the distribution on the proposed terms or at all.

OUR INVESTEES' BUSINESSES AND FUTURE PROSPECTS ARE EXTREMELY DIFFICULT TO EVALUATE BECAUSE THEIR OPERATING HISTORIES ARE VERY LIMITED AND THEIR BUSINESS MODELS ARE NEW, UNPROVEN AND EVOLVING.

Our investees are early stage companies, and therefore each investee has only a limited operating history on which one can base an investment decision. You should consider their prospects in light of the uncertainties and difficulties frequently encountered by companies in their early stages of development. In addition, each investee's business model is new, unproven and evolving. We cannot assure that our investees' business models will be commercially successful, or that their solutions will be accepted by businesses or consumers. If our investees are unable to establish pricing and service models acceptable to manufacturers, retailers and service providers and attractive to their customers, their solutions may not be commercially successful.

EACH INVESTEE HAS A HISTORY OF NET LOSSES AND COULD INCUR SUBSTANTIAL NET LOSSES IN THE FUTURE.

Parago has only recently reported its first unaudited full year profit and River Logic has never reported a profit. Both investees could incur substantial losses in the future, if our investees' revenues do not grow as they anticipate, our investees may never be profitable.

TO CONTINUE THEIR OPERATIONS AND BUSINESSES, OUR INVESTEES MUST RAISE ADDITIONAL FINANCING.

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Parago has only recently reported its first unaudited full year profit and River Logic has never reported a profit. Both investees could incur substantial losses in the future, if our investees do not raise additional funds, or achieve profitability, their businesses and results of operations will be seriously

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harmed, and our assets and share price would be materially and adversely impacted. This additional financing may not be available to our investees on a timely basis if at all, or, if available, on terms acceptable to our investees. Moreover, additional financing may cause material and immediate dilution to existing stockholders of our investees, including us.

IN THE EVENT OF THE COMPLETION OF AN INITIAL PUBLIC OFFERING BY ANY OF OUR INVESTEES, THEIR STOCK PRICE IS LIKELY TO BE VERY VOLATILE.

Currently, the securities of our investees cannot be bought or sold publicly. There can be no assurance that any of our investees will be able to complete an initial public offering. Although it is anticipated that the initial public offering price (if an initial public offering is completed) would be determined based on several factors, the market price after the offering may vary significantly from the initial offering price. The market price of our investees' common stock is likely to be highly volatile and could be subject to wide fluctuations in response to factors that are beyond its control. A decline in their stock price will adversely affect our stock price.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations, could adversely affect the market price of Parago's and River Logic's common stock, if the shares become publicly traded.

Sales of a substantial number of shares of our investees' common stock in the public market after an initial public offering could depress the market price of their common stock and could impair their ability to raise capital through the sale of additional equity securities.

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ITEM 2. DESCRIPTION OF PROPERTY

CT Holdings shares office space with Citadel Security Software and as part of the transition services agreement CT Holdings is charged a monthly administrative fee of approximately \$20,000 per month which includes the cost of the space. We believe that these facilities will be sufficient to meet our needs for the foreseeable future.

The telephone number of our principal office is (214) 520-9292. The Company maintains a site at <http://www.ct-holdings.com>.

ITEM 3. LEGAL PROCEEDINGS

Set forth below are litigation matters to which we are a party. We believe that we have meritorious defenses and will vigorously defend ourselves. However, an unfavorable resolution of, settlement, or defense costs related to one or more of these lawsuits could have a material adverse effect on our business, results of operations or financial condition.

In August 1998, Janssen-Meyers Associates L.P. (JMA) filed a lawsuit against the Company arising out of an alleged 1995 contract with the Company's predecessor

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(Old Citadel). The suit alleged that Old Citadel breached a letter of intent dated September 1995 and/or a Placement Agency Agreement dated November 1995 between JMA and Old Citadel. As its damages, JMA claimed that it was entitled to, among other things, the cash value of warrants to purchase 1.8 million shares of CT Holdings common stock at an exercise price of \$0.89 per share, valued during May 1996. According to JMA's valuation of those warrants, potential damages were alleged to exceed \$40 million. The Company vigorously disputes that it breached either the letter of intent or the Placement Agency Agreement or that it is liable to JMA. The lawsuit was styled Janssen-Meyers Associates, L.P. v. Citadel Technology, Inc., and was filed in the Supreme Court of the State of New York, County of New York. The Company removed the case to federal court in the Southern District of New York.

Following mediation in July 2000, the Company entered into a settlement term sheet, to attempt to resolve the disputes between it and JMA, pursuant to which the Company and JMA agreed in principle to settle the lawsuit for an aggregate of \$3 million, in a combination of \$1.5 million in cash and 300,000 shares of the Company's common stock with a guaranteed value of \$5 per share as of January, April and October 2001 (with respect to 100,000 of the shares for each period). The settlement was subject to execution of definitive settlement documents and approval of the boards of directors of both parties.

However, the Company and JMA were unable to negotiate the final definitive settlement agreement. The case was dismissed in August 2000 without any resolution of this issue. On March 27, 2001, JMA attempted to reopen this matter, but the Court hearing the JMA lawsuit issued a Summary Order denying JMA's motion to enforce the settlement term sheet and confirmed the prior dismissal of the lawsuit. The Court further ruled that JMA would either have to bring an action on the proposed settlement or move to re-open the dismissed case. The Court stated that it did not express any view with respect to the merits of the settlement that brought about the dismissal of the case. There was no activity on the case from March 2001 through August 2001. On August 27, 2001 JMA refiled its lawsuit with a federal court in New York, and the Company filed its motion to dismiss the case because the plaintiffs lacked the required diversity jurisdiction to pursue the claims in federal court. On October 31, 2001 the case was dismissed in federal court. In December 2001, the plaintiffs refiled the lawsuit in the state court seeking to enforce the proposed settlement term sheet. The case was filed in Supreme Court of New York, that state's trial court, in a case styled Roan Meyers v. CT Holdings. CT Holdings has filed counterclaims for breach of the term sheet as well as breach of the placement agency agreement. Cross motions for partial summary judgments have been argued but the court has not ruled on the motions. No trial date has been set at the time. The Company intends to vigorously defend this case.

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In June 2000, CT Holdings was served with a lawsuit filed in the 157th State District Court in Houston, Texas by Michael and Patricia Ferguson for breach of contract, breach of fiduciary duty, tortious interference, violation of the Texas Deceptive Trade Practices Act and negligence. The case was styled Michael and Patricia Ferguson v. CT Holdings, Inc. Specifically, the Ferguson's claim that they were damaged when they attempted to exercise warrants during a time when CT Holdings' related registration statement could not be used. In July, 2002, the plaintiffs were awarded damages of \$575,510, pre-judgment interest of \$86,748, attorneys' fees of \$103,818, post-judgment interest at 10% per year, and costs. The Company had a liability of \$785,000 recorded at December 31, 2002 for this judgment.

CT Holdings appealed the judgment in a case styled CT Holdings Inc. v. Michael and Patricia Ferguson in the Fourteenth Court of Appeals in Houston, Texas. In January 2003, the plaintiffs filed a motion to have the District Court appoint a

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receiver to sell assets to satisfy the judgment. In April 2003 the parties settled the lawsuit for \$225,000 in cash, which was obtained from Citadel in exchange for a demand note payable bearing interest at 12% per year.

In June 2000, Tech Data Corporation filed suit against CT Holdings, alleging a breach of a Software Distribution Agreement with CT Holdings. The lawsuit is styled Tech Data Corporation v. Citadel Technology, Inc. (now known as CT Holdings), and was filed in Dallas County Court at Law No. 2. During 2003 the parties reached a settlement whereby Tech Data has agreed to receive 12 monthly payments of \$8,000 per month for settlement of this liability. As part of the Distribution, Citadel assumed payment responsibility for this lawsuit and has begun making the payments.

In October 2002, S&S Public Relations Inc. filed a lawsuit against CT Holdings and Steven B. Solomon, its CEO, alleging breach of contract and fraud, and seeking damages in the amount of at least \$25,215, along with exemplary damages, attorneys' fees, court costs, and pre- and post-judgment interest. The case is styled S&S Public Relations Inc. v. CT Holdings and Steven B. Solomon, and was filed in the County Court at Law No. 4, Dallas County, Texas. The Company had a liability accrued and in April 2003, the Company settled the liability and this lawsuit by issuing 50,000 shares of CT Holdings common stock along with 12,500 pro rata dividend shares of Citadel common stock that had been reserved for issuance at the Distribution Date.

In August 2002, PriceWaterhouseCoopers, LLP ("PWC") filed a lawsuit against CT Holdings seeking payment of \$131,816 for services performed pursuant to a contract with CT Holdings related to the JMA lawsuit described above. The court ordered that mediation be held by July 2003. The case is styled PriceWaterhouseCoopers, LLP v. CT Holdings, and was filed in the 192nd District Court, Dallas County, Texas. In July 2003, PWC obtained a summary judgment against the Company for damages of \$131,816 plus pre-judgment interest of

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\$57,615, post-judgment interest at 10% and attorneys' fees in the amount of \$8,605. During the year ended December 31, 2003 the Company recorded an accrual for legal settlement of \$207,000 including accrued interest in association with this judgment. PWC has obtained a garnishment of CT Holdings' bank account and is seeking to obtain post-judgment discovery. CT Holdings is attempting to negotiate a settlement of this case.

In January 2003, R.R Donnelly asserted claims against the Company and Steve B. Soloman alleging non-payment for services provided to CT Holdings by the plaintiff during the nine months ended September 30, 2002. The plaintiff is seeking \$16,872 from the Company for past due invoices as well as attorney's fees in the amount of \$24,000, court costs and post-judgment interests at the highest legal rate. The Company had a liability of approximately \$50,000 recorded at December 31, 2003 and 2002 for the services preformed by the vendor. The Company intends to vigorously defend this lawsuit.

In April 2003 MWW Group re-filed an old suit styled "MWW Group v. CT Holdings et.al" in the Superior Court of Bergen County, New Jersey which had been dismissed for want of prosecution. On July 21, 2003 a default judgment was entered against CT Holdings and Steve Solomon. On December 9, 2003, the Court signed an order vacating the default judgment. The plaintiff alleges damages in the amount of \$91,290. The case is in the discovery stage and is not yet scheduled for trial. The Company intends to vigorously defend this case.

In April 2003, Harte Hanks, Inc. filed a lawsuit styled "Harte Hanks, Inc. v. CT Holdings Inc. dba Citadel Computer" seeking payment of \$12,513 for services performed. In July 2003, the plaintiffs filed a motion for receivership and

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alternatively to compel discovery in the lawsuit. At a hearing on the matter held on September 5, 2003 in the County Court of Law Number Three of Dallas County, Texas, the court ordered the Company to provide additional discovery by October 20, 2003 which the Company failed to produce. As part of the Distribution, Citadel assumed responsibility for this liability, and has settled this liability for a total payment of \$8,000.

We may become involved from time to time in litigation on various matters which are routine to the conduct of our business. We believe that none of these actions, individually or in the aggregate, will have a material adverse effect on our financial position or results of operations, though any adverse decision in these cases or the costs of defending or settling such claims could have a material adverse effect on our business.

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

None

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock trades on the OTC Bulletin Board under the symbol CITN. The following table sets forth, for the periods indicated, the high and low closing sale prices for the Common Stock as reported by the OTCBB and displayed on its website. The quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

	HIGH	LOW
	-----	-----
YEAR ENDED DECEMBER 31, 2003		
1st Quarter	\$. 0.020	\$ 0.011
2nd Quarter	0.065	0.010
3rd Quarter	0.036	0.021
4th Quarter	0.079	0.021
YEAR ENDED DECEMBER 31, 2002		
1st Quarter	\$. 0.449	\$ 0.208
2nd Quarter	0.343	0.060
3rd Quarter	0.070	0.026
4th Quarter	0.030	0.006

At December 31, 2003 there were approximately 786 holders of common stock of the Company. Holders of common stock are entitled to dividends when and if declared by the Board of Directors out of funds legally available therefore. The Company has never paid cash dividends on its common stock, and management intends, for

the immediate future, to retain any earnings for the operation and expansion of the Company's business. Any future determination regarding the payment of dividends will depend upon results of operations, capital requirements, the financial condition of the Company and such other factors that the Board of

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Directors of the Company may consider.

The stock option information shown below is not subject to a stock option plan approved by shareholders.

Equity Compensation Plan Information

Plan category	Number of securities to be issued Upon exercise of outstanding options, warrants and rights	Weighted-average exercise of outstanding options, wa and rights
-----	-----	-----
	(a)	(b)
Equity compensation plans approved by security holders.	-	-
Equity compensation plans not approved by security holders.	2,917,500 (1)	\$0.24

(1) Excludes common stock that may be issued in the event the Company's CEO exercises a right to exchange 5,000,000 (pre 1:1000 reverse stock split) shares of Parago common stock for 6,000,000 shares of CT Holdings common stock. This exchange right was exercised in February 2004. The CEO has waived his right to receive these shares until such time as shares become authorized.

Recent Sales of Unregistered Securities

During the year ended December 31, 2003, the Company settled liabilities in the aggregate amount of approximately \$665,000 in exchange for 1,000,000 shares of CT Holdings common stock and other consideration.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the financial statements and notes thereto found elsewhere herein, as well as the disclosure relating to forward-looking statements set forth above under the caption Factors That May Affect Future Operating Results.

OVERVIEW

CT Holdings, Inc. provides management expertise and sources of capital to early stage companies. At December 31, 2003 and 2002 we held investments in Parago and River Logic. We were incorporated in Delaware in 1992. Our business model is designed to enable the companies in whom we invest or acquire to become market leaders in their industries. Our strategy has led to the development, acquisition and operation of technology based businesses with compelling valuations and strong business models. We believe that the anticipated growth in technology creates strong opportunities for us to increase shareholder value by investing in well-positioned early stage ventures. Our goal is to realize the value of our investments for our shareholders through a subsequent liquidity event such as a spin-off, sale, merger or initial public offering of the

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investee companies.

Recent geopolitical, economic and stock market conditions along with lack of available capital have limited our ability to raise sufficient capital to invest in additional companies and technologies that could offer us and our shareholders a reasonable rate of return on their investment in the foreseeable future. Historically, these factors have also affected the businesses of our investee companies and as a result, in years prior to the year ended December 31, 2003 the carrying values of our investments in Parago and River Logic have been written down to zero. We expect that if and when capital becomes available to us, we may continue our business development and investment activities,

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however there can be no assurance that any capital will be available to us. Until such time as capital becomes available the Company's business activities will be limited to reviewing investment opportunities, filing of compliance documents and defending the lawsuits disclosed in Part I, Item 3 - Legal Proceedings.

THE CITADEL SECURITY SOFTWARE DISTRIBUTION AND DISCONTINUED OPERATIONS

In November 2001, the board of directors of CT Holdings approved the spin-off of Citadel Security Software, Inc. ("Citadel") through the declaration of a pro rata dividend distribution to the holders of record of the outstanding shares of CT Holdings common stock (the "Distribution"). The Distribution consisted of one (1) share of Citadel common stock for every four (4) shares of CT Holdings (the "Distribution Ratio") held by CT Holdings shareholders as of May 6, 2002 (the "Record Date"). Following the Distribution on May 17, 2002 (the "Distribution Date"), Citadel became an independent company and CT Holdings has no continuing ownership interest in Citadel. The Distribution is intended to be a tax free distribution for U.S. federal tax purposes although neither we nor Citadel have requested or obtained any opinions as to the tax treatment of the Distribution. On the Distribution Date, CT Holdings and Citadel entered into a series of agreements including a distribution agreement, a transition services agreement expiring May 2004 and a tax disaffiliation agreement which provide for, among other things, the principal corporate transactions required to effect the Distribution, to provide for an orderly transition to the status of two independent companies and to define the continuing relationship between Citadel and CT Holdings after the Distribution.

After the Distribution, two of five directors of CT Holdings were directors of Citadel and the Chief Executive Officer and the Chief Financial Officer of CT Holdings hold the same positions with Citadel. Following the Distribution up to 20% to 33% of the officers' time has been spent on work related to CT Holdings. All employees of CT Holdings became employees of Citadel following the Distribution. Under the transition services agreement Citadel provides accounting, administrative, information management, office space and other services, including the services of the two officers, to CT Holdings in return for a payment of a monthly administrative fee initially estimated at \$20,000 per month. The fee may be adjusted quarterly subject to a reallocation of the estimated time devoted to each company. The transition services agreement expires in May 2004.

As a result of the Distribution, the financial statements and the results of operations of Citadel are presented in the statement of operations as discontinued operations in CT Holdings' financial statements for the period from January 1, 2002 through the Distribution Date of May 17, 2002. Summary financial information with respect to Citadel is provided below:

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Period
January 1, 2002
through
May 17, 2002

Results of operations:

Revenue	\$	130,519
Net Loss		(942,939)

OVERVIEW OF PARAGO

In January 1999, we formed Parago, an application service provider and Internet based business process outsourcer that provides a suite of technology offerings (including PromoCenter, ClickChoice and KnowledgeCenter) designed to increase sales, reduce costs, and retain customers for retailers, manufacturers and service organizations. Parago's continuous customer interaction services include online promotional management (including online rebate processing), proactive email, online surveys, and customer data analysis and reporting.

In connection with an acquisition by Parago in March 1999, we agreed to convert the Parago shares of common stock issued in connection with the merger into a maximum of 500,000 of our shares at the option of the shareholders of the company acquired by Parago. In May 2002 the Company exchanged 139,806 shares of the Company's common stock for 1,200 post reverse split shares of Parago common stock with some of these shareholders. In addition, pursuant to the terms of the subscription agreements between Parago and some of its stockholders, we may be required to issue up to 414,000 shares of our common stock to such stockholders based upon a conversion price of \$3.75 per share. In May 2002, the Company exchanged 16,000 shares of the Company's common stock for 40 post reverse split shares of Parago common stock with one of these shareholders. In February 2004, our CEO elected to exercise an exchange right whereby he exchanged 5,000,000 (pre 1:1000 post reverse split) shares of Parago for 6,000,000 shares of CT Holdings common stock. These provisions could have the effect of diluting our stockholders.

After a 1 for 1000 reverse stock split by Parago in connection with its Series E preferred stock offering in December 2001 to February 2002, in which the

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Company elected not to participate, the Company holds 20,000 shares of common stock of Parago and warrants to purchase 28.8749 shares of Parago's Series A-3 Preferred Stock (convertible into 2,887 shares of Parago's common stock) at December 31, 2003. In February 2004, our CEO loaned us \$30,000 in order for us to exercise our warrants to purchase shares of Series A-3 convertible preferred stock, pursuant to a promissory note secured by a pledge of the preferred stock. In December 2001 Parago completed the first closing (\$13.6 million) of an equity financing of approximately \$15.0 million. Approximately \$1.4 million of equity financing was closed in February 2002. We elected not to participate in their financing transaction. As a result, our ownership percentage in Parago was reduced to less than 1%. Our investment in Parago for the period from January 1, 2001 through December 12, 2001 was accounted for under the equity method of accounting for investments and accordingly as a result of our ownership falling below 20%, has been accounted for using the cost method of accounting since December 13, 2001. Under the cost method of accounting, the Company's share of the income or loss from Parago is not included in operations. Under the equity method of accounting, the Company's share of the investee's income or losses is included in the statements of operations. If the carrying value of the Company's

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net investment falls below zero, the Company discontinues applying the equity method until the carrying value of the net investment rises above zero. In addition, in the event the Company's ownership percentage exceeds 20% and the value of the Company's equity investment rises above zero, the Company will resume applying the equity method and will recognize an investment in Parago after the Company's share of net losses not recognized is recovered through our proportionate share of net income if Parago turns profitable. We believe that our \$50,000 investment in Parago represented by 20,000 shares of Parago's common stock (plus 1,240 shares to be received from the exchanges in May 2002), 28.8749 shares of Series A-3 preferred stock (convertible into 2,887 shares of Parago common stock) and an additional 5,000 shares (5,000,000 pre 1:1000 post reverse split) received in February 2004 when the CEO exercised his exchange rights for 6,000,000 shares of the Company's common stock may ultimately provide an appropriate return.

OVERVIEW OF RIVER LOGIC

In May 2000, we made an investment in River Logic by acquiring shares of common stock of River Logic from several of its existing shareholders in exchange for 333,333 shares of our common stock. We also acquired shares of Series A Convertible Preferred Stock ("Series A") from River Logic in exchange for the contribution of assets acquired from a third party by the Company through exchange of 666,667 shares of our common stock. In connection with the investment in River Logic, we also made two bridge loans totaling \$600,000 to River Logic that were convertible into shares of capital stock of River Logic.

Since the Company's initial investments, River Logic has made progress in executing its strategy through its development and introduction of new products and establishment of new customer relationships. As of December 31, 2002, the Company recognized that this investment would continue to be initially illiquid. However during the year ended December 31, 2002 general economic conditions worsened, stock market valuations declined from the values at December 31, 2001 and raising capital at previous historical valuations became difficult. We considered all the facts and circumstances of River Logic's business, marketplace and cost of new capital and based on these considerations we determined that the fair market value of the Company's investment in River Logic had been permanently impaired and that our investment in River Logic may never be realized. Accordingly we wrote down the carrying value of our investment in River Logic to \$0 at December 31, 2002. Our investment in River Logic is accounted for using the cost method of accounting for investments in common stock therefore no proportionate share of equity in income or loss is recorded.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to our investments in our investee companies and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

IMPAIRMENT CHARGES

We periodically evaluate the carrying value of our ownership interests in our investee companies for possible impairment based on achievement of business plan objectives and milestones, the value of each ownership interest in the investee company relative to carrying value, the financial condition and prospects of the investee company, and other relevant factors. The business plan objectives and milestones we consider include, among others, those related to financial performance such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature such as obtaining key business relationships or the hiring of key employees. If an indication of impairment exists with respect to the carrying value of an investee company, we perform an evaluation by comparing the estimated fair value of the asset with its carrying value. Fair value is determined by estimating the cash flows related to the asset, including estimated proceeds on disposition, if any. If the fair value is less than the carrying value a loss is recorded.

COMMITMENTS AND CONTINGENCIES

From time to time, we are a defendant or plaintiff in various legal actions, which arise in the normal course of business. We are also a guarantor of various third-party obligations and commitments. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these contingencies, if any, which would be charged to earnings, is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy.

Changes in required reserves could increase or decrease our earnings in the period the changes are made.

EFFECT OF VARIOUS ACCOUNTING METHODS FOR EQUITY INVESTMENTS

The various interests that we acquire in our investee companies are accounted for under three broad methods: consolidation, equity method and cost method. The applicable accounting method is generally determined based on our percentage ownership in an investee company.

CONSOLIDATION METHOD: Investee companies in which we directly or indirectly own more than 50% of the outstanding securities or those where we have effective control are generally accounted for under the consolidation method of accounting. Under this method, an investee company's accounts are consolidated within our financial statements. Participation of other unrelated stockholders in the earnings or losses of a consolidated investee company would be reflected as a minority interest in consolidated financial statements. Minority interest adjusts our consolidated net results of operations to reflect only our share of the earnings or losses of the consolidated investee company. At December 31, 2003 and 2002, we had no investee company qualified for this accounting method.

EQUITY METHOD: Investee companies whose results we do not consolidate, but over whom we exercise significant influence, are generally accounted for under the equity method of accounting. Whether or not we exercise significant influence with respect to an investee company depends on an evaluation of several factors including, among others, representation on the investee company's board of directors and percentage ownership level, which is generally a 20% to 50% interest in the securities of the investee company, including our holdings in common, preferred and other convertible instruments in the investee company

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where we may have voting rights. Under the equity method of accounting, an investee company's accounts are not reflected within our financial statements; however, our share of the earnings or losses of the investee company is reflected in our statements of operations. At December 31, 2003 and 2002, we had no investee company qualified for this accounting method.

COST METHOD: Investee companies not accounted for under either the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, our share of the earnings or losses of these companies is not included in our statements of operations. Our investments in Parago and River Logic were accounted for using this method of accounting at December 31, 2003 and 2002.

RESULTS OF OPERATIONS

THE YEAR ENDED DECEMBER 31, 2003 COMPARED WITH THE ENDED DECEMBER 31, 2002

Our continuing operations consist of costs and expenses for providing services to our investee companies and the activities to identify additional technologies and companies in which we might invest. We do not generate any direct revenue and because our investee companies are not consolidated, we do not report revenue from investee businesses. Due to the spin-off of Citadel on May 17, 2002 the results of operations of Citadel are presented as discontinued operations in all periods presented prior to the distribution date. Citadel's

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loss from operations from January 1, 2002 through May 17, 2002 is presented as loss from discontinued operations in the statements of operations. For the periods prior to the distribution date, costs and expenses related to the Citadel business have been allocated to Citadel based on an estimate of the proportion of amounts allocable to Citadel utilizing such factors as revenues, number of employees, and other relevant factors.

GENERAL AND ADMINISTRATIVE EXPENSES

During the year ended December 31, 2003 general and administrative expenses were approximately \$296,000 representing a decrease of approximately \$614,000 or 67.5% from the approximately \$910,000 of general and administrative expenses recorded for the year ended December 31, 2002. The decrease is primarily due to lower legal, accounting, consulting and other professional fees and expenses resulting from the lower business development activities during the year ended December 31, 2003 versus the similar period of 2002.

FORGIVENESS OF ACCOUNTS PAYABLE

During the year ended December 31, 2003, a vendor released the Company from payment of approximately \$162,000 of invoices for professional services rendered to the Company.

COMMON STOCK ISSUED AS COMPENSATION

During the year ended December 31, 2002 the Company issued 6,647,500 shares of common stock to employees and directors of the Company pursuant to the exercise of stock options. The aggregate exercise price of these stock options was approximately \$1,347,000. Notes receivable for \$1,312,500 were received for the exercise price and subsequently fully reserved and expensed as stock compensation expense. An additional \$34,500 was recorded as a stock bonus expense during the year ended December 31, 2002.

LITIGATION ACCRUAL AND REVERSAL

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In June 2000, CT Holdings was served with a lawsuit filed in state court in Houston, Texas by Michael and Patricia Ferguson for breach of contract, tortious interference and negligence. Specifically, the Ferguson's claimed that they were damaged when they attempted to exercise warrants during a time when CT Holdings' related registration statement could not be used. The trial in this case was held from April 22, 2002 until May 1, 2002, and the Company received the judgment from the trial court in July 2002. The trial court awarded the Fergusons approximately \$766,000 in damages, interest and legal fees. As a result of the judgment, the Company recorded approximately \$766,000 plus \$19,000 of interest expense as a nonrecurring charge related to the litigation. At December 31, 2002 we had an accrued liability of \$785,000 for this lawsuit.

In April 2003 we settled the lawsuit for \$225,000 payable in cash and accordingly reversed \$560,000 of the accrued liability. Citadel loaned us \$225,000 which is represented by a demand note payable bearing interest at 12% per year. As of December 31, 2003 the accrued interest balance was approximately \$21,000.

In August 2002, PriceWaterhouseCoopers, LLP ("PWC") filed a lawsuit against CT Holdings seeking payment of \$131,816 for services performed pursuant to a contract with CT Holdings related to the JMA lawsuit. The court ordered that mediation be held by July 2003. The case is styled PriceWaterhouseCoopers, LLP v. CT Holdings, and was filed in the 192nd District Court, Dallas County, Texas. In July 2003, PWC obtained a summary judgment against the Company for damages of \$131,816 plus pre-judgment interest of \$57,615, post-judgment interest at 10% and attorneys' fees in the amount of \$8,605. During the year ended December 31, 2003 the Company recorded an accrual for legal settlement of \$207,000 in association with this judgment including post-judgement accrued interest of approximately \$7,000.

WRITEDOWN OF INVESTMENT IN AFFILIATES

During the year ended December 31, 2002 general economic conditions worsened, stock market valuations declined from the previous values and raising capital at previous historical valuations became difficult. We considered these and other facts and circumstances of River Logic's business, marketplace and cost of new capital and based on an this consideration at June 30, 2002 we determined that the fair market value of the Company's investment in River Logic had declined to approximately \$500,000 and accordingly wrote down the investment by \$2,203,975. At December 31, 2002 we determined that the fair value of our investment in River Logic had declined to zero and accordingly wrote down the remaining carrying value to zero at December 31, 2002.

GAIN ON SETTLEMENT OF LIABILITIES

During the year ended December 31, 2003 we completed negotiations to settle approximately \$665,000 of liabilities that had been outstanding prior to the Citadel Distribution by issuing 1,000,000 shares of CT Holdings common stock along with 250,000 pro rata dividend shares of Citadel common stock that had been reserved for issuance at the Distribution Date. The difference between the fair value of the shares and the recorded liabilities of approximately \$415,000 was recognized as a gain in the statement of operations. A gain on the settlement of a liability with stock of approximately \$9,000 was recognized in the year ended December 31, 2002.

GAIN FROM OFFSET OF NOTES RECIEVABLE AGAINST NOTES PAYABLE

During 2003, the Company agreed to offset a note payable to our CEO, a note payable to a former director and a note payable to an entity controlled by an employee (as to each of which the Company was in default) aggregating approximately \$525,000 plus accrued interest of approximately \$172,000 against

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notes receivable from these individuals aggregating approximately \$1,107,000 plus accrued interest receivable of approximately \$148,000. The notes receivable and related accrued interest had been fully reserved. As a result, the Company has recorded a gain of approximately \$642,000.

INTEREST (INCOME) EXPENSE

Interest expense for the year ended December 31, 2003 was approximately \$125,000 representing interest expense on advances and notes payable to related parties, notes payable to shareholders and the demand note payable to Citadel. Interest expense for the year ended December 31, 2002 was approximately \$129,000 and includes a charge of approximately \$51,000 related to the beneficial conversion feature of \$600,000 of convertible debt issued during the year ended December 31, 2002 and approximately \$43,000 of

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interest expense on advances and notes payable to related parties and notes payable to shareholders. The increase in interest expense, excluding the charge for the beneficial conversion feature, is due to higher average balances of interest bearing debt outstanding during the year ended December 31, 2003. Interest income of approximately \$55,000 related to notes receivable from shareholders was recognized during the year ended December 31, 2003.

OTHER (INCOME) EXPENSE

Other expense for the year ended December 31, 2002 was approximately \$36,000 representing the fair market value of common stock issued for the exercise of exchange rights granted by the Company.

NET INCOME (LOSS)

For the year ended December 31, 2003 we reported a net income from continuing operations of approximately \$1,211,000 versus a loss from continuing operations of approximately \$5,932,000 for the year ended December 31, 2002. As a result of the Distribution, the results of operations of Citadel for the year ended December 31, 2002 are presented as discontinued operations. The loss from discontinued operations related to Citadel for the year ended December 31, 2002 was approximately \$943,000. In addition to the loss from discontinued operations, we recorded transaction costs directly related to the spin-off transaction, primarily, legal and accounting fees, of \$185,000 for the year ended December 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

We received a report from our independent auditors for our year ended December 31, 2003 containing an explanatory paragraph that describes the uncertainty regarding our ability to continue as a going concern due to our recurring operating losses and our significant working capital deficiency. Historically, we have incurred recurring operating losses and have a significant stockholders' deficit at December 31, 2003 of approximately \$1,352,000. We had no cash balance or current assets at December 31, 2003 and current liabilities total approximately \$1,352,000. We have no access to capital at December 31, 2003 and we have no plans to raise capital nor have we identified sources of capital. Our past funding needs of the business have been provided by financings through short-term notes payable and additional investments from related parties, including our Chief Executive Officer, however there can be no assurance that such funds will be available from this related party. The Company has been and continues to be dependent upon outside financing to perform its business development activities, make investments in new technology companies and to fund operations.

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Our plans to continue to support and expand our business development activities are limited due to a lack of identification and availability of near term capital. As a result, it is unlikely that the implementation of the Company's business strategy will generate positive cash flow in the foreseeable future. Achieving positive cash flow is currently highly dependent upon obtaining liquidity from our investments in unconsolidated affiliates. We have no plans at December 31, 2003 to raise additional capital to invest in new business opportunities. To do so we estimate that we will need to raise up to \$1.4 million to settle liabilities after which we may then begin to support our incubator and business development activities. However there can be no assurance that we will raise additional funds needed to settle our liabilities.

There can be no assurance that management's plans will be successful or what other actions may become necessary. There can be no assurance that the Company will ever achieve liquidity for its investments. Until we are able to create liquidity from an additional inflow of new capital or from our investments through sale to a strategic investor, an initial public offering or some other

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liquidity transaction, we will continue to require external sources of working capital to fund our operating expenses. Our inability to raise capital could have a material adverse effect on our business and operations that could be material to our results of operations.

The net cash used in operating activities was \$225,000 for the year ended December 31, 2003. This is the result of net income of approximately \$1,211,000 for the year ended December 31, 2003 and an accrual for a legal settlement of \$207,000 including accrued interest, offset by the reversal of litigation accrual of \$560,000 resulting from the settlement of a legal claim, a gain on the offset of notes payable with note receivable that were previously written off of approximately \$697,000, the forgiveness of vendor accounts payable of approximately \$162,000 a gain of approximately \$415,000 recognized upon the settlement of operating liabilities with the issuance of common stock and offset by cash from changes in operating assets and liabilities of approximately \$192,000.

The net cash used in operations of approximately \$418,000 for the year ended December 31, 2002 is principally a result of the net loss of approximately \$7,060,000 offset by a net loss from discontinued operations of approximately \$943,000, stock compensation expense of \$1,347,000, a write down of our investment in affiliates of approximately \$2,734,000, a legal settlement accrual of \$785,000 and the changes in operating assets and liabilities of approximately \$748,000.

There was no cash from investing activities for the years ended December 31, 2003 or 2002. Cash flows provided from financing activities for the year ended December 31, 2003 includes \$225,000 of proceeds from a note payable to Citadel. In April 2003 we settled a lawsuit for \$225,000 payable in cash. Citadel loaned the Company \$225,000 which is represented by a demand note payable bearing interest at 12% per year.

Cash flows provided by financing activities was approximately \$618,000 for the year ended December 31, 2002, primarily resulting from the proceeds of a convertible note from a shareholder of \$600,000, proceeds of notes and advances payable from related parties of approximately \$518,000 offset by payments on notes payable to related parties of approximately \$533,000 and \$25,000 in proceeds from the sale of common stock.

At December 31, 2003 the Company was in default on the following indebtedness:

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- \$9,000, an 8% note payable to a shareholder. The note continues to bear interest at 8% with accrued interest at December 31, 2003 of \$2,355.

As a result of the aforementioned factors, there were no net cash flows from continuing operations in the year ended December 31, 2003. During the year ended December 31, 2002 there were approximately \$200,000 of net cash flows provided by continuing operations and the net contribution by CT Holdings to Citadel was approximately \$200,000 for the same period. The net result in both periods was no cash balance at December 31, 2003 and 2002.

CONTRACTUAL OBLIGATIONS

At December 31, 2003 we have no long term debt obligations, capital lease obligations, operating lease obligations or long term capital purchase commitments. However at December 31, 2003 we have accrued obligations for estimated payments of legal judgments against us and for payments to Citadel under the transition services agreement and demand note payable, none of which may be paid until such time as the Company has sufficient cash to pay these obligations.

ITEM 7. FINANCIAL STATEMENTS

The Financial Statements for the years ended December 31, 2003 and 2002 are found following the signature page of this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL MATTERS

On March 7, 2003 the Company filed a Report on Form 8-K to report a change in accountants due to a merger of accounting firms. Effective March 1, 2003, King Griffin & Adamson P.C. merged with BDA&K Business Services, Inc. and formed a new entity, KBA Group LLP. The personnel that the Registrant has dealt with at King Griffin & Adamson P.C. are now employees of KBA Group LLP. As a result of this merger, on March 1, 2003, King Griffin & Adamson P.C. resigned to allow its successor entity KBA Group LLP to be engaged as the Registrant's independent public accountants.

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ITEM 8A. CONTROL AND PROCEDURES

The Company's management, including the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the year ended December 31, 2003, the period cover by the Annual Report on Form 10-KSB. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that the disclosure controls and procedures were effective as of December 31, 2003 to provide reasonable assurance that material information relating to the Company is made known to management including the CEO and CFO.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

DIRECTORS The names of our directors, their principal occupations and the year in which each current Director of CT Holdings, Inc. (the "Company") initially joined the Board of Directors are set forth below.

NAME	AGE	POSITION WITH THE COMPANY	DIRECTOR SINCE
Steven B. Solomon	39	President, Chief Executive Officer, and Secretary	1992
Chris A. Economou	48	Director	1993
Mark Rogers	43	Director	1996
Dr. Axel Sawallich	58	Director	1993

STEVEN B. SOLOMON has served as President and Chief Executive Officer of CT Holdings since May 1997 and as a director of CT Holdings since February 1996, as the President and Chief Executive Officer of Citadel Security since its formation in December 1996 and as a director of LoneStar Hospitality Corp from 1992 until its merger with the Company in 1996. Mr. Solomon also serves as a Director of Parago, Inc., an incubation venture of CT Holdings that is an application solution provider and Internet-based business process outsourcer that provides an on-line suite of promotional offerings designed to automate promotional management and optimize the customer care services offered by its clients, and he served as Chairman of the Board of Directors of Parago from January 1999 to April 2001, and Chief Executive Officer of Parago from January 1999 to August 2000. Since May 5, 2000 Mr. Solomon has also served as a director of River Logic, Inc., an incubation venture of CT Holdings that creates and operates integrated networks of decision support tools, elearning solutions and ecommerce capabilities designed to enable decision makers to leverage knowledge and information to gain competitive advantage.

CHRIS A. ECONOMOU has served as a director of CT Holdings since February 1996 and as a director of Citadel since November 2001, and as a director of LoneStar Hospitality Corp. from June 1993 until its merger with the Company in 1996. Mr. Economou has been engaged in the private practice of law in Fort Lauderdale, Florida, primarily in the transactional and corporate areas since 1981. Mr. Economou also served as a director of Parago during its incubation phase from January 1999 to February 2000.

MARK ROGERS has served as a director of the Company since July 1996. Since 1999 Mr. Rogers has been President of Alchemy Consulting, Inc., a business advisor firm focusing on venture-backed technology companies throughout their life cycle. He has been involved with several turnarounds and has also advised and assisted start-up companies with strategy and financings including mergers and acquisitions. From 1989 to 1999 Mr. Rogers has served as a partner and Chief Operating Officer of NFT Ventures, a venture capital fund established by Ray Noorda, the founder of Novell, Inc. In connection with his position at NFT Ventures, Mr. Rogers advised several computer software companies in Texas, Utah and Silicon Valley, with respect to various strategic and developmental matters.

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Mr. Rogers also served as a director of Parago during its incubation phase from January 1999 to February 2000.

DR. AXEL SAWALLICH has served as a director of the Company since February 1996 and was a director of LoneStar from March 1993 until its merger with the Company in 1996. Since January 1997, Dr. Sawallich has been chief investment consultant for Lifeplan Investments, Vienna, Austria. Since 1993, he has been the managing partner of Global Invest, an investment firm located in Vienna. Dr. Sawallich has also been acting as an independent, publicly certified, investment advisor since 1993.

There are no family relationships among any of the directors or executive officers of the Company. See "Certain Relationships and Related Transactions" for a description of transactions between the Company and its directors, executive officers or their affiliates. Section 16(a) of the Exchange Act, as amended, requires the Company's Directors, executive officers and persons who

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own more than 10% of a registered class of the Company's equity securities to file certain reports regarding ownership of the Company's Common Stock with the SEC. These insiders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of the copies of the Section 16(a) forms furnished to the Company during 2003, or written representations from certain reporting persons that no Forms 5 were required for those persons, all Section 16(a) filing requirements applicable to the Company's officers, Directors and beneficial owners of more than 10% of the outstanding shares of Common Stock were filed on a timely basis.

EXECUTIVE OFFICERS

The executive officers of the Company are as follows:

NAME	AGE	POSITION WITH THE COMPANY	Officer Since
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Steven B. Solomon	39	President, Chief Executive Officer, Secretary and Director	1992

STEVEN B. SOLOMON has served as President and Chief Executive Officer of CT Holdings since May 1997 and as a director of CT Holdings since February 1996, as the President and Chief Executive Officer of Citadel Security since its formation in December 1996 and as a director of LoneStar Hospitality Corp from 1992 until its merger with the Company in 1996. Mr. Solomon also serves as a Director of Parago, Inc., an incubation venture of CT Holdings that is an application solution provider and Internet-based business process outsourcer that provides an on-line suite of promotional offerings designed to automate promotional management and optimize the customer care services offered by its clients, and he served as Chairman of the Board of Directors of Parago from January 1999 to April 2001, and Chief Executive Officer of Parago from January 1999 to August 2000. Since May 5, 2000 Mr. Solomon has also served as a director of River Logic, Inc., an incubation venture of CT Holdings that creates and operates integrated networks of decision support tools, elearning solutions and ecommerce capabilities designed to enable decision makers to leverage knowledge and information to gain competitive advantage.

Committees of the Board of Directors

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During fiscal year 2003, there was one meeting of the Company Board of Directors. All directors attended 75% or more of the aggregate of meetings of the Board and their committees held during their respective terms. In addition, the Board took action by written consent three times.

The Company's board of directors has established a standing audit committee composed exclusively of outside directors, Mr. Economou and Mr. Rogers to assist in the discharge of its responsibilities.

The Audit Committee meets with the Company's financial management and independent auditors and reviews the accounting principles and the scope and control of the Company's financial reporting practices, and makes reports and recommendations to the Board with respect to audit matters. The Audit Committee also recommends to the Board the appointment of the firm selected to be independent certified public accountants for the Company and monitors the performance of such firm; reviews and approves the scope of the annual audit and evaluates with the independent certified public accountants the Company's annual audit and annual financial statements; and reviews with management the status of internal accounting controls and internal audit procedures and results. The Audit Committee met four (4) times during fiscal year 2003 and took action by written consent one time. The Audit Committee is required to have and will continue to have at least two members, all of whom must be "independent directors" as defined in the Marketplace Rules of the Nasdaq Stock Market. Messrs. Economou and Rogers are the current members of the Audit Committee. The Board has determined that

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Messrs. Economou and Rogers are financially literate in the areas that are of concern to the Company, and are able to read and understand fundamental financial statements. The Board has also determined that Messrs. Economou and Rogers each meet the independence requirements set forth in the Marketplace Rules of the Nasdaq Stock Market.

The Securities and Exchange Commission ("SEC") has adopted rules to implement certain requirements of the Sarbanes-Oxley Act of 2002 pertaining to public company audit committees. One of the rules adopted by the SEC requires a company to disclose whether it has an "audit committee financial expert" serving on its audit committee. Based on its review of the criteria of an audit committee financial expert under the rule adopted by the SEC, the Board of Directors does not believe that any member of the Board of Directors' Audit Committee would be described as an audit committee financial expert. At this time, the Board of Directors believes it would be desirable for the Audit Committee to have an audit committee financial expert serving on the committee, though the Company believes that its current financial position will render it difficult to engage an audit committee expert at this time. Because of the Company's small size and limited resources, the Company believes that it would be difficult to recruit an audit committee financial expert.

The Company's Board of Directors has adopted a written charter for the Audit Committee of the Board. A copy of the written Audit Committee charter will be attached as an exhibit to the proxy statement for CT Holdings annual shareholder meeting and will be made available on the company's website, www.ct-holdings.com.

The Company does not have a compensation committee, but the entire Board reviews the compensation and employee benefits of officers of the Company.

The Board does not have a nominating committee, as nominations are made by the independent members of the Board as a whole.

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The Board seeks to identify qualified individuals to become board members and determine the composition of the Board and its committees. When considering a potential director candidate, the Board looks for personal and professional integrity, demonstrated ability and judgment and business experience. The Board will review and consider director nominees recommended by stockholders. There are no differences in the manner in which the Board evaluates director nominees based on whether the nominee is recommended by a shareholder.

Directors' Compensation

CT Holdings reviews its compensation arrangements for directors from time to time and may alter these arrangements. Directors will receive no cash compensation for services as a director or as a member of a committee of CT Holdings' board. CT Holdings will reimburse each director for out-of-pocket expenses incurred in connection with attendance at board and committee meetings.

We may, in our discretion, grant stock options and other equity awards to our non-employee directors. Our outside directors hold no options to purchase common stock of the Company at December 31, 2003.

Our Board of Directors adopted a Code of Business Conduct for all of our directors, officers and employees and a Code of Ethics for our CEO and Senior Financial Executives in April 2004. Stockholders may request a free copy of our Code of Business Conduct and Code of Ethics from:

CT Holdings, Inc.
Attention: Investor Relations
8750 North Central Expressway, Suite 100
Dallas, Texas 75231
214/520-9292

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To date, there have been no waivers under our Code of Business Conduct and Ethics. We will post any waivers, if and when granted, of our Code of Business Conduct and Ethics on our website at www.ct-holdings.com.

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ITEM 10. EXECUTIVE COMPENSATION

The table below sets forth certain information with respect to the annual and long term compensation of the named executives for services to CT Holdings for its chief executive officer and chief financial officer who are the only officers of CT Holdings. Since the Distribution on May 17, 2002 Mr. Solomon has been employed by Citadel, also as Citadel's CEO. During the year ended December 31, 2001 and the period from January 1, 2002 through May 17, 2002 compensation was paid by CT Holdings and has been allocated to the operations of Citadel as if paid by Citadel. Pursuant to the transition services agreement CT holdings is charged \$20,000 per month for the services of Mr. Solomon as CEO. Except for share information the compensation table presents the total compensation paid by CT Holdings to Mr. Solomon.

SUMMARY COMPENSATION TABLE

ANNUAL COMPENSATION

LONG-TERM
COMPENSATION

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	PERIOD ENDED	SALARY (\$)	ANNUAL BONUS (\$)	OTHER COMPENSATION (\$)	SECURITIES UNDERLYING OPTIONS (#)
Steven B.Solomon	12/2003	\$ 0	\$ 0	\$ 0	0
Chief Executive Officer	12/2002	75,000	56,250	0	2,000,000
	12/2001	200,000	150,000	0	5,000,000