

**IMPORTANT U.S. TAX INFORMATION FOR CT HOLDINGS STOCKHOLDERS  
REGARDING THE SPIN-OFF OF CITADEL SECURITY SOFTWARE INC.**

***The Distribution:***

The special dividend to CT Holdings, Inc. (“CT Holdings”) shareholders of record on May 6, 2002 of shares of common stock in Citadel Security Software Inc. (“Citadel”) was distributed after the close of the market on May 17, 2002. The distribution agent, Computershare Trust Company, distributed 1 share of Citadel common stock for every 4 shares of CT Holdings common stock you held at the close of the market on May 6, 2002. Fractional shares were rounded up to 1 whole share in Citadel. You now own shares in two companies whose shares are traded on the Over The Counter Bulletin Board (“OTCBB”). Citadel is traded under the symbol CDSS and CT Holdings continues to trade under the symbol CITN.

***Consult Your Tax Advisor:***

The tax information provided below is provided to guide you through the potential tax consequences of the spin-off distribution. It is our interpretation of the federal tax regulations in the United States. The tax information provided below does not address state income tax regulations or those of any government outside the United States. We are not offering legal or tax advice with respect to your specific taxable position or your tax return. You should consult your tax advisor if you have any questions.

***Federal Income Tax Consequences:***

CT Holdings and Citadel intend for the Distribution to be tax free for U.S. federal income tax purposes. Neither CT Holdings nor Citadel have sought or received opinions from their counsel or independent public accountants as to the U.S. federal income tax or other tax consequences of the receipt of the Citadel shares by CT Holdings stockholders. In addition, neither CT Holdings nor Citadel has requested an advance ruling from the Internal Revenue Service (“IRS”) as to the tax consequences of the distribution. No assurance can be given that the IRS or the courts will agree that the distribution is tax free.

***Tax Basis Determination:***

If you sell your shares in Citadel or CT Holdings following the distribution you may have to pay taxes. To determine your tax basis in your CT Holdings shares you must first determine (1) the date on which you acquired your CT Holdings shares and (2) the cost of your shares on that date. Because CT Holdings has declared stock splits in the past your tax basis in any CT Holdings shares acquired prior to a stock split must be divided between the shares you held prior to the stock split and the shares you received pursuant to the stock split. CT Holdings declared a 1 for 5 stock split on December 15, 1995 and a 1 for 2 stock split on May 3, 1996. We encourage you to seek advice from your personal tax advisor on the allocation of basis to the shares following the stock splits.

Once you have determined the tax basis of your CT Holdings shares, you will then need to allocate that tax basis between your CT Holdings shares and your Citadel shares based on their relative fair market values on the distribution date. One method for valuing your CT Holdings shares and your Citadel shares for the purpose of allocating tax basis is to use the fair market values of CT Holdings common stock and the Citadel shares on May 20, 2002. Based on the average high and low prices at which CT Holdings and Citadel traded on May 20, 2002, the first day of trading for Citadel, as reported on the OTCBB,  $1/3^{\text{rd}}$  of your tax basis in CT Holdings shares may be allocated to CT Holdings shares and  $2/3^{\text{rds}}$  of your tax basis in CT Holdings shares may be allocated to Citadel shares including where applicable, the additional share that you may have received for any fractional shares.

### **HYPOTHETICAL EXAMPLE**

**Assume that prior to the distribution you owned 5,250 shares of CT Holdings with a tax basis of \$5,250.**

**After the distribution you would own 5,250 shares of CT Holdings and 1,313 shares of Citadel ( $5,250 \div 4 = 1,312.5$  rounded to 1,313)**

**Your tax basis of \$5,250 may be allocated  $1/3^{\text{rd}}$  to CT Holdings shares, or \$1,750 ( $1/3^{\text{rd}} \times \$5,250$ ) and  $2/3^{\text{rds}}$  to Citadel shares, or \$3,500 ( $2/3^{\text{rds}} \times \$5,250$ ).**

#### ***Taxability of Rounding Up of Fractional Shares:***

As noted above and fractional share was rounded up to the nearest whole share. As in the Hypothetical Example above the calculation of the number of Citadel shares was 1,312.5. An additional .5 share was added to round to 1,313 shares. This additional .5 share is taxable to the recipient. The fair market value of Citadel common stock on May 20, 2002 was determined to be \$1.00 per share. The taxable value of your fractional share is your fraction (.25, .50 or .75) multiplied by \$1.00.

#### ***Holding Period:***

The holding period of your Citadel shares is the same as your CT Holdings shares for the purpose of determining whether a capital gain or capital loss on a sale of Citadel shares is short term or long term.

#### ***Shareholder Statement:***

United States Treasury Department regulations require that you sign and attach to your income tax return a statement setting forth certain prescribed information about the CT Holdings/Citadel stock distribution. The statement following may be attached to your 2002 tax return.

**FORM OF INFORMATION STATEMENT  
TO BE PROVIDED TO INTERNAL REVENUE SERVICE BY STOCKHOLDERS**

Note: Attachment to 2002 federal income tax return of stockholders

Statement of stockholders receiving a distribution of stock in Citadel Security Software Inc. (a controlled corporation), pursuant to Treas. Reg. sec. 1.355-5(b).

1. The undersigned, a stockholder owning shares of CT Holdings, Inc. as of \_\_\_\_\_, 2002, received a distribution of stock in a controlled corporation that we believe qualifies under sec. 355.

2. The name and addresses of the corporations involved are:

CT Holdings, Inc. (Distributing Corporation)  
8750 North Central Expressway, Suite 100  
Dallas, Texas 75219

Citadel Security Software Inc. (Controlled Corporation)  
8750 North Central Expressway, Suite 100  
Dallas, Texas 75219

3. No stock or securities in CT Holdings, Inc. were surrendered by the undersigned.

4. \_\_\_\_\_ shares of Citadel Security Software Inc. were received constituting only common shares in such corporation.

5. No cash or other property was received by the undersigned in connection with the distribution except in connection with up to one additional share in connection with the rounding up of fractional shares.

Stockholder

\_\_\_\_\_  
Name: \_\_\_\_\_