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CT HOLDINGS INC  
Form 10KSB  
April 13, 2005

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, 2004

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.)

TWO LINCOLN CENTRE, SUITE 1600, 5420 LYNDON B. JOHNSON FREEWAY  
DALLAS, TEXAS 75240  
(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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

As of April 12, 2005, there were outstanding 58,545,928 shares of common stock, par value \$.01 per share. The aggregate market value of common stock held by non-affiliates of the issuer (39,427,091 shares) based on the closing price of the issuer's common stock as reported on the OTC Bulletin Board of \$0.01 per

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share, on April 12, 2005, was \$394,270.91. For purposes of this computation, all executive officers, directors, and 10% beneficial owners of the issuer are deemed to be

affiliates. Such determination should not be deemed an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the issuer.

Transitional Small Business Disclosure Format. Yes  No

CT HOLDINGS, INC.  
FORM 10-KSB  
ANNUAL REPORT  
FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2004

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### PART I CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report on Form 10-KSB contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. CT Holdings, Inc. ("CT Holdings" or the "Company") bases these forward-looking statements on its expectations and projections about future events, which CT Holdings has derived from the information currently available to it. In addition, from time to time, CT Holdings or its representatives may make forward-looking statements orally or in writing. Furthermore, forward-looking statements may be included in CT Holdings' filings with the Securities and Exchange Commission or press releases or oral statements made by or with the approval of one of CT Holdings' executive officers. For each of these forward-looking statements, CT Holdings claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to future events or CT Holdings' future performance, including but not limited to:

- possible or assumed future results of operations;
- future revenue and earnings; and
- business and growth strategies

Forward-looking statements are those that are not historical in nature, particularly those that use terminology such as may, could, will, should, likely, expects, anticipates, contemplates, estimates, believes, plans, projected, predicts, potential or continue or the negative of these or similar terms. 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. Forward-looking statements are subject to certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed in any forward-looking statements. These risks and uncertainties include, but are not limited to, the following important factors with respect to CT Holdings:

- (1) the uncertainty of general business and economic conditions;
- (2) the financial performance of our investments;
- (3) adverse developments, outcomes and expenses in legal proceedings;
- (4) those described under Risk Factors.

Forward-looking statements are only predictions as of the date they are made and are not guarantees of performance. All forward-looking statements included in this document are based on information available to CT Holdings on the date of this Annual Report. Readers are cautioned not to place undue reliance on forward-looking statements. The forward-looking events discussed in this report on Form 10-KSB and other statements made from time to time by CT Holdings or its representatives may not occur, and actual events and results may differ materially and are subject to risks, uncertainties and assumptions about CT Holdings including without limitation those discussed elsewhere in this Annual Report under the heading Risk Factors as well as those discussed elsewhere in

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this Annual Report, and the risks discussed in our Securities and Exchange Commission filings. Except for their ongoing

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obligations to disclose material information as required by the federal securities laws, CT Holdings is not obligated to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-KSB and in other statements made from time to time by CT Holdings or its representatives might not occur.

### ITEM 1. DESCRIPTION OF BUSINESS

#### OVERVIEW OF CT HOLDINGS

Since 1996 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 was designed to enable the companies with whom the Company acquires or invests to become market leaders in their industries. The Company's business strategy since 1996 has led to the development, acquisition and operation of technology based businesses with compelling valuations and strong business models. The goal has been to realize the value of these investments for the Company's shareholders through a subsequent liquidity event such as a sale, merger, spin-off or initial public offering of the investee companies.

At December 31, 2004, the Company held investments in Parago, Inc. ("Parago") and River Logic, Inc. ("River Logic"). Parago is a marketing services company that brings transaction processing capabilities together with information-based marketing in a way that transforms the way companies interact with their customers. Through web-enabled products, processes and resources, Parago creates solutions to meet their clients' marketing objectives. Parago provides a proprietary, promotional marketing technology platform that helps their clients reduce promotional program costs, increase sales, and enhance customer relationships. We account for our investment in Parago using the cost method of accounting. The carrying value of the investment was written down in prior periods and the investment has no carrying value at December 31, 2004 and 2003.

In May 2000, CT Holdings acquired a minority interest in River Logic, Inc. ("River Logic"), which develops decision-support applications for industries. River Logic's applications 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 by manipulating graphical icons that model their enterprise. We account for our investment in River Logic using the cost method of accounting. The carrying value of the investment was written down in prior periods and the investment has no carrying value at December 31, 2004 and 2003.

Other than its holdings of Parago and River Logic, the Company does not have any products or services, customers or revenue, and the Company has no other lines of business.

#### 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.

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At December 31, 2004, the Company holds 25,000 shares of Parago common stock and 28.8749 shares of Series A-3 convertible preferred stock (convertible into 2,887

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shares of Parago common stock). In February 2004, our Chief Executive Officer ("CEO") loaned us \$30,000 in order for us to exercise our warrants to purchase the shares of Series A-3 convertible preferred stock, pursuant to a promissory note secured by a pledge of the preferred stock. Our CEO also elected to exercise an exchange right whereby he exchanged 5,000,000 (before a 1:1000 reverse stock split that occurred in 2001) shares of Parago, Inc. common stock for 6,000,000 shares of CT Holdings common stock. Our CEO has postponed his right to receive these shares until such time as the shares become authorized. In prior periods due to continuing operating losses and other factors we wrote down the carrying value of our investment in Parago to zero. We believe that our initial \$50,000 investment along with the \$30,000 to purchase warrants 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 may ultimately provide an appropriate return on our investment in Parago.

### OVERVIEW OF RIVER LOGIC

In May 2000, CT Holdings acquired a minority ownership interest in River Logic. River Logic develops and markets enterprise optimization technologies and decision support software 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 financial planning and profitability tools to market.

The Company holds an ownership interest in River Logic of approximately 8% at December 31, 2004. Since our initial investment in May 2000, River Logic has raised additional capital through the issuance of preferred stock and other equity securities. In a prior period, we wrote down the carrying value of our investment in River Logic to zero. While we believe that our investment in River Logic will be successful there can be no assurance that our investment in River Logic will ultimately provide an appropriate return on our investment.

### SPIN-OFF OF CITADEL SECURITY SOFTWARE INC.

On May 17, 2002, we effected a spin-off of Citadel Security Software Inc. ("Citadel"), a wholly-owned subsidiary of the Company at the time, through the declaration of a pro rata dividend distribution to CT Holdings shareholders in a ratio of one (1) share of Citadel common stock for every four (4) shares of CT Holdings common stock (the "Distribution"). In connection with the Distribution, we entered into a Plan and Agreement of Distribution, a Tax Disaffiliation Agreement and a Transition Services Agreement with Citadel.

### EMPLOYEES

As of December 31, 2004 and 2003, CT Holdings had no full-time employees.

### 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 registered public accounting firm for our year ended December 31, 2004 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, 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 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.

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### GENERAL RISKS

WE HAVE RECEIVED A GOING CONCERN REPORT FROM OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, HAVE A HISTORY OF NET LOSSES AND WILL NEED ADDITIONAL FINANCING TO CONTINUE AS A GOING CONCERN.

We received a report from our independent registered public accounting firm for our year ended December 31, 2004 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, 2004 of approximately \$5.4 million. We had a cash balance of \$4,168 at December 31, 2004 and current liabilities total approximately \$5.4 million. We have limited access to capital at December 31, 2004, no plans to raise capital, and we have not identified sources of capital at December 31, 2004. During the year ended December 31, 2004, we received \$200,000 from CITN Investment Inc. ("CII") as part of an interest bearing Promissory Note. CII is an entity owned 50% by our CEO and 50% by a shareholder. 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 CEO and CII, however there can be no assurance that such funds will be available from these related parties in the future. 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.

We have made investments in entities that we believe may provide liquidity to the Company in the long term and we believe that Parago and River Logic may ultimately be successful. Both Parago and River Logic are privately held companies and because we hold minority interests in these companies, we have received only limited information regarding their results of operations and financial condition. 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 significantly diluted. Our ownership in Parago consists of 25,000 shares of common stock and 28,8749 shares of Series A-3 convertible preferred stock (convertible to 2,887 shares of Parago common stock), and approximately 8% of River Logic. There is no carrying value in these investments on the balance sheet.

While we believe that 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 operations and result in charges that could be material to the Company's business and results of operations. At December 31, 2004 we have not identified sources of capital nor do we have any plans to raise sufficient amounts of capital to settle liabilities or to fund business development activities.

OUR CONVERTIBLE NOTE MAY ADVERSELY IMPACT THE COMPANY AND OUR COMMON STOCKHOLDERS OR HAVE A MATERIAL ADVERSE EFFECT ON THE COMPANY.

We have issued a \$200,000 convertible secured promissory note (the "Note") payable to CII, an entity owned 50% by Steven B. Solomon, our CEO and Chairman of the Board, and 50% by Lawrence Lacerte, a shareholder and former director of

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Company. Pursuant to the terms of the note and the related Loan and Security Agreement (the "Agreement"), the Note is secured by a pledge of all of our assets and the Note is convertible into approximately 23.7 million shares of our common stock, at the option of CII. CT Holdings has the option to borrow up to \$600,000 under the Agreement (at the sole discretion of CII). In the event the entire \$600,000 is advanced, the notes would be convertible into 51% of our common stock. We have also agreed to use our best efforts to amend our certificate of incorporation or undertake a reverse stock split to permit conversion if CII elects to convert the notes. The terms of the Note and the Agreement will make it more difficult or impossible for us to raise additional funds in the future and may have a material adverse effect on us and our financial condition and results of operations. The Note is senior to our common stock on any liquidation or sale of our Company, so the Note must be paid before common stockholders would receive funds in the event of a liquidation or sale. In addition, the Note is due and payable on the earlier to occur of May 24, 2006 or demand by CII. In the event of a default to CT Holdings under the Note or Agreement or demand for payment by CII, CII could foreclose on the loans and obtain all of our assets or force us into bankruptcy, in which case our common stock would most likely be worthless. These terms and conditions could have a material adverse effect on us and our financial condition and results of operations.

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. Our business strategy seeks 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 of Citadel Security Software Inc. ("Citadel") into a standalone company through the pro-rata dividend distribution of Citadel common stock to shareholders of CT Holdings. At the time of the spin-off, which was first considered in November 2001, Citadel was losing substantial amounts of money and the investee assets of CT Holdings were more valuable than the assets in Citadel. At December 31, 2004 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, 2004 and 2003. The lack of availability of private and public capital available to us has prevented us from making any additional investments and there can be no assurance that the availability of capital will improve so that the Company can execute its business plan.

We have a limited 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



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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

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numerous risks, including the following:

- We may be unable to identify or develop relationships with 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 may increase as we build the infrastructure necessary to implement this model.
- We face competition from other 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"). 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 may materially and adversely affect each of our investee companies. These investee companies have had losses in the past and may have substantial losses in the future. To continue in business, the investee companies may need to raise capital and may not be able to do so on reasonable terms or at all. In addition, if the investee companies are able to raise capital, our ownership stake in these companies would be diluted. Our investee companies may also never be able to complete an initial public offering of stock, or successfully close a sale, merger or other liquidity event whereby we would realize a return on our investment.

WE HAVE LIMITED ACCESS TO FINANCIAL AND OPERATING REPORTS OF OUR INVESTEE COMPANIES.

Both Parago and River Logic are privately held entities and as such are not required to provide financial information to its minority shareholders. Consequently we have limited access to financial operating reports on performance measures. As a result, we cannot measure or estimate the long-term prospects of these investments and while we believe that both Parago and River Logic have been successful, we cannot assure you that because of the limited financial reporting that they may be successful in the future or that they will provide an appropriate return on our investment.

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CT HOLDINGS DOES NOT HAVE ACCESS TO THE CASH FLOW OR ASSETS OF ITS INVESTEE COMPANIES AND HAS BEEN UNABLE TO OPERATE PROFITABLY.

Historically, businesses and technologies in which we have invested are not controlled by us and as such we have been unable to rely on the investee company businesses for a source of cash flow, earnings, assets or capital. 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.

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.

Although we have yet to make any investments in the investment securities of companies other than 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.

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

In May 2002, CT Holdings effected a pro rata distribution of the common stock of Citadel to Stockholders of CT Holdings in a ratio of one (1) share of Citadel common stock for every four (4) shares of CT Holdings common stock. 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 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

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portion of this substantial corporate tax liability under the tax disaffiliation agreement.

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### ITEM 2. DESCRIPTION OF PROPERTY

CT Holdings shares office space with Citadel Security Software Inc. and as part of an agreement, CT Holdings is charged a monthly administrative fee of approximately \$7,500 per month, reduced from \$20,000 per month in May 2004, which includes the cost of the space. We believe that this space 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 website 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 (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,

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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

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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 entered judgment in favor of Roan-Meyers in the amount of \$3,000,000 and granted interest at the rate of 9% from October 31, 2000 through the date of final judgment, and thereafter at the statutory rate allowed by law. The amount for the judgment as well as the interest through December 31, 2004 has been accrued. The Company has appealed the final judgment. The Company intends to vigorously defend this case.

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 \$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. The Company has reached a settlement and in May 2004 paid an amount less than the amount that had been accrued.

In January 2003, R.R Donnelly asserted claims against the Company and Steve B. Solomon 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 reached a settlement in the third quarter of 2004 for an amount less than the amount that had been accrued. The settlement was assumed by Citadel and paid in October 2004.

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 was settled for \$35,000 in September 2004, which the Company had previously accrued approximately \$54,000 in accounts payable for settlement. The company paid \$15,000 in September 2004. The Company paid the remaining \$20,000 of the settlement in October 2004 by obtaining a \$5,000 90-day note, bearing interest at 5% per year, from the CEO of the Company.

The Company may become involved from time to time in litigation on various matters which are routine to the conduct of our business. The Company believes 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

No matters were submitted to a vote of our security holders during the fourth

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quarter of 2004.

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### PART II

#### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

##### MARKET INFORMATION

Our common stock trades on the OTC Bulletin Board ("OTCBB") 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, 2004		
1st Quarter . . . .	\$ 0.100	\$0.030
2nd Quarter . . . .	0.050	0.030
3rd Quarter . . . .	0.040	0.020
4th Quarter . . . .	0.030	0.010

YEAR ENDED DECEMBER 31, 2004		
1st Quarter . . . .	\$ 0.020	\$0.011
2nd Quarter . . . .	0.065	0.010
3rd Quarter . . . .	0.036	0.021
4th Quarter . . . .	0.079	0.021

At December 31, 2004 there were approximately 762 recordholders 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 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

Number of securities to be issued upon exercise of outstanding options,	Weighted-average exercise price of outstanding options,	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected

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Plan category	warrants and rights (a)	warrants and rights (b)	in column (a) (c)
Equity compensation plans approved by security holders.	-	-	-
Equity compensation Plans not approved by Security holders.	2,917,500 (1) \$	0.24	-

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(1) Excludes common stock that may be issued in connection with the Company's CEO exercise of 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 exercised in February 2004. The CEO has waived his right to receive these shares until such time as shares become authorized.

The options were issued under individual arrangement and were not issued pursuant to a plan.

Recent Sales of Unregistered Securities

The Company made no sales of unregistered securities during the period covered by this Report.

Repurchases of Securities

The Company made no repurchases of shares during the fourth quarter of 2004.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the financial statements and notes thereto found elsewhere in this Form 10-KSB, 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, 2004 and 2003 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 which we invest or acquire to become market leaders in their industries. Our strategy is expected to lead 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 investee companies.

At December 31, 2004 the lack of available capital has 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. We expect that if and when capital becomes available to us, we may continue our business development and investment activities, however there can be no assurance that any capital will be available

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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.

### 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.

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At December 31, 2004, the Company holds 25,000 shares of Parago common stock and 28.8749 shares of Series A-3 convertible preferred stock (convertible into 2,887 shares of Parago common stock). In February 2004, our CEO loaned us \$30,000 in order for us to exercise our warrants to purchase the shares of Series A-3 convertible preferred stock, pursuant to a promissory note secured by a pledge of the preferred stock. Our CEO also elected to exercise an exchange right whereby he exchanged 5,000,000 (before a 1:1000 reverse stock split that occurred in 2001) shares of Parago, Inc. common stock for 6,000,000 shares of CT Holdings common stock. Our CEO has waived his right to receive these shares until such time as the shares become authorized. Our investment in Parago has no carrying value on our balance sheet as a result of the write down of the carrying value to zero in prior periods. We believe that our initial \$50,000 investment along with the \$30,000 to purchase warrants 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 may ultimately provide an appropriate return on our investment.

### OVERVIEW OF RIVER LOGIC

In May 2000, CT Holdings acquired a 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 Company holds an ownership interest in River Logic of approximately 8% at December 31, 2004. Since our initial investment in May 2000, River Logic has raised additional capital through the issuance of preferred stock and other equity securities. In a prior period, we wrote down the carrying value of our investment in River Logic to zero. While we believe that our investment in River Logic will be successful there can be no assurance that our investment in River Logic may ultimately provide an appropriate return on our investment.

### 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



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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.

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### 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 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

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the earnings or losses of the consolidated investee company. At December 31, 2004 and 2003, 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,

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preferred and other convertible instruments in the investee company 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, 2004 and 2003, 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, 2004 and 2003.

### RESULTS OF OPERATIONS

THE YEAR ENDED DECEMBER 31, 2004 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2003

Our 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.

### GENERAL AND ADMINISTRATIVE EXPENSES

During the year ended December 31, 2004 general and administrative expenses were approximately \$107,000 representing a decrease of approximately \$189,000 or 64% from the approximately \$296,000 of general and administrative expenses recorded for the year ended December 31, 2003. The decrease is primarily due to the reversal of accrued bonuses that would not be paid out.

### 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.

### LITIGATION ACCRUAL AND REVERSAL

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

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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 entered judgment in favor of Roan-Meyers in the amount of \$3,000,000 and granted interest at the rate of 9% from October 31, 2000 through the date of final judgment, and thereafter at the statutory rate allowed by law. The Company has accrued for the amount of the partial summary judgment plus interest of approximately \$1,126,000 as of December 31, 2004. The Company has appealed the final judgment. The Company intends to vigorously defend this case.

During the year ended December 31, 2003 the Company recorded an accrual for legal

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settlement of \$202,000 plus accrued interest of \$5,000 in association with the judgment received related to PriceWaterhouseCoopers, LLP. During the year ended December 31, 2004 we settled the lawsuit and reversed \$42,000 of the litigation accrual in excess of the settlement. The Company reversed approximately \$33,000 of the litigation accrual in connection with settlements with the MWW Group and RR Donnelly during the year ended December 31, 2004. In April 2003 we settled a lawsuit and reversed \$560,000 of the litigation accrual in excess of the settlement.

### REVERSAL OF RESERVE FOR NOTE RECEIVABLE FROM RELATED PARTY AND RELATED INTEREST INCOME

In May 2004 the Company received a payment of \$55,000 plus interest of \$5,500 on a note receivable from a related party secured by shares of stock of the Company. The note receivable had been previously reserved and accordingly the Company reversed the reserve of \$55,000 and recorded interest income of \$5,500.

### 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.

### GAIN FROM SETTLEMENTS WITH RELATED PARTIES

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 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, 2004 was approximately \$1,225,000 representing interest accrued for litigation, amortization of a beneficial conversion feature on convertible debt, interest expense on advances and notes payable to an officer and a related party, note payable to shareholders, and the demand note payable to Citadel. Interest expense for the year ended December 31, 2003 was approximately \$125,000 and includes interest

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expense on advances and notes payable to related parties, notes payable to shareholders and the demand note payable to Citadel. The increase in interest expense, excluding the charge for the beneficial conversion feature of \$60,000, is due to the \$1,126,000 of interest accrued for the JMA litigation and higher average balances of interest bearing debt outstanding during the year ended December 31, 2004. Interest income of approximately \$5,500 related to payment of a note receivable plus accrued interest due from a related party was recognized during the year ended December 31, 2004. Interest income of approximately \$55,000 related to notes receivable from shareholders was recognized during the year ended December 31, 2003.

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### WRITE-OFF OF AFFILIATES SHARES ACQUIRED THROUGH THE EXERCISE OF WARRANTS

The \$30,000 write-off of investment in affiliates during the year ended December 31, 2004 is related to the warrant exercised by the Company to obtain shares of Parago's Series A-3 Preferred Stock, which was determined by the Company to have no fair market value and was immediately written off.

### NET INCOME (LOSS)

For the year ended December 31, 2004 we reported a net loss of approximately \$4,227,000 versus net income of approximately \$1,211,000 for the year ended December 31, 2003, representing a decrease of approximately \$5,438,000 primarily due to accruals related to the JMA litigation judgment and related interest expense.

### LIQUIDITY AND CAPITAL RESOURCES

We received a report from our independent registered public accounting firm for our year ended December 31, 2004 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, 2004 of approximately \$5.4 million. We had a cash balance of \$4,168 at December 31, 2004 and current liabilities total approximately \$5.4 million. We have limited access to capital at December 31, 2004, no plans to raise capital, and we have not identified sources of capital at December 31, 2004. 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 CEO, and CII however there can be no assurance that such funds will be available from these related parties in the future. 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 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, 2004 to raise additional capital to invest in new business opportunities. To do so we estimate that we will need to raise up to \$5.4 million to settle recorded liabilities at December 31, 2004 after which we may then need to raise additional funds 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

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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 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.

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### Cash Flows From Operating Activities

The net cash used in operating activities was \$226,000 for the year ended December 31, 2004. This is the result of a net loss of approximately \$4,227,000 for the year ended December 31, 2004 and non-cash adjustments for the amortization of debt discount of \$60,000 recorded as interest expense, an accrual for a legal settlement of \$3,000,000 plus accrued interest of approximately \$1,126,000, the reversal of an excess litigation accrual of approximately \$75,000, the \$60,500 reversal of a reserve for a note receivable and interest from a related party and the write-off of the \$30,000 cost of shares of an affiliate which were acquired through the exercise of warrants. In addition, the Company paid a legal settlement of \$165,000 in May 2004. A decrease in accounts payable and accrued expenses of approximately \$117,000 and a \$203,000 increase in the payable to Citadel partially offset the operating cash items previously noted.

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.

### Cash Flows From Investing Activities

Net cash provided by investing activities of \$25,000 included the payment in May 2004 of a note payable to our CEO resulting from our exercise of warrants to acquire Parago Series A-3 preferred stock for \$30,000. Offsetting this amount was a \$55,000 payment received from a related party to settle a note receivable. There was no net cash resulting from investing activities for the year ended December 31, 2003.

### Cash Flows From Financing Activities

On May 24, 2004, we entered into a Loan and Security Agreement (the "Loan Agreement") with CITN Investment, Inc., a Texas corporation ("CII"). The Loan Agreement provides for advances by CII to the Company of up to \$600,000, such advances to be made in the sole discretion of CII. In the event the entire \$600,000 is advanced to the Company, the loans would be convertible, at the option of CII, into 71,000,000 shares of the Company's common stock, representing 51% of the Company's common stock. The loans are also secured by a pledge of all the Company's assets.

On May 24, 2004, we were advanced \$200,000 by CII pursuant to the Loan Agreement and evidenced by a Secured Convertible Promissory Note (the "Note"). The note

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accrues interest at 8% per annum and is due the earlier of May 24, 2006 or demand by CII. This Note is convertible in whole or in part, at the option of CII, into up to 23,666,667 shares of the Company's common stock (approximately 25% of the Company's common stock on a fully diluted basis), and is secured by a pledge of all of the Company's assets.

CII is owned 50% by Steven B. Solomon, the Company's CEO and Chairman of the Board, and 50% by Lawrence Lacerte, a shareholder and former director of the Company. Prior to the loans, Mr. Solomon beneficially owned 14,285,992 shares of the

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Company's common stock. As a result of his stock ownership in CII, Mr. Solomon is deemed the beneficial owner of the shares of common stock owned by CII. Therefore, on May 24, 2004, Mr. Solomon and CII beneficially owned a total of 39,952,660 shares of our common stock (if the Note were converted into shares of our common stock), or more than 50% of our common stock outstanding on that date, giving him potential control of the Company through the voting power over a majority of the shares of our outstanding common stock. The conversion price of approximately \$0.00845 per share was below the fair value per share of the common stock at the date the note was issued. Accordingly, the Company recorded the fair value of the beneficial conversion feature of the note payable of \$200,000 as a debt discount. The debt discount is being amortized over the two year life of the Note and a \$60,000 charge was recorded as interest expense during the year ended December 31, 2004.

The Company does not have a sufficient number of authorized shares of common stock available to permit the conversion of the Note at this time. The Company has agreed to obtain shareholder approval to (a) increase the number of authorized shares of common stock to a number sufficient to permit conversion, or (b) to effect a reverse stock split to reduce the number of currently outstanding shares of common stock to a number small enough to permit the conversion of the Note.

The Company was loaned \$35,000 by an officer during the year ended December 31, 2004. The officer was paid back \$30,000 of this loan in the same period.

Cash flows provided from financing activities for the year ended December 31, 2003 includes \$225,000 of proceeds from a note payable to Citadel.

### CONTRACTUAL OBLIGATIONS

At December 31, 2004 we have a note payable to CII of \$200,000 plus accrued interest of approximately \$9,400 secured by all the assets of the Company, a demand note payable to Citadel of \$225,000 plus accrued interest of approximately \$49,000, a \$5,000 unsecured note payable to an officer and a \$9,000 unsecured note payable plus accrued interest of approximately \$4,500 to a shareholder which is in default at December 31, 2004. There are no other long-term debt obligations, capital lease obligations, operating lease obligations or long-term capital purchase commitments. However at December 31, 2004 we have accrued 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.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have had, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are

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material to investors.

### ITEM 7. FINANCIAL STATEMENTS

The Financial Statements for the years ended December 31, 2004 and 2003 are found following the signature page of this report.

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

None.

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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, 2004, the period covered 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, 2004 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.

### ITEM 8B. OTHER INFORMATION

None.

## PART III

### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

#### 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.

DIRECTOR NAME	AGE	POSITION WITH THE COMPANY	SINCE
Steven B. Solomon	40	President, Chief Executive Officer, and Secretary	1992
Chris A. Economou	49	Director	1993
Mark Rogers	44	Director	1996
Dr. Axel Sawallich	59	Director	1993

STEVEN B. SOLOMON has served as President and Chief Executive Officer of CT

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Holdings since May 1997 and as a director of CT Holdings since February 1996, as the President and Chief Executive Officer of Citadel Security Software Inc. ("Citadel") since its formation in December 1996 and as a director of LoneStar Hospitality Corp from 1992 until its merger with the Company in 1996. Until May 2004 Mr. Solomon also served as a Director of Parago, Inc., an incubation venture of CT Holdings, 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. Mr. Solomon has also served as a director of River Logic, Inc., an incubation venture of CT Holdings, since May 5, 2000.

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

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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. 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 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 2004, 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.



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### EXECUTIVE OFFICERS

The executive officers of the Company are as follows:

NAME	AGE	POSITION WITH THE COMPANY	Officer Since
-----	---	-----	-----
Steven B. Solomon	40	President, Chief Executive Officer, Secretary and Director	1992
Richard Connelly	53	Chief Financial Officer	2002

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

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the President and Chief Executive Officer of Citadel since its formation in December 1996 and as a director of LoneStar Hospitality Corp from 1992 until its merger with the Company in 1996. Until May 2004 Mr. Solomon also served as a Director of Parago, Inc., an incubation venture of CT Holdings, 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. Mr. Solomon has also served as a director of River Logic, Inc., an incubation venture of CT Holdings, since May 5, 2000.

RICHARD CONNELLY joined the Company in March 2002 and serves as Chief Financial Officer. Mr. Connelly also serves as Chief Financial Officer of Citadel. Mr. Connelly initially served as a financial consultant to CT Holdings from January 2002 until March 2002. Prior to this, he served as Chief Financial Officer for several venture funded technology companies, including from February 2001 until December 2001 at ASSET InterTech, Inc., a boundary scan software tool developer; from September 1998 through November 2000 at JusticeLink, Inc., an ecommerce legal services provider; and from April 1997 through July 1998 at AnswerSoft, Inc., a developer of computer telephony software. From February 1987 through March 1997, Mr. Connelly served in various financial management capacities at Sterling Software Inc., an enterprise software development company, including Vice President Corporate Controller, Vice President Treasurer and Group Vice President Finance & Administration of Sterling's Systems Management Group.

#### Family Relationships

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) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, as amended, requires the Company's Directors, executive officers and persons who 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

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Section 16(a) forms furnished to the Company during 2004, 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.

### Committees of the Board of Directors

During fiscal year 2004, there were two meetings of the Company's 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.

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 registered public accounting firm and reviews the accounting principles and the

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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 the independent registered public accounting firm for the Company and monitors the performance of such firm; reviews and approves the scope of the annual audit and evaluates with the independent registered public accounting firm 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 2004 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 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, small size and limited resources will render it difficult to engage an audit committee financial 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](http://www.ct-holdings.com).

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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.

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.

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:

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CT Holdings, Inc.  
 Attention: Investor Relations  
 Two Lincoln Centre  
 5420 LBJ Freeway, Suite 1600  
 Dallas, Texas 75240  
 214/520-9292

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](http://www.ct-holdings.com).

### 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 CEO and CFO who are the only officers of CT Holdings. Since the Distribution on May 17, 2002 Mr. Solomon has been employed by Citadel 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 \$7,500 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						LONG-TERM	
ANNUAL COMPENSATION						COMPENSATION	
PERIOD ENDED	SALARY (\$)	ANNUAL BONUS (\$)	OTHER COMPENSATION (\$)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION		
Steven B. Solomon	12/2004	\$ 0	\$ 0	\$ 0	0	0	\$
Chief Executive	12/2003	\$ 0	\$ 0	\$ 0	0	0	\$
Officer	12/2002	\$ 75,000	\$ 56,250	\$ 0	2,000,000	(1)	7,8

(1) Excludes 6,000,000 shares of CT Holdings common stock that were issued

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in February 2004 to Mr. Solomon when he exercised his right to exchange 5,000,000 (before a 1:1000 reverse stock split) shares of Parago common stock for shares of common stock of the Company. Because the Company did not have enough authorized shares at the date of exercise, Mr. Solomon has waived his right to those shares until such time as additional shares are authorized.

- (2) Includes a car allowance of \$4,275, and payments for life, health and disability insurance premiums.

### OPTION/SAR GRANTS IN LAST FISCAL YEAR

INDIVIDUAL GRANTS				
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 2004	EXERCISE PRICE (\$/SH)	EXPIRATION DATE
Steven B. Solomon	0	0.0%	\$ 0.00	

The following table describes, for each of the Named Executive Officers, options exercised and the potential values for their unexercised in-the-money options at December 31, 2004:

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### AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

NAME	ACQUIRED ON EXERCISE	SHARES VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR- END (EXERCISABLE/ UNEXERCISABLE)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR- END (EXERCISABLE/ UNEXERCISABLE) (2)
Steven B. Solomon	0	\$ 0	2,000,000 / 0(1)	\$ 0 / \$0

- (1) Based on the market price on the date exercised less the exercise price payable for each share.

- (2) Based on the fair market value of the Company's Common Stock (at December 31, 2004) per share less the exercise price payable for each share.

### Compensation of Directors

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.

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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, 2004.

### EMPLOYMENT AGREEMENTS AND TERMINATION OF EMPLOYMENT AGREEMENTS

The transition services agreement between Citadel and CT Holdings calls for the sharing of the salaries and benefits of the CEO, CFO and some administrative employees of Citadel that perform services for CT Holdings but whose payroll and benefits are assigned to Citadel. The agreement allows for a charge to CT Holdings of \$7,500 per month, reduced from \$20,000 a month in May 2004, representing an allocation of the payroll, benefits and an allocation of overhead (includes rent and general office expenses applied as a percentage of payroll and benefits) associated with the shared employees. The transition service agreement expires May 2005. At December 31, 2004, Mr. Solomon does not have an employment agreement with CT Holdings.

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of April 12, 2005, there were issued and outstanding approximately 58,545,928 shares of Common Stock. There is no other class of voting security of the Company issued or outstanding. The following table sets forth the number of shares of the Company's Common Stock beneficially owned, as of April 12, 2005 by (i) each person known to the Company to own more than 5% of the Common Stock of the Company (the only class of voting securities now outstanding), (ii) each director, (iii) each executive officer named in the Summary Compensation Table and (iv) all directors, named executive officers and other executive officers as a group. The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act and the information is not necessarily indicative of beneficial ownership for any other purpose. Under this rule, beneficial ownership

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includes any shares to which the individual has the right to acquire within 60 days of April 12, 2005 through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes or table, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares shown as beneficially owned and has an address of c/o CT Holdings, Two Lincoln Centre, 5420 LBJ Freeway, Suite 1600, Dallas, TX 75240.

NAME AND ADDRESS	NUMBER OF SHARES OWNED	APPROXIMATE PERCENT OF CLASS
Steven B. Solomon (1)	28,135,993	35.9%
Lawrence Lacerte (2) 5950 Sherry Lane Dallas, Texas 75225	17,300,000	24.5%
Thomas E. Oxley (3) 2727 South Ocean Blvd., #803 Highland Beach, FL 33487	6,244,800	10.2%

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Chris A. Economou 150 North Federal Highway, # 210 Fort Lauderdale, Florida 33301	724,400	1.2%
Mark Rogers 751 Laurel St. #19 San Carlos, California	651,500	1.1%
Dr. Axel Sawallich Beatrixgasse 3 1030 Vienna, Austria.	387,144	*
All officers and directors as a group (5 persons) (4)	30,174,037	45.3%

\* Less than 1%

- (1) Includes 2,000,000 shares of Common Stock subject to fully vested options. Includes 6,000,000 shares of CT Holdings common stock that were issuable in February 2004 when Mr. Solomon exercised his right to exchange 5,000,000 (pre 1:1000 reverse stock split) shares of Parago common stock. Since the issuance of all 6,000,000 shares would cause the number of shares outstanding to exceed the authorized shares of 60,000,000, Mr. Solomon has waived his right to these shares until such time as the shares become authorized. Includes 11,850,000 shares of Common Stock that are issuable upon conversion of the demand note by CII.
- (2) Includes 200,000 shares of Common Stock subject to fully vested options. Includes 11,850,000 shares of Common Stock that are issuable upon conversion of the demand note by CII.
- (3) During the first quarter of 2003, Mr. Oxley converted a \$600,000 note convertible note payable into 2,700,000 shares of common stock of the Company. Since the issuance of all 2,700,000 would cause the number of

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shares outstanding to exceed the authorized shares of 60,000,000, Mr. Oxley has waived his right to these shares until such time as the shares become authorized.

- (4) Includes 2,000,000 shares issuable pursuant to presently exercisable options or warrants and 6,000,000 shares of CT Holdings Common Stock that were issuable in February 2004 when Mr. Solomon exercised his right to exchange 5,000,000 pre 1:1000 split shares of Parago common stock for shares of CT Holdings common stock. Mr. Solomon has elected not to receive the actual shares until such time as the shares become authorized.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following is a description of the material terms of the agreements and arrangements involving the Company and its subsidiaries.

#### AGREEMENTS RELATING TO THE CITADEL SECURITY SOFTWARE DISTRIBUTION

We have entered into several agreements with Citadel to define our ongoing relationship after the Distribution and to allocate tax and other specified

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liabilities and obligations arising from periods prior to the distribution date. We entered into these agreements prior to the Distribution while Citadel was a wholly owned subsidiary of CT Holdings.

### TRANSITION SERVICES AGREEMENT

In connection with the Distribution, Citadel entered into a transition services agreement with CT Holdings. This agreement provides that CT Holdings and Citadel will provide each other services in such areas as information management and technology, sharing of office space, personnel and indirect overhead expenses, employee benefits administration, payroll, financial accounting and reporting, claims administration and reporting, and other areas where CT Holdings and Citadel may need transitional assistance and support. The transition services agreement provides generally that each of Citadel and CT Holdings will undertake to provide substantially the same level of service and use substantially the same degree of care as their respective personnel provided and used in providing such services prior to the execution of the agreement. The agreement provided for an initial one year term and will renew for additional one year term, which expires in May 2005, but may be terminated earlier under certain circumstances, including a default, and may be renewed for additional years upon approval from the Board of Directors of both companies. Initially, CT Holdings paid Citadel a monthly fee of \$20,000, subject to adjustment on a quarterly basis. In May 2004, the monthly fee was reduced to \$7,500 a month. We believe that the terms and conditions of the transition services agreement are as favorable to us as those available from unrelated parties for a comparable arrangement.

### TAX DISAFFILIATION AGREEMENT

On the Distribution date CT Holdings and Citadel entered into a tax disaffiliation agreement which sets out each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state, local or foreign taxes for periods before and after the Distribution Date and related matters such as the filing of tax returns and the conduct of Internal Revenue Service and other audits. Under the tax disaffiliation agreement, Citadel will indemnify CT Holdings for all taxes and liabilities incurred as a result of Citadel's or an affiliate's post-Distribution action or omission contributing to an Internal Revenue Service

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determination that the Distribution was not tax-free. CT Holdings will indemnify Citadel for all taxes and liabilities incurred solely because CT Holdings or an affiliate's post-Distribution action or omission contributes to an Internal Revenue Service determination that the Distribution was not tax-free. If the Internal Revenue Service determines that the Distribution was not tax-free for any other reason, CT Holdings and Citadel will indemnify each other against all taxes and liabilities pro rata based on relative values as of the Distribution Date.

Citadel will indemnify CT Holdings against any taxes resulting from any internal realignment undertaken to facilitate the Distribution on or before the Distribution date.

### CT HOLDINGS' RELATED PARTY TRANSACTIONS

During February 2004, the CEO exercised his conversion right to exchange 5,000,000 (pre 1:1000 reverse stock split) shares of Parago common stock for 6,000,000 shares of common stock of the Company. This exchange right was granted during June 2001 as consideration for the CEO funding the Company's participation in a Parago bridge loan. Since the issuance of these shares would exceed the number of authorized shares, the CEO has waived his right to receive

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the shares until such time as the shares become authorized. When the Company is able to issue the shares, it will record a \$60,000 (par value) increase to common stock and an offsetting reduction to additional paid in capital.

In February 2004, our CEO loaned the Company \$30,000 in order for the Company to exercise the Company's warrants to purchase 28.8749 shares of Series A-3 convertible preferred stock. The promissory note to our CEO was secured by a pledge of the Parago Series A-3 preferred stock and was repaid in May 2004. In November 2004, our CEO loaned the Company \$5,000 in order for the Company to have the ability to pay off the balance on a legal settlement.

In May 2004, the Company received \$55,000 for payment of note receivable from an officer plus interest of \$5,500. The note receivable was issued in May 2002 upon the exercise of stock options by the officer and had been fully reserved. Accordingly the Company reversed the \$55,000 reserve and recognized \$5,500 of interest income.

On May 24, 2004, we entered into a Loan and Security Agreement (the "Loan Agreement") with CITN Investment, Inc., a Texas corporation ("CII"). The Loan Agreement provides for advances by CII to the Company of up to \$600,000, such advances to be made in the sole discretion of CII. In the event the entire \$600,000 is advanced to the Company, the loans would be convertible, at the option of CII, into 71,000,000 shares of the Company's common stock, representing 51% of the Company's common stock. The loans are also secured by a pledge of all the Company's assets.

On May 24, 2004, we were advanced \$200,000 by CII pursuant to the Loan Agreement and evidenced by a Secured Convertible Promissory Note (the "Note"). The note accrues interest at 8% per annum and is due the earlier of May 24, 2006 or demand by CII. This Note is convertible in whole or in part, at the option of CII, into up to 23,666,667 shares of the Company's common stock (approximately 25% of the Company's common stock on a fully diluted basis), and is secured by a pledge of all of the Company's assets.

CII is owned 50% by Steven B. Solomon, the Company's Chief Executive Officer and Chairman of the Board, and 50% by Lawrence Lacerte, a shareholder and former director of the Company. Prior to the loans, Mr. Solomon beneficially owned

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14,285,992 shares of the Company's common stock. As a result of his stock ownership in CII, Mr. Solomon is deemed the beneficial owner of the shares of common stock owned by CII. Therefore, on May 24, 2004, Mr. Solomon and CII beneficially owned a total of 39,952,660 shares of our common stock (if the Note were converted into shares of our common stock), or more than 50% of our common stock outstanding on that date, giving him potential control of the Company through the voting power over a majority of the shares of our outstanding common stock. The conversion price of approximately \$0.00845 per share was below the fair value per share of the common stock at the date the note was issued. Accordingly, the Company recorded the fair value of the beneficial conversion feature of the note payable of \$200,000 as a debt discount. The debt discount is being amortized over the two year life of the Note and a \$60,000 charge was recorded as interest expense during the year ended December 31, 2004.

The Company does not have a sufficient number of authorized shares of common stock available to permit the conversion of the Note at this time. The Company has agreed to obtain shareholder approval to (a) increase the number of authorized shares of common stock to a number sufficient to permit conversion, or (b) to effect a reverse stock split to reduce the number of currently outstanding shares of common stock to a number small enough to permit the conversion of the Note.



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ITEM 13. EXHIBITS

(a) EXHIBITS

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) Audit Fees:

Fees for audit services provided by KBA Group LLP total approximately \$36,000 for 2004 and approximately \$30,000 for 2003, including fees associated with the annual audit, the reviews of the Company's quarterly reports on Form 10-QSB and review of the registration statements.

(2) Audit Related Fees:

KBA Group LLP did not bill the Company any audit related fees during 2004 or 2003.

(3) Tax Fees:

KBA Group LLP did not bill the Company any tax fees during 2004 or 2003.

(4) All Other Fees:

KBA Group LLP did not bill the Company any other fees during 2004 or 2003.

(5) Audit Committee's Pre-Approval Policies and Procedures

(i) The Audit Committee of the Board of Directors approves the scope of services and fees of the outside accountants on an annual basis, generally prior to the beginning of the services.

(ii) The Audit Committee of the Board of Directors reviewed and approved 100% of the fees for the services above.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 13, 2005

CT HOLDINGS, INC.

By: /s/ STEVEN B. SOLOMON

-----  
STEVEN B. SOLOMON, PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steven B. Solomon his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution,

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to sign any and all amendments to this Annual Report on Form 10-KSB and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, or any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ STEVEN B. SOLOMON ----- Steven B. Solomon	President, Chief Executive Officer and Director (Principal Executive Officer)	April 13, 2005
/s/ RICHARD CONNELLY ----- Richard Connelly	Chief Financial Officer (Principal Accounting Officer)	April 13, 2005
/s/ CHRIS A. ECONOMOU ----- Chris A. Economou	Director	April 13, 2005
/s/ MARK ROGERS ----- Mark Rogers	Director	April 13, 2005
----- Dr. Axel Sawallich	Director	

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### INDEX TO EXHIBITS

#### EXHIBIT

NUMBER	DESCRIPTION
--------	-------------

- |     |   |
|-----|---|
| 2.1 | Second Amended and Restated Plan of Merger, dated February 29, 1996, by and between LoneStar Hospitality Corporation, LSHC Acquisition, Inc. and Citadel Computer Systems Incorporated (without exhibits) (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated February 29, 1996). |
| 2.2 | Purchase and Sale Agreement, dated March 1, 1996, by and between the LoneStar Hospitality Corporation, LS Holding Corp. and Miami Subs USA, Inc. (without exhibits) (incorporated by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K dated February 29, 1996).                                       |
| 2.3 | Technology Transfer Agreement, by and between LoneStar Hospitality Corporation and Circuit Masters Software, Inc., dated February 29, 1996 (without exhibits) (incorporated by reference to Exhibit 2.3 of  |

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the Company's Current Report on Form 8-K dated February 29, 1996).

- 2.4 Technology Transfer Agreement, by and between the Company and Bill Mulvany, dated February 29, 1996 (without exhibits) (incorporated by reference to Exhibit 2.4 of the Company's Current Report on Form 8-K dated February 29, 1996).
  - 2.5 Technology Transfer Agreement, by and between the Company and Kim Marie Newman, dated February 29, 1996 (without exhibits) (incorporated by reference to Exhibit 2.5 of the Company's Current Report on Form 8-K dated February 29, 1996).
  - 2.6 Agreement, by and between the Company, Circuit Masters Software, Inc., Patrick William Mulvany and Kim Marie Newman, dated May 16, 1996, effective as of February 29, 1996 (incorporated by reference to Exhibit 2.6 of the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on June 10, 1996).
  - 3.1 Certificate of Incorporation (incorporated by reference to the registration statement on Form S-1, File No. 33-25462, for Apollo Resources, Inc., on November 10, 1988, and declared effective January 4, 1989).
  - 3.2 Certificate of Amendment to Certificate of Incorporation filed with the Delaware Secretary of State on June 4, 1990 (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 1996).
  - 3.3 Bylaws (incorporated by reference to the registration statement on Form S-1, File No. 33-25462, filed with the Securities and Exchange Commission on November 10, 1988).
  - 3.4 Certificate of Amendment to Certificate of Incorporation filed with the Delaware Secretary of State on October 15, 1991 (incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1991).
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- 3.5 Certificate of Amendment to Certificate of Incorporation filed with the Delaware Secretary of State on July 20, 1994 (incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the year June 30, 1994).
  - 3.6 Certificate of Amendment to Certificate of Incorporation filed with the Delaware Secretary of State on December 11, 1995 (incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the year December 31, 1995).
  - 3.7 Certificate of Amendment to Certificate of Incorporation filed with the Delaware Secretary of State on May 1, 1996 (incorporated by reference to Exhibit 3.7 of the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 1996).
  - 3.8 Certificate of Designations of Series A Preferred Stock. (incorporated by reference to Exhibit 4 of the Company's Quarterly Report on Form 10-QSB for the fiscal year May 31, 1996).
  - 3.9 Certificate of Designations of Series B Preferred Stock (incorporated by reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-QSB for the fiscal year August 31, 1996).

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- 3.10 Certificate of Amendment to Certificate of Incorporation filed with the Delaware Secretary of State on February 27, 1998 (incorporated by reference to Exhibit 4.2 of the Company's registration statement on Form S-8 filed May 20, 1998, File No. 333-53131).
- 3.11 Certificate of Designations of Series C Preferred Stock (incorporated by reference to Exhibit 4.6 of the Company's registration statement on Form S-8 filed May 20, 1998, File No. 333-53131).
- 3.12 Certificate of Designations of Series D Preferred Stock (incorporated by reference to Exhibit 4.8 of the Company's registration statement on Form S-8 filed May 20, 1998, File No. 333-53131).
- 3.13 Certificate of Designations of Series E Preferred Stock (incorporated by reference to Exhibit 4.7 of the Company's registration statement on Form S-8 filed May 20, 1998, File No. 333-53131).
- 3.14 Certificate for Renewal and Revival of Charter filed with the Delaware Secretary of State on October 29, 1999. (incorporated by reference to Exhibit 3.14 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 2000).
- 4.1 Loan and Security Agreement dated May 22, 2004 between the Company and CITN Investments (filed as Exhibit 4.1 to the Form 8-K filed with the Commission on May 26, 2004 and incorporated herein by reference).
- 4.2 Secured Convertible Note in the principal amount of \$200,000 dated May 22, 2004 payable by the Company to CITN Investments (filed as Exhibit 4.2 to the Form 8-K filed with the Commission on May 26, 2004 and incorporated herein by reference).
- 10.1 Employment Agreement dated July 15, 1997, by and between the Company and Steven Solomon (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1998).
- 10.2 Stock Purchase Agreement, dated August 16, 1996, among the Company, Kent- Marsh Ltd., Inc., Bob Wesolek and Vance Nesbitt. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed September 3, 1996).
- 10.3 Stock Purchase Agreement, dated August 16, 1996, among the Company, Astonishing Developments, Inc., Bob Wesolek and Vance Nesbitt (incorporated by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K filed September 3, 1996).
- 10.4 Agreement, dated April 11, 1997, among the Company, George Sharp and Gil Gertner (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed April 11, 1997).
- 10.5 Form of Offshore Securities Subscription Agreement, Convertible Notes, Warrants and Registration Rights Agreement between the Company and First Bermuda Securities Limited (incorporated by reference to Exhibits 99.1 through 99.4 of the Company's Current Report on Form 8-K filed March 26, 1997).
- 10.6 Form of Offshore Securities Subscription Agreement, Convertible Notes, Warrants and Registration Rights Agreement between the Company and

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Willora Company Ltd. (incorporated by reference to Exhibits 99.1 through 99.4 of the Company's Current Report on Form 8-K filed April 28, 1997).

- 10.7 Form of Offshore Securities Subscription Agreement, Convertible Notes, Warrants and Registration Rights Agreement between the Company and Silenus Ltd. (incorporated by reference to Exhibits 99.1 through 99.4 of the Company's Current Report on Form 8-K filed June 24, 1997).
- 10.8 Purchase Agreement between the Company and CORESTAFF, Inc., dated October 6, 1997 (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1997).
- 10.9 Warrant to Purchase Common Stock of the Company issued to Worldwide PetroMoly Inc. (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1997).
- 10.10 Series D Preferred Stock Purchase Agreement between the Company and METAMOR WORLDWIDE, Inc., dated May 15, 1998 (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1998).
- 10.11 Stock Purchase Agreement between the Company and Precision Capital Limited Partnership I, dated April 30, 1998 (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1998).
- 10.12 Stock Purchase Agreement between the Company and Icarus Investments I, Ltd., dated May 27, 1998 (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1998).
- 10.13 Stock Purchase Agreement, dated March 11, 1999, among inLighten.com, Inc., 2-Lane Media, Inc., and the shareholders of 2-Lane Media, Inc.

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(incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 28, 1999).

- 10.14 Stock Purchase Agreement, dated May 20, 1999, among inLighten.com, Inc., Forward Communications, Inc., FCI Services Inc., and the shareholders of Forward Communications, Inc. and FCI Services Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 3, 1999).
- 10.15 Agreement and Plan of Reorganization, dated May 20, 1999, among inLighten.com, Inc., Forward Freight, Inc., and the shareholders of Forward Freight Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 3, 1999).
- 10.16 Settlement and Release Agreement dated January 14, 2000 by and among Richard L. Travis, How2.com, Inc. and the Company (incorporated by reference to Exhibit 10.18 to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form SB-2 filed March 23, 2000).
- 10.17 Settlement and Release Agreement dated March 1, 2000 by and among Bennett Klein and the Company (incorporated by reference to Exhibit 10.19 to Post-Effective Amendment No. 1 to the Company's Registration

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Statement on Form SB-2 filed March 23, 2000).

- 10.18 Standard Office Lease, dated August 2, 1999, between Arden Realty Limited Partnership and How2HQ.com, Inc. (Santa Monica, California). (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 2000).
  - 10.19 Guaranty of Lease, dated August 2, 1999, by the Company to Arden Realty Limited Partnership, with respect to certain obligations of How2HQ.com, Inc. under Standard Office Lease. (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 2000).
  - 10.20 Promissory Note dated September 30, 1999 payable to How2HQ.com, Inc. (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-KSB for the fiscal year ended February 29, 2000).
  - 10.21 Asset Purchase Agreement dated as of May 5, 2000 by and between EBSCO CASIAS, Inc., iNetze.com, Inc., ESRN Acquisition, LLC and the Company (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed June 12, 2000).
  - 10.22 Asset Contribution Agreement dated as of May 5, 2000 by and between iNetze.com, Inc., ESRN Acquisition, LLC, the Company and the stockholders set forth on the signature pages attached hereto (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed June 12, 2000).
  - 10.23 Stock Purchase Agreement dated as of May 5, 2000 by and between the Company, Tim Collins, F. Shanahan McAdoo and Robert C. Whitehair (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed June 12, 2000).
  - 10.24 Form of Plan and Agreement of Distribution between the Company and Citadel Security Software Inc.
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- 10.25 Form of Tax Disaffiliation Agreement between the Company and Citadel Security Software Inc.
  - 10.26 Form of Transition Services Agreement between the Company and Citadel Security Software Inc.
  - 10.27 Secured Promissory Note dated as of February 17, 2004 payable by the Company to the order of Steven B. Solomon (Filed as Exhibit 10.27 to the Form 10-KSB filed with the Commission on April 14, 2004 and incorporated herein by reference).
  - 10.28 Security and Pledge Agreement dated as of February 17, 2004 between the Company and Steven B. Solomon as Secured Party (Filed as Exhibit 10.28 to the Form 10-KSB filed with the Commission on April 14, 2004 and incorporated herein by reference).
  - 10.29 Approval and Release Agreement dated December 31, 2003 between the Company and Steven B. Solomon (Filed as Exhibit 10.29 to the Form 10-KSB filed with Commission on April 14, 2004 and incorporated herein by reference).
  - \*23.1 Consent of KBA Group LLP.

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- \*24.1 Power of Attorney (included as part of the signature page of this Annual Report on Form 10-KSB).
- \*31.1 Certification of Principal Executive Officer.
- \*31.2 Certification of Principal Financial Officer.
- \*32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed Herewith

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### INDEX TO FINANCIAL STATEMENTS

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
CT Holdings, Inc.

We have audited the accompanying balance sheets of CT Holdings, Inc. (the Company) as of December 31, 2004 and 2003, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in

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all material respects, the financial position of CT Holdings, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note A, the Company has incurred recurring operating losses and has a significant working capital deficiency at December 31, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note A. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

/s/KBA Group LLP  
Dallas, Texas  
March 9, 2005

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### CT HOLDINGS, INC. BALANCE SHEETS

	DECEMBER 31,	
	2004	2003
<b>ASSETS</b>		
-----		
CURRENT ASSETS		
Cash	\$ 4,168	\$ -
	-----	
TOTAL ASSETS	\$ 4,168	\$ -
	=====	
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
-----		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 325,300	\$ 480,396
Convertible secured note payable to related party, net of deferred debt discount of \$140,000	60,000	-
Demand note payable to Citadel plus accrued interest payable of \$48,895 and \$20,934	273,895	245,934
Payable to Citadel	585,000	410,000
Note payable to officer	5,000	-
Note payable to shareholder	9,000	9,000
Accrual for litigation including accrued interest of \$1,125,738 and \$5,000	4,125,738	207,000
	-----	
Total current liabilities	5,383,933	1,352,330
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Preferred stock, \$.01 par value per share; 1,000,000 shares authorized; no shares issued		



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or outstanding	-	-
Common stock, \$.01 par value per share; 60,000,000 shares authorized; 58,545,928 issued and outstanding	585,460	585,460
Common stock pending issuance	600,000	600,000
Additional paid-in capital	57,390,601	57,190,601
Accumulated deficit	(63,955,826)	(59,728,391)
Total stockholders' deficit	(5,379,765)	(1,352,330)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 4,168	\$ -

The accompanying notes are an integral part of these financial statements.

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CT HOLDINGS, INC.  
STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2004	2003
Revenue	\$ -	\$ -
General and administrative expense	107,348	296,262
Forgiveness of accounts payable	-	(162,384)
Litigation accrual	3,000,000	202,000
Reversal of litigation accrual	(74,733)	(560,000)
Reversal of reserve for note receivable from related party	(55,000)	-
Gain on settlement of liabilities with stock	-	(414,930)
Gain on settlement with related parties	-	(641,549)
Interest income	(5,500)	(55,350)
Interest expense	1,225,320	125,434
Write-off of affiliate shares acquired through exercise of warrants	30,000	-
Income (loss)	(4,227,435)	1,210,517
Provision for income taxes	-	-
Net income (loss)	\$ (4,227,435)	\$ 1,210,517
Net income (loss) per share - basic and diluted	\$ (0.06)	\$ 0.02
Weighted average shares outstanding - basic and diluted	66,311,502	59,909,558

The accompanying notes are an integral part of these financial statements.

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CT HOLDINGS, INC.  
STATEMENTS OF STOCKHOLDERS' DEFICIT

	Common Stock		Common Stock Pending Issue	Additional Paid Capital	Accumulated Deficit
	Shares	Amount			
Balances at December 31, 2002	57,545,928	\$ 575,460	\$ -	\$ 56,950,601	\$ (60,938,908)
Common stock issued in lieu of cash for settlement of liabilities	1,000,000	10,000	-	240,000	-
Note payable converted to common stock pending issuance	-	-	600,000	-	-
Net income	-	-	-	-	1,210,517
Balances at December 31, 2003	58,545,928	585,460	600,000	57,190,601	(59,728,391)
Beneficial conversion feature of note payable to related party	-	-	-	200,000	-
Net loss	-	-	-	-	(4,227,435)
Balances at December 31, 2004	58,545,928	\$ 585,460	\$ 600,000	\$ 57,390,601	\$ (63,955,826)

The accompanying notes are an integral part of these financial statements.

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CT HOLDINGS, INC.  
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (4,227,435)	\$ 1,210,517
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of deferred debt discount recorded as interest expense	60,000	-
Accrual for litigation and related interest expense	4,125,738	207,000

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Reversal of accrual for litigation	(74,733)	(560,000)
Reversal of reserve for collectibility of related party note receivable	(60,500)	-
Write-off affiliate shares acquired through the exercise of warrants	30,000	-
Gain on settlement of liability in exchange for shares of common stock	-	(414,930)
Gain from offset of notes payable against notes receivable	-	(696,899)
Forgiveness of accounts payable	-	(162,384)
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	(116,863)	156,696
Payable to Citadel	202,961	260,000
Accrual for legal settlement	(165,000)	(225,000)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(225,832)	(225,000)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Exercise of warrants to acquire affiliate's Series-A preferred stock	(30,000)	-
Payment received on notes receivable from related party	55,000	-
	-----	-----
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,000	-
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advances and notes payable to related party	200,000	225,000
Proceeds from note payable to officer	35,000	-
Payment on note payable to officer	(30,000)	-
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	205,000	225,000
	-----	-----
Net change in cash and cash equivalents	4,168	-
Cash and cash equivalents at the beginning of the year	-	-
	-----	-----
Cash and cash equivalents at the end of the year	\$ 4,168	\$ -
	=====	=====
 SUPPLEMENTAL CASH FLOW ITEMS		
Interest paid	\$ 519	\$ -
	=====	=====

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Income taxes paid	\$ -	\$ -
	=====	=====
Fair value of stock issued in settlement of accounts payable	\$ -	\$ 106,250
	=====	=====
Beneficial conversion feature of note payable to related party recorded as deferred debt discount	\$ 200,000	\$ -
	=====	=====
Conversion of note payable in equity	\$ -	\$ 600,000
	=====	=====

The accompanying notes are an integral part of these financial statements.

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CT HOLDINGS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

CT Holdings, Inc. (the "Company" or "CT Holdings") provides management expertise including consulting on operations, marketing and strategic planning and a single 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 over the years 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, 2004 the Company held investments in two companies, Parago, Inc. ("Parago") and River Logic, Inc. ("River Logic"). At December 31, 2004 the Company owned approximately 25,000 shares of Parago common stock and 28.8749 shares of Series A-3 convertible preferred stock (convertible into 2,887 shares of Parago common stock) and approximately 8% of River Logic.

Parago is a marketing services company that brings transaction processing capabilities together with information-based marketing in a way that transforms the way companies interact with customers. Through web-enabled products, processes and resources, Parago creates solutions that meet their client's marketing objectives. Parago provides a proprietary, promotional marketing technology platform that helps their clients reduce promotional program costs, increase sales, and enhance customer relationships. The Company accounts for the investment in Parago using the cost method of accounting. In prior periods due to continuing operating losses and other factors the Company wrote down the carrying value of the investment in Parago to zero. The investment has no carrying value at December 31, 2004 and December 31, 2003.

In May 2000, CT Holdings acquired a minority interest in River Logic which develops decision-support applications for industry. River Logic's applications 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

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by manipulating graphical icons that model their enterprise. The Company accounts for the investment in River Logic using the cost method of accounting. In prior periods due to continuing operating losses and other factors the Company wrote down the carrying value of the investment in Parago to zero. The investment has no carrying value at December 31, 2004 and December 31, 2003.

LIQUIDITY

The Company has incurred recurring operating losses and has a significant stockholders' deficit at December 31, 2004 of approximately \$5.4 million. There is a cash balance of \$4,168 at December 31, 2004 and current liabilities total approximately \$5.4 million. The Company has limited access to capital at

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December 31, 2004, no plans to raise capital, and management has not identified sources of capital at December 31, 2004. During the year ended December 31, 2004, the Company received \$200,000 from CITN Investment Inc. ("CII") as part of an interest bearing Promissory Note. CII is an entity owned 50% by the Company's CEO and 50% by a shareholder of the Company. Past funding needs of the business have been provided by financings through short-term notes payable and additional investments from related parties, including the Company's CEO and CII, however there can be no assurance that such funds will be available from these related parties in the future. 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.

The Company has made investments in entities that management believes may provide liquidity to the Company in the long term and the management believes that Parago and River Logic may ultimately be successful. Both Parago and River Logic are privately held companies and because the Company holds minority interests in these companies, the Company has received only limited information regarding their results of operations and financial condition. The Company has not participated in the additional capital infusions since the initial investments and as a result, the ownership percentage in both investee companies has been significantly diluted. The Company's ownership in Parago consists of 25,000 shares of common stock and 28.8749 shares of Series A-3 convertible preferred stock (convertible to 2,887 shares of Parago common stock), and approximately 8% of River Logic.

While management believes that the performance of the investee companies to date has been as expected, there can be no assurance that the Company will ever achieve liquidity from these investments. In addition, there can be no assurance that the Company's plans will be successful or what other actions may become necessary in the future. Until the Company is able to create liquidity from the investments through sale to a strategic investor, an initial public offering or some other liquidity transaction, the Company will continue to require working capital to fund operating expenses. Although the Company has 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 the Company's business operations and result in charges that could be material to the Company's business and results of operations. At December 31, 2004 the Company has not identified sources of capital nor does the Company have any plans to raise sufficient amounts of capital to settle liabilities or to fund business development activities.

### BASIS OF PRESENTATION

The accompanying financial statements of CT Holdings have been prepared in accordance with accounting principles generally accepted in the United States.

Certain 2003 amounts have been reclassified to conform to 2004 financial statement presentations.

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### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

### INVESTMENT IN UNCONSOLIDATED AFFILIATES

At December 31, 2004 the Company held investments in two companies, Parago and

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River Logic. The Company recorded the carrying amount of these investments under the cost method of accounting because the Company's percentage ownership in each Company was a non-controlling interest of less than 20%.

After a 1 for 1000 reverse stock split, the Company holds 20,000 shares of common stock of Parago and warrants to purchase 28.8749 shares of Series A-3 preferred stock (convertible into 2,887 shares of common stock) at December 31, 2003 and an additional 5,000 (5,000,000 pre 1:1000 reverse stock split) shares received from our CEO in February 2004 upon exercising his exchange right for 6,000,000 shares of the Company's common stock. Also in February 2004, the Company's CEO loaned the Company \$30,000 in order for the Company to exercise warrants to purchase the Series A-3 convertible preferred stock, pursuant to a promissory note secured by the preferred stock. In December 2001 Parago completed an equity financing of approximately \$13.6 million of a total \$15 million financing. Approximately \$1.4 million of equity financing was closed in February 2002. As a result of the equity financing, the Company's ownership percentage in Parago was reduced to less than 1%. The Company's 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 the Company's ownership falling below 20%, has been accounted for using the cost method of accounting beginning December 13, 2001. Under the cost method, the Company's share of income or loss of Parago is not included in the Company's Statements of 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 net investment falls below zero, as it did during the year ended December 31, 2000, 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 its proportionate share of net income if Parago turns profitable.

As the Company owns approximately 8% of River Logic at December 31, 2004, the investment has been accounted for under the cost method of accounting. Under this method, the Company's share of the income or losses of River Logic is not included in the Company's statements of operations. The Company's carrying value of its investment in River Logic was \$2,703,975 at December 31, 2001. In July 2002 River Logic entered into an equity line of credit at a per share valuation below the carrying value of the Company's investment in River Logic. Management determined that due to the new valuation, lower spending in the information technology industry, and continuing operating losses by River Logic that the carrying value of the investment in River Logic should be reduced to zero. The Company periodically evaluates the carrying value of its investments in investee companies for impairment based upon the prospects of the entity and the value of the investment when compared to other investments in the entity from other unrelated parties. If these factors indicate that an other than temporary impairment exists, then the Company will write down the value of the investment to its realizable value. For reasons noted above, during the year ended December 31, 2002 the Company wrote down its investment in River Logic.

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### IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and exceeds its fair value. If conditions indicate an asset might be

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impaired, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. The impairment would be measured by the amount by which the asset exceeds its fair value typically represented by the future discounted cash flow associated with the asset. At December 31, 2004 and 2003 the Company had no long lived assets.

### INCOME TAXES

Deferred income taxes are recognized using the asset and liability method. Deferred income taxes are provided based upon estimated future tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes calculated based upon provisions of enacted laws.

### STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No.25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123". Under APB Opinion No. 25, compensation expense for employees is based on the excess, if any, on the date of grant, between the fair value of the Company's stock over the exercise price.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and SFAS No. 148 and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur.

If the Company had recognized compensation expense, in accordance with SFAS No. 123 and 148, based upon the fair value at the grant date for options granted to employees, officers and directors during the years ended December 31, 2004 and 2003, the pro forma effect on net income (loss) and net income (loss) per share would have been as follows:

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	2004	2003
	-----	-----
Net income (loss) attributable to common stockholders as reported	\$ (4,227,435)	\$ 1,210,517
Add: Stock-based employee compensation expense included in reported net income (loss)	-	-
Deduct: Stock-based employee compensation expense determined under fair value		

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based method	-	-
	-----	-----
Pro forma net income (loss)	\$ (4,227,435)	\$ 1,210,517
	=====	=====
Net income (loss) per common share - basic and diluted		
As reported	\$ (0.06)	\$ 0.02
	=====	=====
Pro forma	\$ (0.06)	\$ 0.02
	=====	=====

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, including accounts payable and notes payable are carried at cost, which approximates fair value due to the short maturity of these instruments.

### NET INCOME AND LOSS PER COMMON SHARE

Net income per common share and net loss per common share are computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Included in the weighted average number of common shares outstanding for the year ended December 31, 2004 are 2,700,000 shares that would have been issued when a shareholder exercised his right to convert a note payable to common stock and 6,000,000 shares that would have been issued to the CEO when he exercised his right to exchange Parago shares for CT Holdings shares if the Company had the available authorized shares. These shares have been included in the computation from the date that they would have been issued. Basic income (loss) per share excludes any dilutive effects of stock options. Stock options to purchase 2,917,500 shares of common stock at December 31, 2004 and December 31, 2003, have been excluded from the computation of diluted income (loss) per share, as the effect would be anti-dilutive. At December 31, 2004, the Company does not have any outstanding stock options or warrants that have an exercise price below market value.

### RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R"), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. SFAS No. 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company expects to adopt SFAS No. 123R on January 1, 2006.

The Company is evaluating the impact of adopting SFAS 123R and expects that it will record substantial non-cash stock compensation expenses. The adoption of SFAS 123R is not expected to have a significant effect on the Company's financial condition or cash flows but is expected to have a significant effect on the Company's results of operations. The future impact of the adoption of SFAS 123R cannot be predicted

at this time because it will depend on the levels of share-based payments granted by the Company in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of the standard would have approximated the impact



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of SFAS 123 as described in the pro forma net loss attributable to common shareholders included in the Stock-Based Compensation policy footnote.

### NOTE B - INCOME TAXES

The significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2004	2003
Deferred tax assets		
Net operating loss carryforwards	\$ 10,894,000	\$ 10,793,000
Reserve on investments	1,059,000	1,059,000
Accounts payable and accrued expenses	1,403,000	111,000
	13,356,000	11,963,000
Total deferred tax assets, net	13,356,000	11,963,000
Valuation allowance	(13,356,000)	(11,963,000)
	\$ -	\$ -
Total deferred tax assets, net	\$ -	\$ -
	=====	=====

The difference between the provision for income taxes and the amount computed by applying the federal statutory rate to loss before provision for income taxes are as follows:

	December 31,	
	2004	2003
Provision (benefit) computed at federal statutory rate	\$(1,437,000)	\$ 412,000
Increase (decrease) in valuation allowance	1,393,000	(500,000)
Other	44,000	88,000
	\$ -	\$ -
	=====	=====

For federal income tax purposes, at December 31, 2004 the Company had a net operating loss carryforward of approximately \$32,000,000, which is subject to annual limitations as prescribed by the Internal Revenue Code, is available to offset future taxable income and expires at various dates through 2024. A valuation allowance has been recorded for the entire amount of the net deferred tax asset due to uncertainty of realization.

### NOTE C - STOCK OPTIONS AND WARRANTS

The Company has issued stock options to purchase common stock to directors, employees and consultants. Options are granted at no less than fair value at the date of grant. Generally, the options vest over no more than three years. Following is a summary of option transactions for the years ended December 31, 2004 and 2003:

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	Shares	Weighted average exercise price per share
	-----	-----
Outstanding at December 31, 2002	3,955,850	\$ 0.93
Granted	-	\$ 0.00
Exercised	-	\$ 0.00
Expired or cancelled	(1,038,350)	\$ 2.86
	-----	
Outstanding at December 31, 2003	2,917,500	\$ 0.24
Granted	-	\$ 0.00
Exercised	-	\$ 0.00
Expired or cancelled	-	\$ 0.00
	-----	
Outstanding at December 31, 2004	2,917,500	\$ 0.24
Exercisable at December 31, 2004	2,917,500	\$ 0.24
	=====	
Exercisable at December 31, 2003	2,917,500	\$ 0.24

The following table summarizes other information regarding stock options at December 31, 2004:

Range of exercise Prices	Outstanding/ Exercisable Shares	Weighted-average remaining contractual life (in years)	Weighted- average exercise price
-----	-----	-----	-----
\$0.20 - \$0.26	2,397,500	6.25	\$ 0.20
\$0.27 - \$0.40	500,000	6.14	\$ 0.38
\$0.41 - \$2.00	20,000	1.49	\$ 1.94
	-----	-----	-----
	2,917,500		\$ 0.24
	=====	=====	=====

No options were granted during the years ended December 31, 2004 or 2003, therefore no fair value estimate has been presented.

The following summarizes the activity of warrants to purchase common stock for the years ended December 31, 2004 and 2003.

	Shares	Weighted average exercise price
	-----	-----
Outstanding at December 31, 2002	2,351,601	\$ 3.95

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Terminated and cancelled	(2,351,601)	3.95
Exercised	-	-
	-----	
Outstanding at December 31, 2003	-	-
Terminated and cancelled	-	-
Exercised	-	-
	-----	
Outstanding at December 31, 2004	-	-
	=====	

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### NOTE D - INVESTMENT IN UNCONSOLIDATED AFFILIATES

#### PARAGO INVESTMENT

From January 1, 2001 through December 12, 2001, the Company accounted for its investment in Parago under the equity method of accounting. On December 12, 2001 Parago closed approximately \$13.6 million of a \$15 million Series E Preferred Stock issuance (the "Series E Financing"). The additional amount of approximately \$1.4 million was closed in February 2002. The Company did not participate in the Series E Financing and as a result, the Company's ownership percentage in Parago was reduced to less than 1% of the capital stock outstanding. Following the Series E Financing the Company accounted for its investment in Parago under the cost method of accounting.

In May 2001, Parago obtained a term loan from a bank with a principal amount of \$8.0 million. The funds from the term loan were necessary to enable Parago to continue operations, as Parago's cash resources were depleted. As a condition to the extension of the term loan, the bank required a guarantee of Parago's obligations under the term loan from certain affiliates of Parago including the Company. The Company's share of the guarantee was \$2,099,211. The Company was advanced \$692,739 from the CEO of the Company and signed a guaranty for the remaining \$1,406,472. The CEO personally guaranteed the guaranty provided by the Company. The guarantee was recorded as an adjustment to equity in losses of \$2,099,211 in the quarter ended June 30, 2001. Parago repaid the term loan with proceeds from the sale of shares of the Series E Financing and the Company's guarantee was released. Accordingly the adjustment to equity in losses of \$2,099,211 was reversed in the fourth quarter of 2001. In addition, the Company paid the CEO the money advanced and released their guaranty. In consideration of certain of its directors' funding of the Company's participation in the Parago bridge loan, the Company has agreed to permit the CEO to exchange up to 5,000,000 (pre 1:1000 reverse stock split) Parago shares into up to 6,000,000 shares of the Company's common stock. During February 2004, the director exercised his exchange rights. The CEO agreed to waive his right to receive the physical stock certificates until authorized shares of CT Holdings become available.

At December 31, 2004 and 2003 after consideration of the effect to a 1 for 1,000 reverse stock split in 2001, the Company held 25,000 shares of common stock of Parago and warrants to purchase 28.8749 shares of Series A-3 preferred stock (convertible into 2,887 shares of common stock).

#### RIVER LOGIC INVESTMENT

At December 31, 2004 the Company holds an investment in River Logic, a software

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company that develops and markets decision support tools. The Company owns approximately 8% of River Logic and is accounted for using the cost method of accounting for investments in common stock. The original investment in

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River Logic came about through a series of equity and asset transactions with total value of approximately \$3,064,000.

River Logic has a history of operating losses. Since the initial investment in May 2000, River Logic has raised additional capital through the issuance of preferred stock and other equity securities. During the year ended December 31, 2002 the Company evaluated 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 during the year ended December 31, 2002. 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. In addition, the Company's potential return of any proceeds was subordinate to the investors in the equity credit line financing who first receive \$3 million of any proceeds in a liquidity transaction. As a result of the lower valuation, general information technology industry conditions and lower operational performance by River Logic, 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.

### NOTE E - NOTES PAYABLE TO SHAREHOLDERS

The Company has presented \$600,000 as "Common stock pending issuance", a separate Component of Stockholders' Deficit at December 31, 2004 and 2003. This represents 2,700,000 shares of CT Holdings that were to be issued upon the conversion of a note payable to a shareholder in 2003. Due to the lack of available authorized shares, the shareholder has waived his right to receive these shares until such time as the shares become authorized.

The Company has an 8% note payable which was originally due June 30, 2002 for \$9,000 to a shareholder which was in default at December 31, 2004 and 2003 and continues to bear interest at 8% per annum.

### NOTE F - RELATED PARTY TRANSACTIONS

In February 2004, the CEO loaned the Company \$30,000 in order for the Company to exercise the Company's warrants to purchase 28.8749 shares of Series A-3 convertible preferred stock. The promissory note was paid back plus interest in May 2004.

In April 2003, CT Holdings obtained \$225,000 from Citadel to pay a legal settlement for an unsecured Note Payable to Citadel due on demand and bearing interest at 12% per year. The accrued interest on the note payable at December 31, 2004 and 2003, was approximately \$49,000 and \$21,000, respectively.

On May 24, 2004, the Company was advanced \$200,000 by CII pursuant to the Loan Agreement and evidenced by a Secured Convertible Promissory Note (the "Note"). The note accrues interest at 8% per annum and is due the earlier of May 24, 2006 or demand by CII. This Note is convertible in whole or in part, at the option of CII, into up to 23,666,667 shares of the Company's common stock (approximately 25% of the Company's common stock on a fully diluted basis), and is secured by a

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pledge of all of the Company's assets.

In May 2004, the Company received \$55,000 for payment of note receivable from an officer plus interest of \$5,500. The note receivable was issued upon the exercise

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of stock options by the officer and had been fully reserved. Accordingly the Company reversed the \$55,000 reserve and recognized \$5,500 of interest income.

In October 2004, the Company obtained a \$5,000 90-day note, bearing interest at 5% per year, from the CEO of the Company. This note is outstanding at December 31, 2004.

Pursuant to the terms of the transition services agreement with Citadel, the Company has agreed to pay Citadel a monthly fee of \$7,500 per month, reduced from \$20,000 in May 2004, for the services of its CEO, CFO and accounting and information management staff, as well as office rent and indirect overhead expenses. During the year ended December 31, 2004 the Company recorded \$140,000 related to this agreement. In addition, Citadel invoiced the Company \$20,000 for professional services paid by it for the Company's benefit. In October 2004, Citadel paid a legal settlement on behalf of CT Holdings for \$35,000. The amount was booked as due to Citadel. The Company has been invoiced by Citadel for these services and has a liability booked for \$585,000 and \$410,000 for amounts payable to Citadel at December 31, 2004 and 2003, respectively. The transition services agreement expires in May 2005 and may be extended by agreement of the independent directors of Citadel and CT Holdings.

During 2003, as further discussed below, holders of notes payable of an aggregate principal amount of approximately \$525,000 and the Company agreed to offset the principal of the notes plus accrued interest payable of approximately \$172,000 (as to which the Company was in default) against the principal amount of notes receivable of \$1,107,500 from the same parties. These notes receivable had previously been fully reserved due to their uncertainty of collection. As a result the Company has recorded a gain from offset of notes payable against notes receivable of approximately \$697,000 during the year ended December 31, 2003.

Pursuant to an agreement with the Company and an entity related to a former employee of the Company dated December 31, 2003, a \$49,000 note payable and note receivable were offset.

In June 2001, the Company's CEO and a director funded and guaranteed CT Holdings' participation in the Parago bridge loan. In consideration for this funding and guarantees, CT Holdings has agreed to permit the CEO to exchange up to 5,000,000 (pre 1:1000 reverse stock split) Parago shares into up to 6,000,000 shares of CT Holdings' common stock. The CEO exercised the exchange right in February 2004. The CEO waived his right to receive the shares of CT Holdings until the authorized shares become available.

### NOTE G - COMMITMENTS AND CONTINGENCIES

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 (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,

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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

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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 on June 9, 2004 the court entered judgment in favor of Roan-Meyers in the amount of \$3,000,000 and granted interest at the rate of 9% from October 31, 2000 through the date of final judgment, and thereafter at the statutory rate allowed by law. The amount for the judgment as well as the interest from October 2000 through December 31, 2004 of \$1,125,738 has been accrued. The Company has appealed the final judgment. The Company intends to vigorously defend this case.

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 \$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. The Company reached a settlement and in May 2004 paid \$42,000 less than the amount that had been accrued.

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In January 2003, R.R Donnelly asserted claims against the Company and Steven B. Solomon 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 reached a settlement in the third quarter of 2004 for approximately \$14,000 less than the amount that had been accrued. The settlement was assumed by Citadel and paid in October 2004.

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

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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 was settled for \$35,000 in September 2004, which the Company had previously accrued approximately \$54,000 in accounts payable for settlement. The company paid \$15,000 in September 2004. The Company paid the remaining \$20,000 of the settlement in October 2004 by obtaining a \$5,000 90-day note, bearing interest at 5% per year, from the CEO of the Company.

The Company may become involved from time to time in litigation on various matters which are routine to the conduct of our business. The Company believes 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.

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