

Sector: **Information Technology**
Sub-Industry: **Systems Software**
Peer Group: **Security Software**

Summary: This company develops and markets computer security and privacy software for inside the firewall.

Quantitative Evaluations

S&P Earnings & Dividend Rank : **NR**

S&P Fair Value Rank: **NR**

Fair Value Calc: **NA**

S&P Investability Quotient Percentile

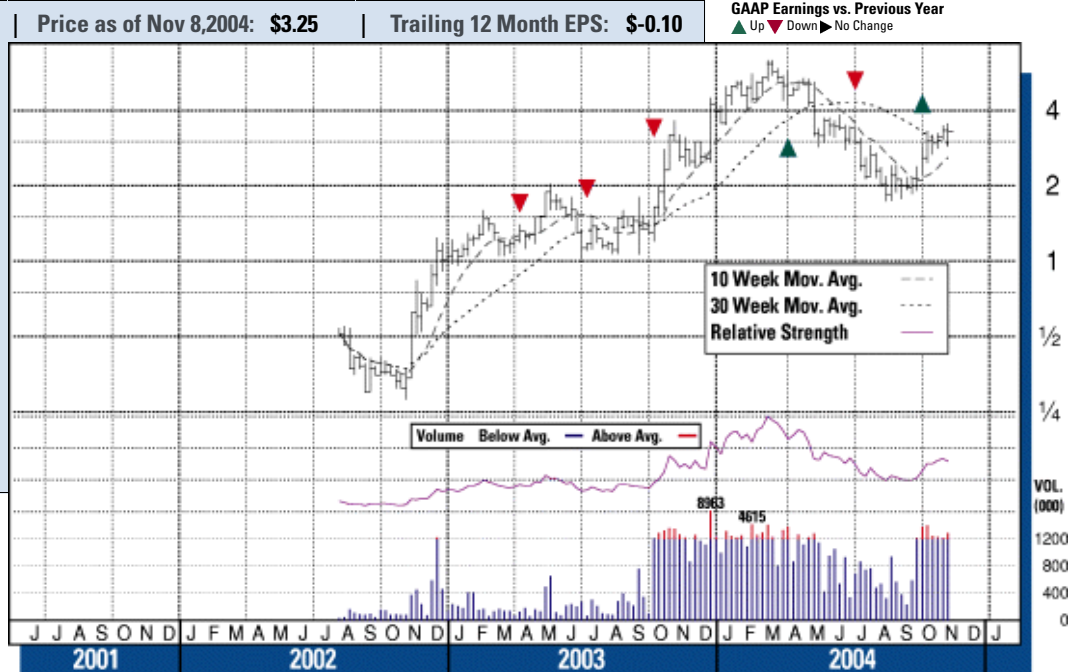
3%
1 Lowest Highest 100
CDSS scored lower than 97% of all companies for which an S&P Report is available.

Volatility: **NA**

Technical Evaluation: **NA**

Relative Strength Rank: **Strong**

92
1 Lowest Highest 99



Investment Strategy

Key financial variables to consider in assessing the investment merits of an industrial company are the following:

Sales: What is the trend? Is future sales growth expected to be greater than the past 5-year and 9-year growth average? Accelerating sales growth ultimately provides the fuel behind earnings growth.

Net Margin: As a key measure of company profitability, a rising net margin assesses management capability to wring out more net income from incremental sales.

% LT Debt of Capitalization: A rising percentage implies greater financial risk, all else being equal. Rising debt leverage without a concomitant rise in Return on Equity should raise warning signals of potential cash flow problems. Percentages above 40%-50% should also be considered a warning.

% Return on Equity: A key performance measurement of capital efficiency assesses what investment returns management can earn on a company's existing capital base. A sustained percentage above 20% is considered above average.

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Year	5 Year	9 Year
Sales	346.43	NA	NA	NA
Net Income	-123.64	NA	NA	NA

Ratio Analysis (Average)

Net Margin	NM	NA	NA	NA
% LTD of Capitalization	0.00	NA	NA	NA
% Return on Equity	NM	NA	NA	NA

Revenues/Earnings Data Fiscal year ending Dec. 31

Revenues (Million \$)	2004	2003	2002	2001	2000	1999
1Q	2.32	0.27	0.09	--	--	--
2Q	3.44	0.78	0.46	--	--	--
3Q	7.77	0.73	0.48	--	--	--
4Q	--	4.07	--	--	--	--
Year	--	5.86	1.31	0.58	--	--
Earnings per Share (\$)	2004	2003	2002	2001	2000	1999
1Q	-0.06	-0.07	-0.05	--	--	--
2Q	-0.07	-0.06	-0.04	--	--	--
3Q	0.02	-0.11	-0.04	--	--	--
4Q	--	-0.01	--	--	--	--
Year	--	-0.24	-0.17	-0.15	--	--

Next earnings report expected: Mid February

Historical GAAP earnings are as reported.

Key Stock Statistics

52 Week Range	\$6.36 / 1.73	Beta	NA
Average Daily Volume	0.317 mil.	Trailing 12 Month EPS	\$-0.10
Market Capitalization	\$0.096 Bil.	12 Month P/E	NM
Institutional Holdings	52%	Current Yield	Nil
Shareholders of Record	845	Dividend Rate/Share	Nil

Value of \$10,000 Invested five yrs Ago : **NA**

Please read the required disclosures and Reg. AC certification on the last page of this report.

This report was prepared by Standard & Poor's Quantitative Services.

Redistribution or reproduction is prohibited without written permission. Copyright ©2004.

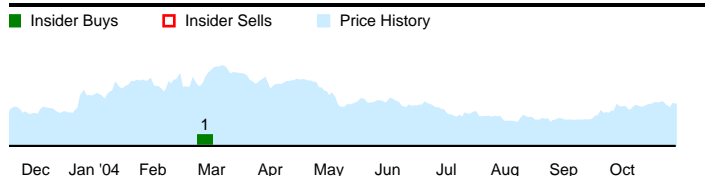
Earnings & Dividend (Quality) Rank: **NR**

Standard & Poor's Fair Value Rank : **NR**

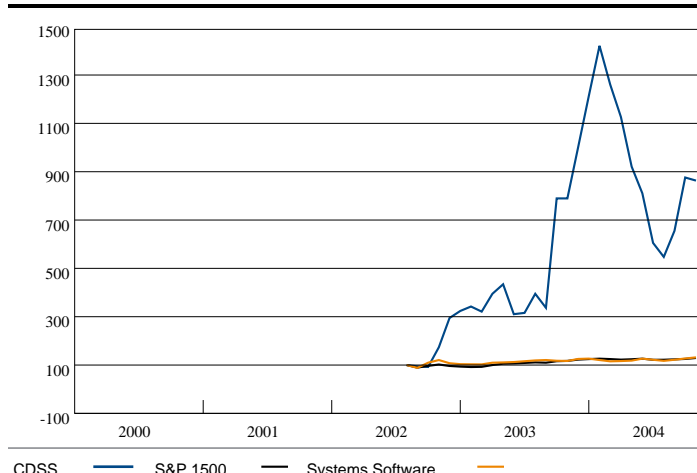
Wall Street Opinions/Average (Mean) Opinion: Buy/Hold

	No. of Ratings	% of Total	1 Mo. Prior	3 Mo. Prior
Buy	2	50	2	3
Buy/Hold	1	25	1	1
Hold	1	25	1	1
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	4	100	4	5

Insider Moves



Stock Performance



Dividend Data

No Dividend Data Available

	Company(%)	Industry(%)	S&P 1500(%)
YTD Return (% Annualized)	-16.7%	6.7%	6.2%
One Year Return	25.2%	11.3%	11.2%
Three Year Return	--	-1.3%	2.9%
Five Year Return	--	-7.2%	-2.0%
Value of \$10,000 Invested 5 Years Ago	NA	\$6,882	\$9,060

Company Financials Fiscal year ending Dec. 31

Per Share Data (\$)

Year Ended Dec. 31	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Tangible Book Value	0.17	NM	NA	NA	NA	NA	NA	NA	NA	NA
Cash Flow	-0.21	-0.16	NA	NA	NA	NA	NA	NA	NA	NA
Earnings	-0.24	-0.17	-0.15	NA	NA	NA	NA	NA	NA	NA
Dividends	Nil	Nil	NA	NA	NA	NA	NA	NA	NA	NA
Payout Ratio	Nil	Nil	NA	NA	NA	NA	NA	NA	NA	NA
Prices:High	4.50	1.24	NA	NA	NA	NA	NA	NA	NA	NA
Prices:Low	0.96	0.28	NA	NA	NA	NA	NA	NA	NA	NA
P/E Ratio:High	NM	NM	NA	NA	NA	NA	NA	NA	NA	NA
P/E Ratio:Low	NM	NM	NA	NA	NA	NA	NA	NA	NA	NA

Income Statement Analysis (Million \$)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Revenues	5.86	1.31	NA	NA	NA	NA	NA	NA	NA	NA
Operating Income	-1.27	-2.45	NA	NA	NA	NA	NA	NA	NA	NA
Depreciation	0.68	0.16	NA	NA	NA	NA	NA	NA	NA	NA
Interest Expense	3.04	0.11	NA	NA	NA	NA	NA	NA	NA	NA
Pretax Income	-5.25	-2.35	NA	NA	NA	NA	NA	NA	NA	NA
Effective Tax Rate	NM	NM	NA	NA	NA	NA	NA	NA	NA	NA
Net Income	-5.25	-2.35	NA	NA	NA	NA	NA	NA	NA	NA

Balance Sheet & Other Financial Data (Million \$)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Cash	5.09	0.01	NA	NA	NA	NA	NA	NA	NA	NA
Current Assets	7.01	0.44	NA	NA	NA	NA	NA	NA	NA	NA
Total Assets	9.73	1.54	NA	NA	NA	NA	NA	NA	NA	NA
Current Liabilities	4.96	3.86	NA	NA	NA	NA	NA	NA	NA	NA
Long Term Debt	Nil	Nil	NA	NA	NA	NA	NA	NA	NA	NA
Common Equity	4.77	-2.33	NA	NA	NA	NA	NA	NA	NA	NA
Total Capital	4.77	-2.33	NA	NA	NA	NA	NA	NA	NA	NA
Capital Expenditures	0.41	0.43	NA	NA	NA	NA	NA	NA	NA	NA
Cash Flow	-4.57	-2.19	NA	NA	NA	NA	NA	NA	NA	NA
Current Ratio	1.4	0.1	NA	NA	NA	NA	NA	NA	NA	NA
% Long Term Debt of Capitalization	Nil	Nil	NA	NA	NA	NA	NA	NA	NA	NA
% Net Income of Revenues	NM	NM	NA	NA	NA	NA	NA	NA	NA	NA
% Return on Assets	NM	NM	NA	NA	NA	NA	NA	NA	NA	NA
% Return on Equity	NM	NM	NA	NA	NA	NA	NA	NA	NA	NA

Data as orig. reptd; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. as of ex-div date. NA-Not Available. NM-Not Meaningful. NR-Not Ranked.

Office: 8750 N. Central Expressway, Dallas, TX, 75231-6431
Tel: 888-824-8233
Email: invest@citadel.com
Website: <http://www.citadel.com>
Chrmn, Pres, Secy & CEO: **S. B. Solomon**

CFO & Investor Contact: **Richard Connelly(214-520-9292)**
Dir: **J. M. Allbaugh, C. A. Economou, J. Leide, S. B. Solomon**
CTO: **C. Banzhof**
EVP: **D. Helffrich**
EVP: **M. Jones**

EVP: **E. Krupa**
Auditor: **KBA Group**
Founded: **1996**
Domicile: **Delaware**
Employees: **74**

Sub-Industry Outlook

Our investment outlook on the systems software industry is neutral. We remain bullish on Microsoft (MSFT: buy, \$27), following further legal settlements in 2003, but we are less optimistic about the prospects for the rest of the industry in 2005, despite a cautious rebound that we see in the corporate IT spending environment. For the longer term, we expect certain positive trends to remain intact, such as the leveraging of the existing hardware infrastructure. The S&P Systems Software Index was flat year to date through October 22, versus a 0.9% decrease for the S&P 1500.

After a dramatic increase in IT spending in the late 1990s, we expect growth in spending on software to be sharply slower than what we view as earlier unsustainable rates. As a result of excessive IT spending, many software companies experienced sharp declines in revenue growth in 2001 and a drop in 2002, as the global economy slowed. We expect IT spending to rebound in 2004 and 2005 from these depressed levels with low to mid-single digit growth.

For the longer term, we see the rapidly evolving Internet, intranets and extranets creating strong demand for software applications and systems that take advantage of these platforms. Many software vendors and customers are focusing on Web services, with particular emphasis on the integration of disparate systems and applications.

We see the PC software segment as attractive, despite only modest projected PC shipment growth. We see PC software sales accelerating, with low double digit growth expected for 2004 and the first half of 2005, led by MSFT's Windows products. The latest version of the company's corporate network

operating system, Windows XP, was released in October 2001. MSFT has benefited, in our view, from a recent change in its licensing agreement structure, leading to strong results for Office 2003.

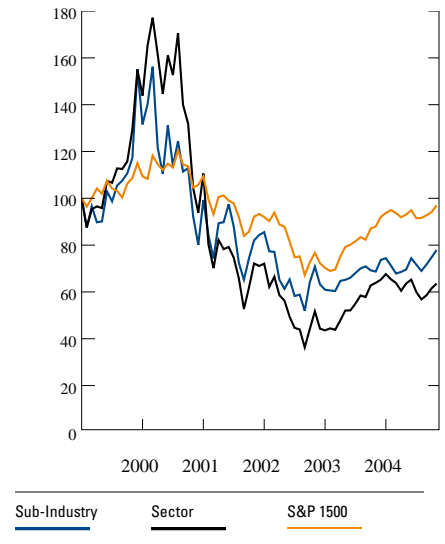
We expect mainframe software to show some improvement, although growth is much slower in this segment than in other software areas. We think that software vendors are using their mainframe expertise to develop and promote products designed to help manage, administer and support large distributed, or client/server, systems.

--Jonathan L. Rudy, CFA

Stock Performance

GICS Sector: Information Technology
Sub-Industry: Systems Software

Based on S&P 1500 Indexes
Month-end Price Performance as of 10/29/04



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Sub-Industry : Systems Software Peer Group*: Security Software

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price	P/E Ratio	12-Mo. Trailing EPS	30-Day Price Chg(%)	1 Year Price Chg(%)	Beta	Yield (%)	Quality Ranking	Ret. on Equity (%)	Pretax Margin (%)	LTD to Cap (%)
Citadel Security Softwr	CDSS	97	3.28	NM	-0.10	22%	24%	NA	Nil	NR	NM	NM	Nil
BindView Development	BVEV	149	3.15	NM	-0.05	-20%	37%	NA	Nil	C	NM	NM	Nil
Check Point Software	CHKP	5,833	23.40	25	0.92	27%	30%	NM	Nil	NR	18.4	69.2	Nil
McAfee, Inc.	MFE	3,955	25.32	19	1.35	17%	73%	NM	Nil	B-	3.6	7.8	16.4
Secure Computing	SCUR	311	8.71	26	0.34	-10%	-43%	NA	Nil	C	18.3	12.2	Nil
Symantec Corp.	SYMC	19,120	60.67	45	1.36	5%	76%	1.64	Nil	B	17.7	29.0	19.5
WatchGuard Technologies	WGRD	135	4.03	NM	-0.22	-14%	-34%	1.80	Nil	NR	NM	NM	Nil
Wave Systems 'A'	WAVX	59	0.83	NM	-0.32	-12%	-68%	1.95	Nil	C	NM	NM	Nil

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

S&P Analyst Research Notes and other Company News

November 2, 2004

NEW YORK (Standard & Poor's)--Nov 1, 2004, Citadel Security Software Inc., announced 3Q EPS \$0.02 vs. loss of \$0.11 and 9 mos. loss per share of \$0.10 vs. loss of \$0.24.

August 9, 2004

NEW YORK (Standard & Poor's)--Aug 5, 2004, Citadel Security Software Inc., announced 2Q loss per share of \$0.07 vs. loss of \$0.06 and 6 mos. loss per share of \$0.13 vs. loss of \$0.13.

May 7, 2004

NEW YORK (Standard & Poor's)--May 6, 2004, Citadel Security Software Inc., announced 1Q loss per share of \$0.06 vs. loss of \$0.07.

February 13, 2004

NEW YORK (Standard & Poor's)--Feb 13, 2004, Citadel Security Software Inc., announced 4Q loss per share of \$0.01 vs. loss of \$0.05 and annual loss per share of \$0.24 vs. loss of \$0.17.

November 14, 2003

NEW YORK (Standard & Poor's)--Nov 13, 2003, Citadel Security Software Inc., announced 3Q loss per share of \$0.11 vs. loss of \$0.04 and 9 mos. loss per share of \$0.24 vs. loss of \$0.24.

August 18, 2003

NEW YORK (Standard & Poor's)--Aug 18, 2003, Citadel Security Software Inc., announced 2Q loss per share of \$0.06 vs. loss of \$0.04 and 6 mos. loss per share of \$0.13 vs. loss of \$0.08.

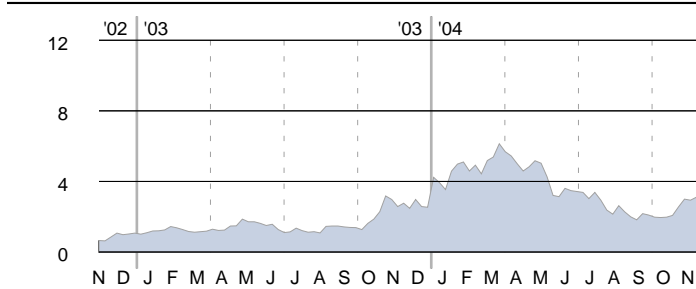
May 16, 2003

NEW YORK (Standard & Poor's)--May 15, 2003, Citadel Security Software Inc., announced 1Q loss per share of \$0.07 vs. loss of \$0.05.

Wall Street Consensus

Analysts' Recommendations

Stock Prices



Analysts' Opinion

	No. of Ratings	% of Total	1 Mo. Prior	3 Mo. Prior
Buy	2	50	2	3
Buy/Hold	1	25	1	1
Hold	1	25	1	1
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	4	100	4	5

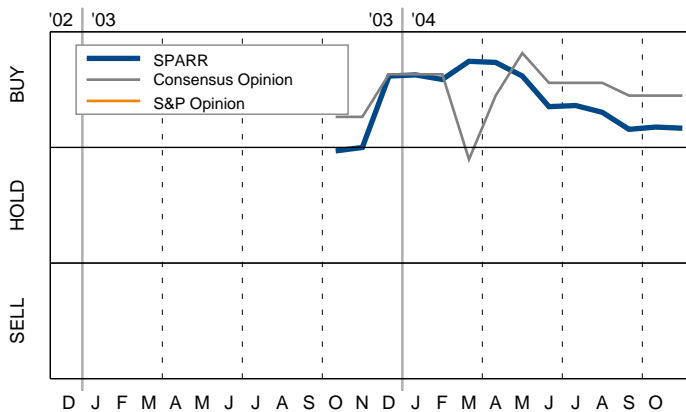
S&P-Adjusted Consensus Opinion: BUY

In order to reduce the bullish tendency of analysts, Standard & Poor's Quantitative Services Group created the S&P Average Relative Ranking, or SPARR. This system assigns a ranking based on a stock's consensus score relative to all issues for which consensus estimates are available.

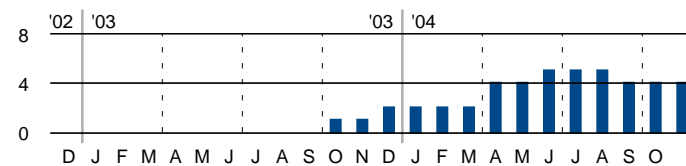
Companies Offering Coverage

Brean Murray Foster Sec Inc Wachovia Securities

Analysts' Opinions

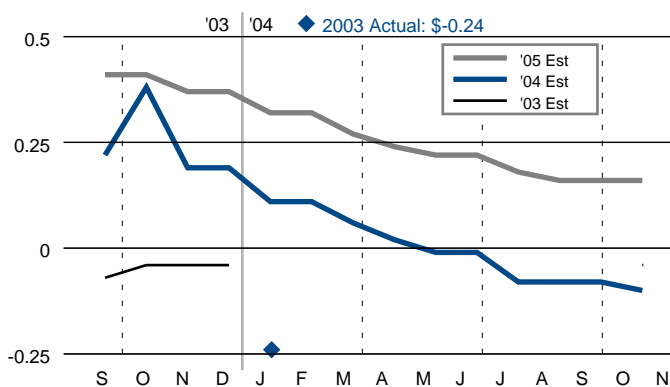


Number of Analysts Following Stock



Analysts' Earnings Estimate

Annual Earnings Per Share



Current Analysts' Consensus Estimates

Fiscal years	Avg.	High	Low	S&P Est.	No. of Est.	Est. P/E Ratio	Est. S&P 500 P/E Ratio
2004	-0.10	-0.07	-0.11	-	5	NM	17.6
2005	0.16	0.20	0.14	-	4	20.5	15.9
4Q'04		0.01	-0.01		5		
4Q'03	-0.01	Actual					

A company's earnings outlook plays a major part in any investment decision. S&P organizes the earnings estimates of over 2,300 Wall Street analysts, and provides you with their consensus earnings over the next two years. The graph to the left shows you how these estimates have trended over the past 15 months.

Glossary

S&P Earnings & Dividend (Quality) Rank – Growth and stability of earnings and dividends are deemed key elements in establishing S&P's earnings and dividend rankings for common stocks, which are designed to capsule the nature of this record in a single symbol. It should be noted that, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Lower
A	High	B-	Below Average
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

S&P Fair Value Rank – Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stock with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

Fair Value Calculation – The current price at which a stock should sell today as calculated by S&P's computers using our quantitative model based on the company's earnings, growth potential, return on equity relative to the S&P 500 and its industry group, price to book ratio history, current yield relative to the S&P 500, and other factors.

Investability Quotient (IQ) – The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long-term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

**Standard & Poor's IQ Rationale:
Citadel Security Softwr**

	Raw Score	Max Value
Proprietary S&P Measures	0	115
Technical Indicators	10	40
Liquidity/Volatility Measures	12	20
Quantitative Measures	2	75
IQ Total	24	250

Volatility – Rates the volatility of the stock's price over the past year.

Technical Evaluation – In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank – Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS) – An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 62 Industries, and 132 Sub-Industries.

Required Disclosures

All of the views expressed in this research report reflect Standard & Poor's Quantitative Services' research models regarding the above issuer and securities. No part of Standard & Poor's Quantitative Services compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

This report was prepared by Standard & Poor's Quantitative Services ("SPQS"). SPQS is affiliated with various entities that may perform non-investment banking services for this company. Each such affiliate operates independently from each other.

Additional information is available upon request.

Disclaimer

This material is based upon information that we consider to be reliable, but neither SPQS nor its affiliates warrant its completeness or accuracy, and it should not be relied upon as such. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.