U.S SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003
OR

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____________ to _____________

Commission File No. 0-24073

DIGITAL FUSION, INC.
(Name of Small Business Issuer in Its Charter)

Delaware	**13-3817344**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4940-A Corporate Drive, Huntsville, Alabama 35807
(Address of principal executive offices, including zip code)

(256) 837-2620

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value per share.

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

Check if there is no 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 in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

Issuer's revenues for its most recent fiscal year: $6,420,000.

The aggregate market value of voting common equity held by non-affiliates of the Registrant based upon the closing sale price of common stock on March 15, 2004 as reported by the OTC Bulletin Board was approximately $2,013,000. Shares of voting stock held by executive officers, board of directors and each person who owns 5% or more of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates. (This determination of affiliate status is not necessarily a conclusive determination for other purposes.)

As of March 15, 2004, 7,167,671 shares of the Registrant’s common stock, $.01 par value per share, were outstanding.

Documents Incorporated by Reference. The information called for by Part III, Items 9-12, is incorporated by reference from the definitive proxy Statement for our 2004 Annual Meeting of Stockholders, which is due within 120 days after year-end.

Cautionary Statement Regarding Forward-Looking Statements

Statements in this Annual Report on Form 10-KSB that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our (as hereinafter defined) expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include: the plans and objectives of the Company for future operations and trends affecting our financial condition and results of operations. All forward-looking statements in this Report are based on information available to the Company as of the date this Report is filed with the Securities and Exchange Commission, and the Company assumes no obligation to update any such forward–looking statements. Factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, those factors listed at "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Which May Affect the Company's Future Performance." The Company undertakes no obligation to release publicly the results of any future revisions it may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. Description of Business

(a) Business Development

Digital Fusion, Inc. (used herein, "Digital Fusion", "DFI", and the "Company", refer to Digital Fusion, Inc.) is an information technology (IT) consulting firm that helps its customers maximize the use of modern technology to access business information, enhance the performance of their human resources, and meet various business needs. The Company's success is based on a total approach that provides the people, processes, and technology needed to translate business needs into sound IT strategies. Services are provided to business organizations and public sector institutions primarily in the Eastern United States.

The Company is incorporated in Delaware with its main administrative office located in Huntsville, Alabama and regional offices in Florida, New Jersey, and Virginia. Digital Fusion's website address is www.digitalfusion.com.

Form and History of Organization

Digital Fusion, Inc. was incorporated in February 1995 in Delaware as Internet Broadcasting Systems, Inc. The company's name was changed to IBS Interactive, Inc. when it went public in May 1998. During October 2001, shareholders approved the corporate name change to Digital Fusion, Inc. Its stock is traded on the OTC Bulletin Board under the symbol of "DIGF".

Acquisitions and Divestitures

In July 2001, Digital Fusion discontinued its network services and installation business unit and sold it to Spectrum Solutions, Inc. ("Spectrum Solutions") for $350,000. Spectrum Solutions assumed certain lease obligations of Digital Fusion related to this network services and installation business unit. Digital Fusion recorded an $188,000 gain related to this sale.

In April 2001 Digital Fusion discontinued its Web hosting and non-dial-up Internet access business unit, and sold this unit to Veraciti, Inc. for $200,000 cash and $60,000 worth of services to complete certain customer projects. In addition, Veraciti assumed certain lease obligations of Digital Fusion related to the Web hosting and non-dial-up business. The Company recorded a $211,000 loss in connection with this sale.

On March 1, 2000, in conjunction with its strategic vision to focus primarily on its IT consulting business line, the Company acquired all of the outstanding stock of digital fusion, inc. in exchange for 975,000 shares of unregistered common stock valued at $13.00 per share, a $500,000 three-year subordinated note accruing 6% interest per annum and the assumption of debt totaling approximately $4.2 million. The value ascribed to the consideration of stock, equity instruments, debt and related costs was $19.1 million resulting in goodwill of $16.4 million. This was accounted for under the purchase accounting method.

(b) Business of Issuer

Description of Services

Digital Fusion's experience and expertise covers a wide range of IT services, with proven past performance and current initiatives in both the commercial and government (local, state, and federal) sectors. It has managed and deployed large-scale, multi-site infrastructure projects involving complex systems integrations and migrations. Our consultants have also designed and developed customized software applications and implemented third-party solutions to fulfill specific client needs. In addition, a number of Digital Fusion consultants work onsite in organizations across the country providing ongoing support and guidance for in-house IT projects. Digital Fusion's main service lines include:

- **Application Development and Data Management** - Following its proven System Development Life Cycle Methodology, Digital Fusion builds customized software solutions including database design and maintenance, business practice automation, Web-enabled client/server applications, and complete project out sourcing. With SPI Dynamics' WebInspect, the Company performs application security audits and the remediation of issues identified.
- **System Integration** - Specializing in Microsoft solutions and Intuit Track-It!, Digital Fusion installs and configures a variety of software packages, including complete system integration with custom front-ends, third-party packages, or other external databases and legacy system migrations.
- **IT Support and Integration,** helping organizations define, develop, and deploy the optimal solution for IT operations, including infrastructure consulting, desktop and help-desk support, network and server management, system migration and integration, and leasehold replacement.

Within these primary service categories, Digital Fusion performs a variety of specific technical services. The following describes some of these in more detail:

Application Development - Digital Fusion has application development experience, from building customized software solutions to implementing and integrating third-party packaged programs, Web based and client/server. It has the technical expertise, business process, and management experience to help orchestrate all the elements of the project and balance customized user demands with the most efficient implementation. In developing applications, Digital Fusion follows a proven application development methodology in which processes and requirements are thoroughly defined and documented to ensure the project stays on track.

Data Management - Digital Fusion has substantial experience working on database analysis, design, integration and administration projects involving a wide range of technologies, including Sybase, Microsoft, Oracle, DB2 and Informix. It has expertise in relational database design, stored procedures, database replication and synchronization, legacy systems migration, data mining, and report generation. Its consultants' expertise and training encompass databases designed and tuned for mainframe, client/server, and distributed/Web platforms, from small databases with a few users to large databases processing many thousands of transactions per day.

IT Infrastructure Support and Integration - Digital Fusion's IT Support expertise includes hardware/software installation and ongoing maintenance, onsite end-user support and training, infrastructure design/analysis and configuration management, and systems and network administration. Its experience includes large-scale projects such as operating system rollouts of more than 100,000 PCs across 30 states and leasehold replacement projects of more than 125,000 computers and peripherals. Digital Fusion maintains multi-year staffing with several companies and manages more than 11 consultants onsite with companies in 5 states across the U.S., including Hawaii. Digital Fusion effectively and efficiently provides and manages consultants across geographically diverse customer sites. It provides dedicated technical managers who work with local offices and corporate headquarters to provide individuals who match the specific technical needs of the unit and the organization's particular corporate culture.

Web Design and Development - Digital Fusion designs, develops, and maintains engaging, interactive, multimedia websites and builds high-performance internet/intranet applications. The Company is a Macromedia Alliance Partner with thorough knowledge and experience in Web technologies such as JavaScript, Java, ASP, DHTML, XML, ColdFusion, Dreamweaver, Flash, and others. Company solutions also include complete content management features for managing information and streamlining communications company wide, along with easy-to-use tools to give non-technical staff full control of website or intranet/extranet content.

Business Process Analysis - The application a customer implements is only as effective as the business processes involved with using it. Digital Fusion's consultants design processes that integrate the capabilities of the software with the conditions of the customer's unique business environment, creating streamlined, highly productive operations. The Company shows customers how to save money by automating processes and implementing efficient solutions. The Company also evaluates the software and service options in today's crowded marketplace and recommends the best match for our customer's business.

Enterprise Integration – Many companies have made significant investments over a long period of time in enterprise resource planning (ERP) systems like order management and financials. As their business changes or grows, those companies often need to add new capabilities to their enterprise to help them manage their growth. However, different software packages, particularly those that have been customized or home-grown, don't often integrate easily and the company is faced with either manually transferring data or scrapping their legacy systems and paying the going price for a new suite of products. Digital Fusion has the experience necessary to seamlessly integrate a company's existing enterprise with new systems, and utilizing current technologies and tools to ensure the final solution meets the company's objectives.

Strategic Plan

During 2003, Digital Fusion devoted substantial resources to further develop U.S. federal government business in order to accelerate its growth and take advantage of the competencies gained in the commercial and government sectors. As a result of this strategy, Digital Fusion is increasing its penetration of the government sector and diversifying its business.

Additionally, Digital Fusion's strategic plan for business development continued to provide IT consulting services that focused on providing the best technical solutions to business problems. In a tight economic climate in which IT spending was dramatically restricted, its strategic position was to place special emphasis on helping customers maximize their current IT systems to create the most cost-effective solutions to immediate business problems and make their technology investments perform more efficiently.

Federal GSA IT Schedule Award

During October 2002, Digital Fusion was awarded a five-year information technology schedule by the U.S. General Services Administration (GSA). This GSA schedule was an intrinsic part of Digital Fusion's strategic plan to further develop its public-sector customer base. A GSA schedule is one of the main procurement vehicles for government agencies. Created by Congress to improve government efficiency, the GSA helps other federal agencies acquire supplies and services such as IT consulting, equipment, telecommunications and office space.

Sales and Marketing

Each service line described above has a specific target market and customer size. Overall, the Company markets its Application Development, Data Management, and System Integration to mid-sized businesses (including mid-size departments of larger enterprises) and public sector institutions. Its suite of services enables its customers to capitalize on the wide variety of critical business and data communication opportunities made possible by the Internet and Internet-related technologies while maximizing their investment in their legacy systems.

Our sales and marketing strategy is driven by its ability to offer solutions specific to each customer's needs, and then to provide additional services to that customer when appropriate. In this way, the Company is able to increase awareness of its comprehensive business and IT consulting services and desktop support and integration. Its marketing efforts are primarily focused on mid-sized businesses and organizations for strategic services, and large-sized organizations for staffing, application development, and desktop support services. A direct sales model is used for marketing and selling services.

Marketing efforts principally involve tradeshows, direct mailings, telesales, involvement in appropriate industry professional organizations, and informal networking in areas within the geographic scope of the network. These efforts are critical to increasing the brand recognition of the name "Digital Fusion," which will make it easier for its sales group to convert the customer interest to closed business.

Digital Fusion also generates sales leads through referrals from customers, consultants, requests for proposals, referrals from other business and IT consulting service businesses, its website and associated links, and industry seminars and trade shows.

In 2003, the Company continued a concentrated effort into strengthening its relationships with existing partners and establishing new strategic partnerships for developing new business. Currently it is a Microsoft Certified Solution Provider, Microsoft Great Plains Certified Business Solutions Provider, and a Macromedia Associate Partner and a SPI Dynamics Value Added Reseller and Remediation Partner. It also has an arrangement with Intuit, that allows their federal government customers to use Digital Fusion's GSA IT schedule to procure Intuit's Track-It! products.

Sales Management and Services Distribution Structure

Digital Fusion's organizational structure adheres to a regional sales management and services distribution model that allows the company to be flexible and responsive to client needs. Management and sales for its Application Development and Data Management, and System Integration service lines operate regionally with directors for Florida, Mid-south, and Northeast, each managing service delivery, consultant resources, and sales for his respective region. This structure gives the Company control at the regional level to manage resources and develop sales strategies tailored to regional market demands. The IT Support and Integration service line has a national client base with programs, consultant resources, and sales managed by the Mid-Atlantic director.

Customers

Digital Fusion's customer base consists primarily of businesses and organizations with system integration, business application development and IT support and integration needs. It intends to expand its customer base in all of its business lines through internal growth to lessen dependence on any one particular customer or group of customers. The GSA award, mentioned above, is an important part of this effort.

Customers during the year ended December 31, 2003 included:

ABN AMRO	Alabama A & M University	Amana
Bank of America	Bentley Systems	Bridgestone/Firestone
College of Health Sciences	Commerce Bancorp	Darden Restaurants
Deutsche Bank	Echelon/Florida Hospital	State of Florida
General Dynamics	Hillsborough County, FL	Intergraph Corporation
Intuit	Jacobs Sverdrup	Kingsway America
Lucent Technologies	M & R Marketing Systems	Managing Foods
Marriott Vacation Club Int'l	National Computer Print	New York University
Nielsen Media Research	Orange County, FL	Progress Energy
Protective Life	Scandinavian Tourist Board	Solutia
State of Tennessee	TIAA/CREF	Time Warner Communications
U.S. Army	Vital Works	Watkins Motor Lines

Dependence on a Few Major Customers

The Company is dependent on a limited number of customers for a substantial portion of its revenues. For the years ended December 31, 2003 and 2002, its largest customer accounted for approximately 28% and 24% respectively, of revenues. The contract with the Company's major customer provides that DFI render services pursuant to purchase orders, each of which constitutes a separate contractual commitment by the customer. Non-renewal or termination of our contract with its major customer or the failure by the customer to issue additional purchase orders under the existing contract would have a materially adverse effect on Digital Fusion. There can be no assurance that the Company will obtain additional contracts for projects similar in scope to those previously obtained, that it will be able to retain existing customers and attract new customers, or that it will not remain largely dependent on a limited customer base accounting for a substantial portion of revenues. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Which May Affect the Company’s Future Performance – A loss of a Significant Customer could Substantially Decrease Revenues.”

Competition

The markets for Digital Fusion’s services are highly competitive, but are specific to each individual service line. With limited barriers to entry the Company believes the competitive landscape will continue to increase both from new entrants to the market as well as from existing players. It continues to face increasing competition from outsourced recruiting companies. In addition, the growing trend in 2003 for companies to ship part of their software programming work overseas, especially to India, has increased competition in the IT services industry.

Traditional professional service firms (e.g. management consultants), traditional IT service providers and advertising firms, have created divisions within their organizations that focus on the business needs of their customers. Many of these service providers, however, do not provide the breadth of services needed to offer comprehensive, integrated business solutions and services. Management consulting firms focus on overall business strategies and the remodeling of business processes for use in an Internet environment. The more traditional IT service providers are focused on systems integration and the development and implementation of enterprise software applications. Advertising agencies and pure Web design shops have focused on the marketing and creative development of services, but typically lack technical capabilities depth and the ability to provide complete, integrated solutions.

Digital Fusion competes with numerous large companies that have substantially greater market presence and financial, technical, marketing and other resources than it has, including

- Large information technology consulting and service providers and application software firms
- International, national, regional, and commercial ISPs that have consulting services divisions
- Computer hardware and software and other technology companies also providing services
- Application service providers
- Staffing companies

Many of the Company’s competitors have expanded their service offerings and increased their focus on e-Business and IT professional services markets, thus increasing the number of organizations that are providing services similar to ours. The Company remains focused on delivering better service than its competitors who also deliver business application development services.

Pricing Competition

In 2003, the Company continued to encounter extensive pricing pressure, which in turn resulted in reductions to the average selling price of its services. There can be no assurance that the Company will be able to offset the effects of any such price reductions through an increase in the number of customers, higher revenue from enhanced services, cost reductions, or other efforts. In addition, the Company believes that consolidation in the business and IT professional services market will continue to result in increased price competition, partly due to a market surplus of software developers, which drives down the consultant bill rate, and the trend toward outsourcing programming work overseas. This may make it difficult for Digital Fusion to gain additional customers and could have a material adverse effect on revenues. There can be no assurance that it will be able to compete successfully. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Which May Affect the Company’s Future Performance – The Company May Not Have The Resources To Compete Effectively With Larger Competitors, Which Could Result In Lost Market Share and Decreased Pricing.”

Employees

At December 31, 2003, Digital Fusion had 53 full-time employees including four executive officers, 40 billable employees, six people dedicated to sales and marketing activities and three administrative personnel. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Which

May Affect the Company's Future Performance – If Digital Fusion is Unable To Retain The Services Of Key Personnel, Business Operations May Be Disrupted."

To maximize the use of its resources and evaluate the skills and knowledge of certain prospective employees, the Company routinely hires temporary personnel to satisfy demand for additional personnel with new projects. It has also implemented an internal skills-tracking application and other support systems.

Geographic area

The majority of our customers are from the United States with less than 1% derived elsewhere. This is also representative of where its revenues are derived. All assets are located in the Eastern part of the United States.

Seasonality

Quarterly operating results are affected by the number of billable days in the quarter, holiday seasons and vacations. Demand for the Company's services has historically been lower during the fourth quarter as a result of holidays and vacations.

Item 2. Description of Property

Digital Fusion serves its customers through its corporate headquarters, located in Huntsville, Alabama, and regional offices located in Florida, New Jersey, and Virginia. In April 2003, the Company moved its corporate headquarters to Huntsville, Alabama and closed its Tampa, Florida office location.

At December 31, 2003, the Company did not own any real property and conducted its operations at the following leased premises:

Location	Description of Facility	Approximate Square Footage	Approximate Annual Leased Cost	Lease Term
4940-A Corporate Drive Huntsville, AL 35805	Corporate headquarters, administration, sales, customer support, and programming services	3,256	$37,000	1/1/02 - 12/31/04
3 South Broad Street Suite 2D Woodbury, NJ 08096	Sales, customer support, and programming services	1,390	$7,550	9/1/03 - 8/31/06
3430 Sunset Ave. Suite 20 Ocean, NJ 07712	Sales, customer support, and programming services	300	$3,780	Month-to-Month
5824 South Semoran Blvd. Orlando, FL 32822	Sales, customer support and programming services	1,800	$28,700	2/29/04 – 2/28/06
8965 Center Street Manassas, VA 20110	Sales, customer support and programming services	800	$8,900	4/1/02 – 3/31/05

The Company believes that all of its leased premises are in generally good condition, well maintained, and adequate for current operations.

Item 3. Legal Proceedings

The Company is involved in certain legal actions arising in the ordinary course of business. The Company is defending these proceedings. While it is not feasible to predict or determine the outcome of these matters, the Company does not anticipate that any of these matters or these matters in the aggregate will have a material adverse effect on the Company's business or its consolidated financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended December 31, 2003.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Digital Fusion’s common stock was traded on The NASDAQ Small Cap Market under the symbol “DIGF” from May 15, 1998 to May 8, 2003. Prior to May 15, 1998 there was no established market for its common stock.

Effective May 9, 2003, the Company was de-listed by The NASDAQ Small Cap Market, and is currently being traded on the OTC Bulletin Board under the symbol “DIGF.” The following table indicates high and low sales quotations for the periods indicated. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

2003	High	Low
First Quarter	$0.46	$0.19
Second Quarter	$0.45	$0.15
Third Quarter	$0.44	$0.30
Fourth Quarter	$0.45	$0.22

2002	High	Low
First Quarter	$1.19	$0.40
Second Quarter	$1.40	$1.00
Third Quarter	$1.09	$0.68
Fourth Quarter	$0.80	$0.37

The number of holders of record of common stock on March 15, 2004 was 118.

There were no dividends or other distributions made by the Company during the fiscal year ended December 31, 2003 with respect to its common stock. The Company currently intends to retain any earnings to provide for the operation and expansion of its business and does not anticipate paying any cash dividends to the holders of its common stock in the foreseeable future.

Sales of Unregistered Stock

Sales of unregistered stock during the preceding three-year period (other than sales of unregistered stock issued during the fourth quarter 2003) have been previously reported on Forms 10-KSB and 10-QSB and are incorporated into this 10-KSB by reference.

As part of its 1999 acquisition of Florence Business Net, on December 27, 2002 the Company issued 3,235 shares of common stock that had been held in reserve for Florence Business Net, pursuant to the terms of the related acquisition agreement. Because this issuance did not involve any public offering, it was exempt from registration under Section 4(2) of the Securities Act of 1933.

On January 8, 2003, its registration statement on From S-3, as amended (file number 333-100052), relating to the Company's convertible note issued to its primary lender was declared effective by the SEC. The Company registered 951,153 shares of common stock for issuance upon conversion of a convertible note. At the note holder's election, this note is convertible into shares of common stock at $0.922 a share after the Company common stock price is at or above $1.15 a share for ten consecutive days. The Company registered 75,000 shares for issuance upon exercise of a common stock purchase warrant. The warrant is exercisable for a five-year period commencing on July 26, 2002 at a price of $1.15 per share.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read together with the consolidated financial statements and notes to such statements appearing elsewhere herein.

OVERVIEW

Digital Fusion, Inc. is an information technology (IT) consulting firm that helps its customers maximize the use of modern technology to access business information, enhance the performance of their human resources, and meet various business needs. The Company's success is based on a total approach that provides the people, processes, and technology needed to translate business needs into sound IT strategies. Services are provided to business organizations and public sector institutions primarily in the Eastern United States. The Company is incorporated in Delaware with its main administrative office located in Huntsville, Alabama and regional offices in Florida, New Jersey, and Virginia.

Revenues are derived primarily from fees earned in connection with the performance of services provided to customers. The Company typically invoices on a time and materials basis. The majority of costs are associated with personnel. Attracting and retaining billable employees is vital for the Company to move forward. Quarterly operating results are affected by the number of billable days in the quarter, holiday seasons, and vacations. During the second quarter of 2003, the Company began reselling the Intuit product Track-It!. All 2003 Track-It! product sales were to governmental entities where margins are lower.

During the past year, the Company has continued its strategic vision to focus on being an IT consulting services company, to concentrate on its profitable business units, and to further develop its public-sector customer base. In furtherance of this goal, the Company continued to stream-line the costs of its ongoing business units, closed unprofitable offices, and sold or shut down business units that did not fit its strategic vision of being an IT consulting services company.

The Company moved its corporate headquarters from Tampa, Florida to Huntsville, Alabama in April, 2003 and the Tampa office was closed at that time. The Huntsville location controls the Company's largest federal customer base and this move has helped increase the Company's penetration of the federal market. Due to the relocation of corporate headquarters, the Company's Chief Financial Officer resigned effective June 30, 2003, and remained available for assistance during the subsequent transition period.

During the fourth quarter of 2002, the Company recorded an impairment of goodwill of $1.2 million that was associated with prior years' acquisitions. No impairment was recorded for 2003. The value of the remaining $3.3 million of goodwill on the balance sheet as of December 31, 2002 and 2003 was determined by the quoted market price of Digital Fusion stock at year-end. During the first quarter 2002, the Company adopted SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets”. Under these new standards, goodwill is subject to a periodic impairment test of fair value and is no longer amortized over its useful life.

As a result of significant restructuring in 2001 and 2002, the Company accumulated unpaid liabilities not associated with current operations in excess of $3.9 million (“Legacy Liabilities”). These creditor liabilities included terminated equipment leases, property leases and telecommunication contracts as well as certain professional fees. Through productive negotiations with the creditors, these liabilities were settled and paid.

The Company has incurred losses of $395,000 and $403,000 in 2003 and 2002, respectively, and cash flow deficiencies from operations of $107,000 and $1,026,000 in 2003 and 2002, respectively. During the last quarter and latter half of 2003 the Company became cash flow positive from operating activities by $243,000 and $230,000 respectively compared to a cash flow negative of $339,000 for the first half of 2003. To accomplish this, the company focused on growing sales while reducing costs. The Tampa office was closed in April 2003 and the corporate headquarters was moved from Tampa, Florida to Huntsville, Alabama to take advantage of federal market prospects.

On April 7, 2004, the Company restructured its outstanding note with its primary lender to suspend monthly payments until February 2005. The note bears an interest rate of 10% with monthly payments due on the first day of each month of $50,000 plus interest commencing on February 1, 2005 until the maturity date of January 1, 2006. In addition, the Company will pay an amendment fee of $25,000 to the note-holder which will be amortized to interest expense over the life of the loan. In relation to the first note, the note-holder will have the right to convert the principal portion of the note and/or interest due and payable into fully paid and non-assessable shares of common stock of the Company at the fixed conversion price of $0.922. In relation to the second note, the note-holder will have the right to convert the principal and/or interest due and payable into fully paid and non-assessable shares of common stock of the Company at the fixed conversion price of $0.35.

The Company believes it has taken the necessary steps to remain cash flow positive from continuing operations. It will continue to focus on consistent collections of accounts receivable and continued improvements in the operational performance of ongoing business. Company management believes that, as a result of these actions and assuming it can grow its client base in the private and federal sectors, it currently has sufficient cash to meet its funding requirements over the next year, although the Company has experienced negative cash flows from operations and incurred large net losses in the past.

RESULTS OF OPERATIONS

Revenues.

Consulting revenues decreased $3.4 million or 36%, from $9.5 million for the year ended December 31, 2002, to $6.1 million for the year ended December 31, 2003. The decrease is due to the sluggishness of the IT consulting market over the past year. Revenue from the Company’s largest consulting customer was responsible for 28% of revenue in 2003 as compared to 24% in 2002.

During the second quarter of 2003, the Company began reselling the Track-It! software from Intuit. Total sales for the year-ending December 31, 2003 were $345,000.

Cost of Services.

Cost of services and goods sold consists primarily of salaries and expenses of programming and technical personnel, expenses related to applications sold to customers, and fees paid to outside consultants engaged for customer projects. Consulting cost of services decreased by $2.7 million or 37% from $7.3 million for 2002 to $4.6 million for 2003. The decrease is mainly due to the reduction of consulting services personnel as revenues decreased.

The product cost of goods sold of $325,000 is related to the reselling of the Intuit product Track-It! that began during the second quarter of 2003. It represents the cost to Digital Fusion to buy the product from Intuit.

Gross Profit.

Services gross profit is $1.5 million or 24.6% of revenues in 2003 compared to $2.2 million or 23% of service revenues in 2002. The increase in services gross profit as a percent of revenues is due to the improved utilization rates of billable consultants during the third and fourth quarters of 2003.

During the second quarter of 2003, the Company began reselling the Intuit product Track-It! to governmental organizations. Gross profit for product sales in 2003 is 5.8%. The low profit margin on product sales is attributable to the low mark-up required on sales to governmental entities.

Selling, General and Administrative.

Selling, general and administrative (SG&A) expenses consist primarily of salaries of accounting, finance, sales, and administrative personnel, expenses associated with marketing literature, advertising, and direct mailings, and professional fees and costs associated with the administration of the Company. SG&A expenses decreased by $1.4 million, or 45% from $3.1 million in 2002 to $1.7 million in 2003. The decrease is primarily due to the reduction in payroll and facilities costs related to business units that were closed, the final depreciation of certain fixed assets, and the adjustment of certain liabilities relating to bad debt expense, payroll, and former liability issues.

Amortization of Intangible Assets.

The Company implemented SFAS 142 on January 1, 2002 and in accordance with SFAS 142, discontinued the amortization of goodwill as of January 1, 2002.

Impairment of Goodwill.

During the fourth quarter of 2002, the Company recorded an impairment of goodwill of $1.2 million that was associated with prior years' acquisitions. No impairment was recorded for 2003. The value of the remaining $3.3 million of goodwill on the balance sheet as of December 31, 2002 and 2003 was determined by the quoted market price of Digital Fusion stock at year-end. The Company will continue to review the goodwill balance during 2004 to determine if any further adjustments are needed.

Severance and Restructuring.

During 2002, the Company reduced its severance and restructuring liability by $271,000 based upon its current estimates of remaining liabilities associated with the 2001 restructuring.

No adjustments were made during 2003 to the severance and restructuring accrual.

Gain on Forgiveness of Debt.

During 2002, the Company reached settlement agreements on certain debts associated with offices that were closed, business units that were sold, and services not used, which resulted in forgiveness of debt of $1.6 million.

No forgiveness of debt occurred in 2003.

Interest Expense.

Interest expense consists primarily of interest payments and accruals on indebtedness in connection with the acquisition of digital fusion, inc (a Florida corporation). On July 26, 2002, the Company completed an $800,000 secured convertible debt financing which was refinanced in April 2003. Interest expense was $197,000 and $154,000, respectively for the years ended 2003 and 2002.

Interest Income.

Interest income decreased from $12,000 in 2002 to $2,000 in 2003 due to a decrease in the Company's cash position in 2003 relative to 2002.

Other Income (expense), Net.

During 2002, at the request of PowerCerv Corporation, Inc. (PowerCerv), the Company remitted early debt payments of $188,000 owed on the promissory note issued to PowerCerv. In return, the Company received a discount of $42,000. The remaining debt outstanding at year-end 2002 was $135,000.

During 2003, only interest payments were remitted to PowerCerv and the final interest was added to the principal at year-end. The remaining debt outstanding at year-end 2003 was $135,000.

On January 15, 2004, the note to PowerCerv was paid by Digital Fusion's President and CEO, Roy E. Crippen, III, tendering to PowerCerv $110,000 in cash and 25,000 shares of PowerCerv preferred stock. In consideration therefore, Digital Fusion issued a note to Mr. Crippen in the amount of $136,580.32 (representing the amount of principal and interest on the PowerCerv note at the time of its retirement). The note bears an interest rate of prime plus 6% and is payable at $600 per month plus interest for the first twelve months, $4,400 per month plus interest for the next eleven months, and a balloon payment of approximately $81,000~~$80,980.32~~ plus interest on January 15, 2006. Subject to a subordination agreement with Digital Fusion's primary lender, the note is secured by a security interest in property currently owned or later acquired by the Debtor (Digital Fusion) to secure the prompt payment and performance of all liabilities, obligations, and indebtedness of the Debtor under the note.

Income Tax Provision.

The Company has not recognized an income tax benefit for its operating losses generated during 2002 and 2003 based on uncertainties concerning its ability to generate taxable income in future periods. The tax benefit for 2003 and 2002 is offset by a valuation allowance established against deferred tax assets arising from operating losses and other temporary differences, the realization of which could not be considered more likely than not. In future periods, tax benefits and related deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not.

Net loss.

The Company has incurred net losses of $395,000 for 2003 and $403,000 for 2002. The Company adopted FASB 142 effective January 1, 2002, which requires the Company to discontinue amortizing its goodwill. Thus, no goodwill amortization was recorded during 2003 or 2002. The reduction of net loss from 2002 to 2003 includes recording in 2002 an impairment of goodwill charge of $1.2 million, a gain on forgiveness of debt of $1.6 million, and a gain on the reduction of severance and restructuring accrual of $271,000. Excluding these items, the net loss for 2002 would have been $1.1 million.

Liquidity and Capital Resources.

Net cash used in operating activities decreased from $1,026,000 in 2002 to $107,000 in 2003. This decrease in cash used in operations is mainly due to the non-cash gains of approximately $650,000 that reduced the net loss for 2002 and better collections of accounts receivable in 2003 compared to 2002.

Net cash used in investing activities was $23,000 in 2002 and $4,000 in 2003. This was primarily for the purchase of telephone, computer, and office equipment for the Huntsville location. The Company does not anticipate having significant equipment purchases during 2003. However, to support substantial growth going forward, investments in certain equipment will be required.

In April 2003, financing activities provided $256,000 of cash to the Company through a secured note from its primary lender. This was offset by note repayments of $379,000. During 2002, financing activities provided $717,000 of cash through a secured note from the Company's primary lender. This was offset by note repayments of $365,000.

On April 7, 2004, the Company restructured its outstanding note with its primary lender to suspend payments until February 2005 with the total principal to be repaid by January 2006. Going forward, Digital Fusion's ability to grow substantially may be dependent upon obtaining cash flow from this or other external sources.

Working capital at December 31, 2003 is $470,000. During the last quarter and latter half of 2003 the Company was cash flow positive from operating activities by $243,000 and $230,000 respectively compared to a cash flow negative of $339,000 for the first half of 2003. To accomplish this, the company focused on growing sales while reducing costs and consistent collection of accounts receivable. Total accounts receivable decreased $370,000 during the latter half of 2003 with $72,000 due to fewer billable days because of holidays and vacations, and the remainder of $298,000 due to improved collections. Trade accounts payable increased $124,000 due to longer payment terms for a specific vendor.

Also, the Tampa office was closed in April 2003 and the corporate headquarters was moved from Tampa, Florida to Huntsville, Alabama to take advantage of federal market prospects and to eliminate costs associated with that facility. With these actions, the Company believes it has taken the necessary steps to remain cash flow positive from continuing operations. It will continue to focus on consistent collections of accounts receivable and continued improvements in the operational performance of ongoing business lines.

Digital Fusion's management believes if the Company meets its plan it will have sufficient cash flow to meet its funding requirements over the next year. If the Company fails to meet its goals, seeks to expand operations, or does not collect accounts receivable in a timely manner, it may require an infusion of working capital of which availability and terms can not be predicted.

Fluctuations in Operating Results.

The Company's operating results may fluctuate significantly from period to period as a result of the length of its sales cycles, customer budgeting cycles, the introduction of new products and services by competitors, the timing of expenditures, pricing changes in the industry, technical difficulties, and general economic conditions. The nature of the Company's business generally requires making expenditures and using significant resources prior to receipt of corresponding revenues. Operating results can also fluctuate based upon the number of billable days in a reporting period and the fourth quarter results are normally lower due to the holiday season and vacation time.

The IT industry is somewhat dependent upon the economy. Certain customers (including the Company's largest customer) have put projects on hold due to economic downturns and may terminate their contracts, which could have a material impact on Digital Fusion.

Inflation.

Inflation has not had a significant impact on the Company's results of operations.

Certain Factors Which May Affect the Company's Future Performance

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission has indicated that a "critical accounting policy" is one which is both important to the portrayal of a company's financial condition and results and requires management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company believes that the following accounting policies fit this definition:

Allowance for doubtful accounts.

Certain of the Company's trade accounts receivable are subject to bad debt losses. A reserve has been recorded to reflect expected bad debt losses based on past experience with similar accounts receivable. The reserve is reviewed on a regular basis and adjusted as necessary. Although management believes the reserve is a reasonable approximation, there can be no assurance that the Company can accurately estimate bad debt losses on its accounts receivable.

Valuation of Goodwill.

The Company's goodwill is reviewed annually for impairment or more frequently if impairment indicators arise. The annual impairment test is performed in the first quarter of each fiscal year. The goodwill impairment test requires a comparison of the fair value of the Company to the amount of goodwill recorded. If the comparison reflects impairment, then the loss is calculated as the excess of recorded goodwill over its implied fair value. Although management believes valuation is a reasonable approximation, actual results could differ from those projected.

DIGITAL FUSION HAS A LIMITED OPERATING HISTORY, WHICH MAKES IT DIFFICULT TO EVALUATE ITS BUSINESS.

The Company has been in operation since 1995 and many of its services have only been offered since 1997 or later. In 1999 and 2000, the Company acquired multiple companies. In 2000 and 2001, it sold off multiple divisions and underwent significant restructurings. In 2001, there was a significant change in management. As a result of the change in management and business units, prior operating history may not be representative of current operations, which makes it difficult to evaluate the Company and forecast future results.

THE COMPANY HAS EXPERIENCED SIGNIFICANT PRIOR OPERATING LOSSES. IF IT DOES NOT GENERATE SUFFICIENT CASH FLOW FROM OPERATIONS OR IS UNABLE TO RAISE CAPITAL IN SUFFICIENT AMOUNTS, IT MAY BE UNABLE TO CONTINUE TO OPERATE.

Digital Fusion has experienced significant losses in its operations. It may continue to incur losses for the foreseeable future. For the year ended December 31, 2002 and 2003 losses from continuing operations were $403,000, and $395,000 respectively. Its expenses may increase as it seeks to grow its business and as business grows. Even if the Company becomes profitable, it may be unable to sustain profitability. It may not generate sufficient cash flow from operations or be able to raise capital in sufficient amounts to enable it to continue to operate. An inability to sustain profitability may also result in an impairment loss in the value of long-lived assets, such as goodwill, property and equipment, and other tangible and intangible assets. If it is unable to generate sufficient cash flow from operations or raise capital in sufficient amounts, the Company may be unable to continue as a going concern.

A LOSS OF A SIGNIFICANT CUSTOMER COULD SUBSTANTIALLY DECREASE REVENUES.

The Company's largest customer accounted for 28% of its revenue at December 31, 2003. The contract with this customer was renewed on December 31, 2003 to extend for three years through December 31, 2006. Expected revenue from this account is $1.1 million over the life of the contract which is consistent with prior contracts with this customer. However, a termination by a major customer could substantially decrease revenues.

IF REVENUES DO NOT MEET FORECASTED REVENUE, IT MAY HAVE AN ADVERSE EFFECT ON THE COMPANY'S FINANCIAL CONDITION, AND COULD CAUSE MATERIAL LOSSES.

A large portion of the revenues derived from the consulting business is generally non-recurring in nature. There can be no assurance that Digital Fusion will obtain additional contracts for projects similar in scope to those previously obtained from any of its customers, that it will be able to retain existing customers or attract new customers, or that it will not remain largely dependent on a limited customer base, which may continue to account for a substantial portion of revenues. In addition, the Company is generally subject to delays in customer funding, lengthy customer review processes for awarding contracts, non-renewal, delay, termination, reduction or modification of contracts in the event of changes in customer policies or as a result of budgetary constraints, and increased or unexpected costs resulting in losses in the event of "fixed-price" contracts.

The Company may increase its operating expenses to increase the number of its sales, marketing and technical personnel to sell, provide and support its products and services. It may not be able to adjust spending quickly enough to offset any unexpected revenue shortfall. It may have significant accounts receivable balances with customers that expose it to credit risks if such customers are unable to settle such obligations. If there is an unexpected shortfall in revenues in relation to expenses, or significant bad debt expense, there could be a material adverse effect on the Company's financial condition, and it could suffer material losses.

IF DIGITAL FUSION FAILS TO ADEQUATELY KEEP UP WITH THE RAPIDLY CHANGING, EVOLVING INFORMATION TECHNOLOGY MARKET, IT MAY NOT BE ABLE TO ATTAIN PROFITABILITY.

The markets for some of the Company's services are rapidly changing and evolving, and therefore the ultimate level of demand for its services is subject to a high degree of uncertainty. Any significant decline in demand for programming and applications development and IT support and integration consulting services could materially adversely affect its business and prospects and it may not be able to attain profitability.

The Company's success is dependent on its ability to continually attract and retain new customers as well as to replace customers that do not renew their contracts. Achieving significant market acceptance will require substantial efforts and expenditures to create awareness of its services.

THE COMPANY MAY NOT HAVE THE RESOURCES TO COMPETE EFFECTIVELY WITH LARGER COMPETITORS, WHICH COULD RESULT IN LOST MARKET SHARE AND DECREASED PRICING.

Competition for the Internet and IT consulting services that Digital Fusion provides is significant, and the Company expects that competition will continue to intensify due to the ease of entering that market. It may not have the financial resources, technical expertise, sales and marketing, or support capabilities to successfully meet this competition. If it is unable to compete successfully against such competitors, it will lose its market share. It competes against numerous large companies that have substantially greater market presence, longer operating histories, more significant customer bases, and greater financial, technical, facilities, marketing, capital and other resources.

The Company's competitors may respond more quickly than it can to new or emerging technologies and changes in customer requirements. The competitors may also devote greater resources to the development, promotion, and sale of their products and services. They may develop Internet products and services that are superior to or have greater market acceptance than Digital Fusion's. Competitors may also engage in more extensive research and development, undertake more extensive marketing campaigns, adopt more aggressive pricing policies, and make more attractive offers to existing and potential employees and strategic partners.

New competitors, including large computer software, professional services, and other technology and telecommunications companies, may enter the Company's markets and rapidly acquire significant market share. As a result of increased competition and vertical and horizontal integration in the industry, Digital Fusion could encounter significant pricing pressures. These pricing pressures could result in significantly lower average selling prices for its products and services. It may not be able to offset the effects of any price reductions with an increase in the number of customers, higher revenue from consulting services, cost reductions or otherwise. In addition, professional services businesses are likely to encounter consolidation in the near future, which could result in decreased pricing and other competition.

IF THE COMPANY IS UNABLE TO MAINTAIN EFFICIENT AND UNINTERRUPTED OPERATION OF ITS COMPUTER SYSTEMS, IT COULD CAUSE THE LOSS OF CERTAIN CUSTOMERS.

Some of the Company's business depends on the efficient and uninterrupted operation of its computer and communications hardware systems and infrastructure. Currently, most of its computer systems are located and maintained in its corporate headquarters in Huntsville, Alabama. While precautions have been taken against systems failure, interruptions could result from natural disasters as well as power loss, telecommunications failure and similar events. A disaster recovery plan is being implemented to avoid any major interruptions. The Company also leases telecommunications lines from local and regional carriers, whose service may be interrupted. Any damage or failure that interrupts or delays network operations could result in an unacceptable level of service to customers and their possible loss.

IF THE COMPANY IS UNABLE TO MAINTAIN THE SECURITY INTEGRITY OF ITS SYSTEMS, IT MAY RESULT IN A LIABILITY TO THE COMPANY OR A LOSS OF CUSTOMERS.

Although measures have been taken to protect the integrity of the Company's infrastructure and the privacy of confidential information, it is potentially vulnerable to physical or electronic intrusions, computer viruses, or similar issues. If the security measures are circumvented the security of confidential information stored on the system could be jeopardized, proprietary information misappropriated, or operations interrupted. The Company may be required to make significant additional investments and efforts to protect against or remedy security breaches. Security breaches that result in access to confidential information could damage its reputation and expose it to a risk of loss or liability.

The security services that are offered in connection with customers' use of the networks cannot guarantee complete protection from computer viruses, break-ins and other disruptive problems. Although an attempt is made to limit contractually the liability in such instances, the occurrence of these problems may result in claims against the Company or liability on its part. These claims, regardless of their ultimate outcome, could result in costly litigation and could have a material adverse effect on its financial position and reputation and on its ability to attract and retain customers.

IF DIGITAL FUSION IS UNABLE TO RETAIN THE SERVICES OF KEY PERSONNEL, BUSINESS OPERATIONS MAY BE DISRUPTED.

The loss of existing personnel or the failure to recruit additional qualified technical, managerial and sales personnel could disrupt business operations as well as increase the expenses in connection with hiring replacement personnel. The Company depends on the performance of its executive officers and key employees, some of whom have not entered into employment agreements. The loss of these executives or key employees could disrupt business operations.

THE COMPANY MAY NEED ADDITIONAL CAPITAL AND NOT BE ABLE TO ATTAIN IT, WHICH COULD AFFECT ITS ABILITY TO CONTINUE AS A GOING CONCERN.

Future capital uses and requirements will depend on numerous factors, including:

- The extent to which solutions and services gain market acceptance.
- The level of revenues from present and future solutions and services.
- The expansion of operations.
- The costs and timing of product and service developments, and sales and marketing activities.
- Costs related to acquisitions of technology or businesses.
- Competitive developments.
- Costs related to downsizing and discontinuation or sale of business units.
- Need for working capital.
- Timing of accounts receivable collections.
- Timing of debt payments.

In order to continue to increase sales and marketing efforts and continue to expand and enhance the solutions and services offered to present and future customers, the Company may require additional capital that may not be available on acceptable terms, or at all. In addition, if unforeseen difficulties arise in the course of these or other aspects of business, it may be required to spend funds that are greater than originally anticipated. Therefore, it will be required to raise additional capital through public or private equity or debt financings, collaborative relationships, bank facilities or other arrangements. There can be no assurances that such additional capital will be available on acceptable terms, or at all. Any additional equity financing is expected to be dilutive to stockholders, and debt financing, if available, may involve restrictive covenants and increased interest costs. Operations have been financed to date primarily through private sales of equity securities, proceeds from the initial public offering in May 1998, and debt facilities.

There can be no assurance that additional funding will be available to finance ongoing operations when needed or that adequate funds for operations, whether from financial markets, collaborative or other arrangements with corporate partners, or other sources, will be available when needed, or on acceptable terms. The inability to obtain sufficient funds may require the Company to delay, reduce, or eliminate some or all of its expansion programs, to limit the marketing of its products, or to license to third parties the rights to commercialize products or technologies that it would otherwise seek to develop and market.

THE UNPREDICTABILITY OF QUARTERLY OPERATING RESULTS MAY CAUSE THE PRICE OF DIGITAL FUSION'S COMMON STOCK TO FLUCTUATE.

Revenues and operating results vary significantly from quarter-to-quarter due to a number of factors, many of which are beyond the Company's control. Investors should not rely on quarter-to-quarter comparisons of results of operations as an indication of future performance. It is possible that in some future periods, results of operations may be below the expectations of public market analysts and investors. In that event, the market price of its common stock may fall.

Factors that could cause quarterly results to fluctuate include:

- Change in customer demand for products and services.
- Timing of the expansion of operations.
- Seasonality in revenues, principally during the summer and year-end holidays.
- The mix of products and services revenues from operating divisions.
- Changes in pricing by competitors or the Company.
- Introduction of new products or services by competitors or the Company.
- Costs related to acquisitions of technology or businesses.
- Recession or slow-down in economy.
- Termination of customer contracts.

THE COMPANY HAS LIMITED INTELLECTUAL PROPERTY PROTECTION AND MAY NOT BE ABLE TO SUCCESSFULLY PROTECT PROPRIETARY INFORMATION, WHICH COULD RESULT IN LOST SALES AND LOST COMPETITIVE ADVANTAGE.

The Company relies on a combination of copyright and trademark laws, trade secrets laws, and license and nondisclosure agreements to protect its proprietary information, particularly the computer software applications that it has developed. It currently has no registered copyrights or patents or patent applications pending. It may be possible for unauthorized third parties to copy aspects of, or otherwise obtain and use, proprietary information without authorization. The majority of current contracts with customers contain provisions granting to the customer intellectual property rights to certain of the Company's work product, including the customized programming that is created for such customer. It is anticipated that contracts with future customers will contain similar provisions. Other existing agreements and future agreements may be silent as to the ownership of such rights. To the extent that the ownership of such intellectual property rights is expressly granted to a customer or is ambiguous, the ability to reuse or resell such rights may be limited.

The Company's policy is to execute confidentiality agreements with its employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally require that all confidential information developed or made known to the individual by it during the course of the individual's relationship with the Company be kept confidential and not disclosed to third parties. These agreements also generally provide that inventions conceived by the individual in the course of rendering services to Digital Fusion shall be the Company's exclusive property. There can be no assurance that such agreements will not be breached, that there would be adequate remedies for any breach or that trade secrets will not otherwise become known to or be independently developed by competitors which may result in lost sales and lost competitive advantage.

IF THE COMPANY FAILS TO PERFORM TO CUSTOMERS' EXPECTATIONS IT COULD RESULT IN CLAIMS AGAINST IT WHICH COULD REDUCE ITS EARNINGS.

Digital Fusion's services involve development, implementation and maintenance of computer systems and computer software that are critical to the operations of its customers' businesses. Failure or inability to meet a customer's expectations in the performance of its services could harm its business reputation or result in a claim for substantial damages, regardless of its responsibility for such failure or inability. In addition, in the course of performing services, company personnel often gain access to technologies and content that includes confidential or proprietary customer information. Although policies have been implemented to prevent such customer information from being disclosed to unauthorized parties or used inappropriately, any such unauthorized disclosure or use could result in a claim for substantial damages. The Company attempts to limit contractually any damages that could arise from negligent acts, errors, mistakes, or omissions in rendering services and, although general liability insurance coverage is maintained, including coverage for errors and omissions, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims. The successful assertion of one or more large claims against the Company that are uninsured, exceed available insurance coverage, or result in changes to corporate insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirements, would reduce earnings.

DIGITAL FUSION MAY BECOME SUBJECT TO LEGAL CLAIMS RELATING TO THE CONTENT IN THE WEB SITES IT BUILDS OR HOSTS, WHICH COULD ADVERSELY AFFECT ITS FINANCIAL POSITION.

There are an increasing number of laws and regulations pertaining to the Internet. These laws and regulations relate to liability for information received from or transmitted over the Internet, online content regulation, user privacy, taxation, and quality of products and services. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. The Company cannot predict the impact, if any, that future regulation or regulatory changes may have on its business. Laws relating to the liability of online service providers, private network operators, and Internet service providers for information carried on or disseminated through their networks are currently unsettled. Digital Fusion may become subject to legal claims relating to the content in the web sites it hosts or in email messages that it transmits. If it has to take costly measures to reduce its exposure to these risks, or is required to defend itself against such claims, its financial position may be materially adversely affected.

LARGE QUANTITIES OF COMMON STOCK SALES BY COMPANY SHAREHOLDERS COULD CAUSE ITS COMMON STOCK PRICE TO DECREASE DUE TO THE LACK OF A LIQUID MARKET FOR ITS COMMON STOCK.

The market price of the Company's common stock could decline as a result of sales of a large number of shares of its common stock in the market or the perception that these sales may occur. These sales also might make it more difficult for it to sell equity securities in the future at a time and at a price that it deems appropriate.

The Company has holders of options and warrants that if exercised, could also have an adverse effect on the market price of its common stock.

ANTI-TAKEOVER PROVISIONS.

Provisions of Digital Fusion's Restated Certificate of Incorporation, its Amended and Restated By-laws, and Delaware law, could make it difficult for a third party to acquire it, even if doing so would be beneficial to its stockholders.

Item 7. Financial Statements

Financial Statements are attached hereto at page F-1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with the Company's accountants on accounting and financial disclosures during 2002 or 2003.

Item 8A. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that material information related to us is recorded, processed, summarized and reported in accordance with SEC rules and forms. Our management, with the supervision of the Chief Executive officer, Roy E. Crippen, III, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, Mr. Crippen has concluded that our disclosure controls and procedures are effective in causing material information to be recorded, processed, summarized and reported so as to ensure the quality and timeliness of our public disclosures in compliance with SEC rules and forms.

There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Code of Ethics

The Company has a code of ethics that applies to all of the Company's principal executive, financial and accounting officers, controller and others performing similar functions. A copy of this code is filed as an exhibit to this annual report on Form 10-KSB.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The response to this item will be contained in the Proxy Statement for the 2004 Annual Meeting of Stockholders (the "2004 Proxy Statement") and is incorporated by reference.

Item 10. Executive Compensation

The response to this item will be contained in the 2004 Proxy Statement and is incorporated by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The response to this item will be contained in the 2004 Proxy Statement and is incorporated by reference

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Item 12. Certain Relationships and Related Transactions

The response to this item will be contained in the 2004 Proxy Statement and is incorporated by reference.

Item 13. Exhibits List and Reports on Form 8-K

(a) *Exhibits*

The following is a list of Exhibits filed as a part of this Report.

Exhibit No.	Description
*2.1	Securities Purchase Agreement, dated July 26, 2002, between the Company and Laurus Master Fund, Ltd., filed as exhibit 10.30 to the Company's Form 10-QSB for the period ended June 30, 2002, and incorporated herein by reference.
*3.1	Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to our Registration Statement on Form SB-2, File No. 333-47741, filed on April 23, 1998 (the "Registration Statement")).
*3.2	Amended and Restated By-Laws of the Company (filed as Exhibit 3.2 to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 1999).
*3.3	Amendment to Restated Certificate of Incorporation (filed as Exhibit 3.1 to our Report on 8-K, filed November 8, 2001).
4.1	See Exhibit numbers 3.1, 3.2 and 3.3 for provisions of the Restated Certificate of Incorporation and Restated By-Laws of the Company, as amended, defining the rights of the holders of common stock.
*4.2	Specimen form of certificate evidencing the shares of common stock of the Company (filed as Exhibit 4.1 to our Registration Statement).

*4.3 (10.1) Securities Purchase Agreement, dated April 29, 2003, between the Company and Laurus Master Fund, Ltd.
*4.4 (10.2) Convertible note, dated April 29, 2003, between the Company and Laurus Master Fund, Ltd.
*4.5 (10.3) Common Stock purchase Warrant, dated April 29, 2003, between the Company and Laurus Master Fund, Ltd.
*4.6 (10.4)Allonge dated April 29, 2003 to Convertible Note, which was originally dated July 26, 2002 between the Company and Laurus Master Fund, Ltd.
*4.7 (10.5)Second Allonge dated April 30, 2003 to Convertible Note, which was originally dated July 26, 2002 between the Company and Laurus Master Fund, Ltd.
*4.8 (10.6)Allonge dated April 29, 2003 to Warrant which was originally dated July 26, 2002 between the Company and Laurus Master Fund, Ltd.
**4.9 Promissory Note dated January 15, 2004 between the Company and Roy E. Crippen, III.
**4.10 Security Agreement dated January 15, 2004 between the Company and Roy E. Crippen, III.
**4.11 Subordination Agreement dated January 15, 2004 between the Company and Roy E. Crippen, III.
**4.12 Release dated January 15, 2004 between the Company and PowerCerv Corporation.
**4.13 Composite Amendment No. 1 dated April 7, 2004 between the Company and Laurus Master Fund, Ltd.
*10.1 Form of Registration Rights Agreement, dated as of May 6, 1997, between the Company and the holders of certain shares of common stock (filed as Exhibit 10.2 to our Registration Statement).
*10.2 Form of Warrant to Purchase Shares of Stock, dated as of October 31, 1997 (filed as Exhibit 10.4 to our Registration Statement).
*10.3 Digital Fusion, Inc. 1998 Stock Option Plan (filed as Exhibit 10.14 to our Registration Statement).+
*10.4 Digital Fusion, Inc. 1999 Stock Option Plan (filed as part of our Proxy Statement for the Annual Meeting of Stockholders held on June 4, 1999).+
*10.7 Professional Service Agreement Consulting, dated as of October 23, 1997, between Aetna Life Insurance Company and the Company (filed as Exhibit 10.21 to our Registration Statement).
*10.8 Agreement and Plan of Merger dated as of February 10, 2000, among Sean D. Mann, Roy E. Crippen III, Michael E. Mandt, Ali A. Husain, Robert E. Siegmann, digital infusion, inc., DFI, and Digital Fusion Acquisition Corp. (filed as Exhibit 2.1 to our Report on 8-K, filed March 24, 2000).
*10.9 Digital Fusion, Inc. 2000 Stock Option Plan (filed as part of our Proxy Statement for the Annual Meeting of Stockholders held June 9, 2000).
*10.10 Amendment No. 2 to Master Agreement, dated as of January 06, 2003, between Aetna Life Insurance Company and the Company which amended the initial Agreement dated October 23, 1997.
**14.1 Digital Fusion, Inc. Code of Ethics for Principal Executive and Financial Officers.
**21.1 Subsidiaries of the Company.
**23.1 Consent of Pender Newkirk and Company
**24.1 Power of Attorney (appears on signature page).
**31.1 Written Statement of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**32.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, an amended.

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* Incorporated by reference.
** Filed herewith.
\+ Management contract or compensatory plan or arrangement.

(b) *Reports on Form 8-K*

1. Report on Form 8-K filed March 6, 2003 with respect to the move of the Company's Headquarters to Huntsville, Alabama.

2. Report on Form 8-K filed November 10, 2003 with respect to third quarter financial operating results.

Item 14. Principal Accountant Fees and Services

Audit Fees

During 2002, Digital Fusion was billed by its accountants, Pender Newkirk & Company, approximately $57,000 for audit and review fees. During 2003, Digital Fusion was billed by Pender Newkirk & Company, approximately $50,000 for audit and review fees associated with its 10-QSB, 10-KSB filings and Employee Benefit Plan.

Audit related fees

None

Tax Fees

None

All Other Fees

None

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized.

DIGITAL FUSION, INC.

Dated: April 14, 2004

by: /s/ Roy E. Crippen, III

Roy E. Crippen, III
Chief Executive Officer
(Principal Executive Officer)

KNOWN BY ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints both Roy E. Crippen, III his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, 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 and about the premises, as fully as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 14th day of April 2004.

Signature	Title(s)
/S/ROY E. CRIPPEN III Roy E. Crippen III	Chief Executive Officer, President and Director (Principal Executive Officer)
/S/ NICHOLAS R. LOGLISCI, JR. Nicholas R. Loglisci, Jr.	Chairman of the Board of Directors
/S/ O.G. GREENE O.G. Greene	Director

FINANCIAL STATEMENTS AND EXHIBITS

The following are the consolidated financial statements and exhibits of Digital Fusion, Inc. and Subsidiaries, which are filed as part of this report.

Independent Auditors' Report

Board of Directors
Digital Fusion, Inc.
Huntsville, Alabama

We have audited the accompanying consolidated balance sheets of Digital Fusion, Inc. as of December 31, 2003 and 2002 and related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the management of Digital Fusion, Inc. and Subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These 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 all material respects, the financial position of Digital Fusion, Inc. as of December 31, 2003 and 2002 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 of America.

Pender Newkirk & Company
Certified Public Accountants
Tampa, Florida
January 27, 2004
(except for the last paragraph of Note 7(c), as to which the date is April 7, 2004)

DIGITAL FUSION, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

	2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 419,000	$ 653,000
Accounts receivable (net of allowance for doubtful accounts of $90,000 in 2003 and $325,000 in 2002)	737,000	978,000
Prepaid expenses and other current assets	39,000	87,000
Total current assets	1,195,000	1,718,000
Property and equipment, net	29,000	185,000
Intangible assets, net	3,347,000	3,347,000
Other assets	13,000	28,000
Total Assets	$ 4,584,000	$ 5,278,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 46,000	$ 808,000
Accounts payable	213,000	89,000
Deferred revenue	21,000	21,000
Accrued salaries and related expenses	94,000	250,000
Accrued professional fees	74,000	110,000
Accrued severance and restructuring expenses	-	50,000
Other current liabilities	277,000	431,000
Total current liabilities	725,000	1,759,000
Interest payable – long-term	39,000	86,000
Long-term debt, less current maturities	1,269,000	517,000
Pension obligation	295,000	280,000
Total liabilities	2,328,000	2,642,000
Stockholders' Equity:		
Preferred Stock - $.01 par value; authorized 1,000,000 shares, no shares issued and outstanding	-	-
Common Stock - $.01 par value; authorized 16,000,000 shares, issued and outstanding 7,167,671 – 2003 and 2002	72,000	72,000
Additional paid in capital	39,919,000	39,904,000
Accumulated deficit	(37,735,000)	(37,340,000)
Total Stockholders' Equity	2,256,000	2,636,000
Total Liabilities and Stockholders' Equity	$ 4,584,000	$ 5,278,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL FUSION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Revenues		
Services	$ 6 ,075,000	$ 9,503,000
Product	345,000	-
Total Revenues	6,420,000	9,503,000
Cost of services and goods sold		
Services	4,580,000	7,319,000
Product	325,000	-
Total cost of services and goods sold	4,905,000	7,319,000
Gross Profit	1,515,000	2,184,000
Operating expenses:		
Selling, general and administrative	1,715,000	3,143,000
Impairment of goodwill	-	1,200,000
Severance and restructuring	-	(271,000)
Gain on forgiveness of debt	-	(1,585,000)
Total operating expenses	1,715,000	2,487,000
Operating loss	(200,000)	(303,000)
Other income (expense):		
Interest expense	(197,000)	(154,000)
Interest income	2,000	12,000
Other income	-	42,000
Total other expense	(195,000)	(100,000))
Loss before income taxes	(395,000)	(403,000)
Income tax provision	-	-
Net loss	(395,000)	(403,000)
Loss per share:		
Basic and diluted	$ (0.06)	$ (0.06)
Weighted average common stock outstanding:		
Basic and diluted	7,168,000	7,168,00

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL FUSION, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2003

	Common stock		Additional	Accumulated	Stockholders'
	No. of shares	Amount	Paid-in Capital	Deficit	Equity
Balance, January 1, 2002	7,163,936	72,000	39,754,000	(36,937,000)	2,889,000
Additional shares issued in connection with acquisitions	3,235	-	71,000	-	71,000
Warrants issued in connection with settlement	-	-	67,000	-	67,000
Warrants issued in connection with debt financing	-	-	12,000	-	12,000
Shares issued in connection with options exercised	500	-	-	-	-
Net loss	-	-	-	(403,000)	(403,000)
Balance, December 31, 2002	7,167,671	72,000	39,904,000	(37,340,000)	2,636,000
Warrants issued in connection with debt financing	-	-	15,000	-	15,000
Net loss	-	-	-	(395,000)	(395,000)
Balance, December 31, 2003	7,167,671	72,000	39,919,000	(37,735,000)	2,256,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL FUSION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Net loss	$ (395,000)	$ (403,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	160,000	324,000
Provision for uncollectible accounts	-	1,000
Recovery of bad debt	(50,000)	-
Gain on write-offs and adjustments	(227,000)	
Stock options issued for services	2,000	
Non-cash restructuring	-	(187,000)
Impairment of goodwill	-	1,200,000
Forgiveness of debt	-	(1,585,000)
Amortization of deferred financing costs	66,000	46,000
Changes in operating assets and liabilities		
Accounts receivable	291,000	984,000
Prepaid expenses and other assets	21,000	(18,000)
Accounts payable, accrued expenses, and other liabilities	10,000	(1,427,000)
Deferred revenue	-	(138,000)
Deposits and other	-	21,000
Pension obligation	15,000	156,000
Net cash used in operating activities	(107,000)	(1,026,000)
Cash flows from investing activities:		
Capital expenditures - property and equipment	(4,000)	(23,000)
Net cash used in investing activities	(4,000)	(23,000)
Cash flows from financing activities:		
Repayments of notes payable	(379,000)	(365,000
Net proceeds from note issued	256,000	717,000
Net cash (used in) provided by financing activities	(123,000)	352,000
Net decrease in cash and cash equivalents	(234,000)	(697,000)
Cash and cash equivalents, at beginning of year	653,000	1,350,000
Cash and cash equivalents, at end of year	$ 419,000	$ 653,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION, BACKGROUND AND BASIS OF PRESENTATION

Digital Fusion, Inc. (used herein, "Digital Fusion", "DFI", and the "Company", refer to Digital Fusion, Inc.)") and its subsidiaries are an information technology (IT) consulting firm that helps its customers maximize the use of modern technology to access business information, enhance the performance of their human resources, and meet various business needs. The Company's success is based on a total approach that provides the people, processes, and technology needed to translate business needs into sound IT strategies. Services are provided to business organizations and public sector institutions primarily in the Eastern United States. The Company was incorporated in 1995 under the name Internet Broadcasting System, Inc. and changed its name to IBS Interactive, Inc. when it went public in May 1998. During 2001, the shareholders approved a name change to Digital Fusion, Inc. ("DFI"). The Company is incorporated in Delaware with its main administrative office located in Huntsville, Alabama and regional offices in Florida, New Jersey, and Virginia.

The Tampa office was closed in April 2003 and the corporate headquarters was moved from Tampa, Florida to Huntsville, Alabama to take advantage of federal market prospects and to eliminate costs associated with that facility.

(2) SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation.

(b) REVENUE RECOGNITION

Revenue is recognized as services are provided and product sold to customers primarily on a time and material basis. In the event that there are significant performance obligations yet to be fulfilled on consulting and design projects, revenue recognition is deferred until such conditions are removed. A small portion of DFI's contracts are on a fixed fee basis. Revenues on these contracts are recognized on a percentage of completion basis. For projects that the customer has prepaid, but the services have not been performed, deferred revenue is recorded on the balance sheet.

(c) STOCK BASED COMPENSATION

The Company accounts for its stock option awards to employees under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company provides pro forma disclosures of net loss and loss per share as if the fair value based method of accounting had been applied, as required by SFAS No. 123, *Accounting for Stock-Based Compensation*.

The following table represents the effect on net income and earnings per share if the Company had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation:

	2003	2002
Net income. as reported	$ (395,000)	$ (403,000)
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(315,000)	(1,050,000)
Pro forma net (loss)	$ (710,000)	$ (1,453,000)
Net income/(loss) per common share		
Basic and diluted income, as reported	$ (0.06)	$ (0.06)
Basic and diluted (loss), pro forma	$ (0.10)	$ (0.20)

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends the transition and disclosure provisions of SFAS No. 123. The Company is currently evaluating SFAS No. 148 to determine if it will adopt SFAS No. 123 to account for Employee stock options using the fair value method and, if so, when to begin transition to that method.

The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following assumptions:

	2003	2002
Dividend yield	0%	0%
Expected volatility	61%	60%
Risk-free interest rate	3.52%	4.52%
Expected life – years	10	10
Weighted average fair value of options granted	$0.31	$0.51

The values ascribed to restricted stock awards are based on the fair value of the Company's common stock at the date of the grant. The intangible asset related to the value of the stock awards is amortized on a straight-line basis over the required service periods. The Company's liability related to such awards will be converted to common stock and additional paid in capital upon the formal issuance of the common stock.

(d) **WARRANTS**

The fair values ascribed to warrants that are used in connection with financing arrangements and professional services agreements (see Note 9) are amortized over the expected life of the underlying debt or the term of the agreement.

(e) **INCOME TAXES**

The Company accounts for income taxes using the liability method. Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

Valuation allowances have been established against the Company's deferred tax assets due to uncertainties in the Company's ability to generate sufficient taxable income in future periods to make realization of such assets more likely than not. The Company has not recognized an income tax benefit for its operating losses generated during 2003 and 2002 based on uncertainties concerning its ability to generate taxable income in future periods. There was no income tax receivable at December 31, 2003 and 2002. In future periods, tax benefits and related deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not.

(f) **CASH EQUIVALENTS**

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity date of three months or less from the purchase date to be cash equivalents. The cash and short-term investments are maintained with a major financial institution in the United States. Deposits with this bank may exceed the amount of FDIC insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

(g) **CONCENTRATIONS OF CREDIT RISK**

Financial instruments, which potentially subject the Company to credit risk, consist primarily of a concentration of unsecured trade accounts receivables. At December 31, 2003 and 2002, one customer accounted for 15% and 24% of total net accounts receivable, respectively.

The Company performs credit evaluations of its customers on a regular basis and generally does not require collateral on accounts receivable. The Company monitors the allowance for potential credit losses and adjusts the allowance accordingly each quarter. During the years ended December 31, 2003 and 2002 the Company's allowance for doubtful accounts was decreased by $52,000 and increased by $1,000, respectively and was decreased by $183,000 and $16,000, respectively, for balances written off and recovered. The Company does not accrue interest on past due accounts receivable.

(h) **PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost. Depreciation and amortization are computed primarily under the straight-line method over the assets' estimated useful lives, generally three years for computer equipment, five years for office equipment and seven years for furniture and fixtures.

(i) **LONG-LIVED ASSETS**

The Company applies SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS 144 addresses the financial accounting and reporting for the impairment of long-lived assets, excluding goodwill and intangible assets, to be held and used or disposed of. In accordance with SFAS 144, the carrying values of long-lived assets are periodically reviewed by the Company and impairments would be recognized if the expected future operating non-discounted cash flows derived from an asset were less than its carrying value.

(j) **INTANGIBLE ASSETS**

Intangible assets are comprised of goodwill arising from various acquisitions. The Company applies the Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. The Company tested goodwill for impairment as of December 31, 2002 and December 31, 2003. See footnote 4 for a discussion of the impairment of goodwill charges. The Company will continue to test goodwill for impairment at least annually.

(k) PENSION ACCOUNTING

The Company follows SFAS No. 132, *Employers' Disclosures about Pensions and Other Post-retirement Benefit*s as revised in 2003 as it relates to the Spencer Analysis, Inc. ("Spencer") Defined Benefit plan that is inactive. Subsequent to the acquisition of Spencer in 1999, the plan was amended to no longer require the Company to accrue future service benefits.

(l) ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and notes payable approximate the instruments' fair values due to the immediate or short-term maturity of these financial instruments.

(m) LOSS PER SHARE

Basic loss per share has been computed using the weighted average number of shares of common stock outstanding for the period. The Company's diluted loss per share includes the effect, if any, of unissued shares under options, warrants and stock awards computed using the treasury stock method. In all periods presented, there were no differences between basic and diluted loss per common share because the assumed exercise of common share equivalents was anti-dilutive. The assumed exercise of stock options and warrants, as well as the issuance of common stock under compensation and acquisition agreements (aggregating 2,505,774 and 2,818,860 shares at December 31, 2003 and 2002 respectively), could potentially dilute basic earnings per share.

(n) 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The actual results could differ from those estimates. Significant estimates include management's estimates with respect to the values of accounts receivable allowance, intangibles, liabilities (including accruals) and fixed assets.

(o) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See footnote 2(j) above for a discussion of the Company adopting SFAS 142, *Goodwill and Other Intangible Assets.*

In June 2002, the FASB issued SFAS 146, "*Accounting for Costs Associated with Exit or Disposal Activities*", which is effective for the Company for exit or disposal activities that are initiated after December 31, 2002. The Company adopted SFAS 146 for all exit or disposal activities that are initiated after December 31, 2002 and does not expect this statement to have a material effect on its financial statements.

The FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which was effective for the Company as of January 1, 2003. This Statement amended FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amended the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Management continues to evaluate the impact that adoption of SFAS 148 will have on its consolidated financial statements.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the "Interpretation"). The Interpretation requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual, or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise that has controlling financial interest through ownership of a majority voting interest in the entity. The Interpretation was originally immediately effective for variable interest entities created after January 31, 2003, and effective in the fourth quarter of the Company's fiscal 2003 for those created prior to February 1, 2003. However, in October 2003, the FASB deferred the effective date for those variable interest entities created prior to February 1, 2003, until the Company's first quarter of fiscal 2004. The Company has substantially completed the process of evaluating this interpretation and believes its adoption will not have a material impact on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003, except for mandatory redeemable financial instruments. Mandatory redeemable financial instruments are subject to the provisions of this statement beginning on January 1, 2004. Digital Fusion has not entered into or modified any financial instruments subsequent to May 31, 2003 affected by the statement. It does not expect the adoption of this statement will have a material impact on its financial condition or results of operations.

(3) PROPERTY AND EQUIPMENT

Major classes of property and equipment, net, consist of the following at December 31, 2003 and 2002:

	2003	2002
Computer equipment	$ 837,000	$ 837,000
Office equipment, fixtures and vehicles	96,000	92,000
	933,000	929,000
Less: accumulated depreciation	(904,000)	(744,000)
	$ 29,000	$ 185,000

Depreciation expense for the years ended December 31, 2003 and 2002 was $160,000 and $324,000, respectively.

(4) INTANGIBLE ASSETS

Intangible assets, net, are comprised of the following at December 31, 2003 and 2002

	2003	2002
Goodwill	$ 10,767,000	$ 10,767,000
Less: accumulated amortization, including impairment charge	(7,420,000)	(7,420,000)
	$ 3,347,000	$ 3,347,000

The Company adopted SFAS 142 during 2002 as discussed in Note 2(j) above. In accordance with SFAS 142, the Company discontinued amortization of goodwill as of January 1, 2002.

During the fourth quarter of 2002, the Company recorded an impairment of goodwill of $1.2 million that was associated with prior years' acquisitions. No impairment was recorded for 2003. The value of the remaining $3.3 million of goodwill on the balance sheet as of December 31, 2003 was determined not to be impaired by comparing the quoted market value of Digital Fusion stock at year-end to the total stockholders' equity at year-end and by analyzing other factors that could decrease the value of goodwill. The Company will review the goodwill balance during 2004 to determine if any further write-downs are needed.

(5) CURRENT LIABILITIES

The following is a recap of the other current liabilities outstanding at December 31, 2003and 2002:

	2003	2002
Interest payable	$132,000	$122,000
Other	145,000	309,000
	$277,000	$431,000

(6) LEGACY LIABILITIES

As a result of significant restructuring, closing of unprofitable offices and selling certain business divisions during 2000 and the first half of fiscal year 2001, the Company accumulated unpaid liabilities not associated with current operations. These creditor liabilities included terminated equipment leases, property leases and telecommunication contracts as well as certain professional fees. Through productive negotiations with these creditors, $3.9 million of these liabilities were settled and paid as of December 31, 2002. This resulted in a forgiveness of debt gain of $1,585,000 during 2002.

(7) BORROWINGS

At December 31, 2003 and 2002, the Company's outstanding borrowings were comprised of the following:

	2003	2002
PowerCerv Note	$ 135,000	$ 135,000
Digital Shareholders' Note	598,000	497,000
Laurus Note	582,000	693,000
	1,315,000	1,325,000
Less: current portion	(46,000)	(808,000)
Total-long term borrowings	$ 1,269,000	$ 517,000

(a) POWERCERV NOTE

In connection with the acquisition of digital fusion, inc. (Digital), a Florida company, the Company assumed Digital's secured note to PowerCerv Corporation. The assets of Digital secure this note. The note bears interest at a 4.56% annual rate with quarterly principal and interest payments due through 2003. Interest expense on this note totaled $5,000 and $12,000 during 2003 and 2002, respectively. See Note 13 (a) for related party discussion.

Digital Fusion's note to PowerCerv was paid on January 15, 2004 by its President and CEO, Roy E. Crippen, III and then financed to Digital Fusion by Mr. Crippen. The total amount financed was approximately $137,000. The note bears an interest rate of prime plus 6% and is payable at $600 per month plus interest for the first twelve months, $4,400 per month plus interest for the next eleven months, and a balloon payment of approximately $81,000 plus interest on January 15, 2006. Subject to a subordination agreement with Digital Fusion's primary lender, the note is secured by a security interest in property currently owned or later acquired by the Debtor (Digital Fusion) to secure the prompt payment and performance of all liabilities, obligations, and indebtedness of the Debtor under the note.

(b) DIGITAL SHAREHOLDERS' NOTE

In connection with the 2000 Digital acquisition, the Company entered into unsecured promissory notes with the former Digital shareholders totaling $500,000. These notes bear interest at 6% and are payable at maturity. The interest rate was below the market rate and a discount of $46,000 was recorded to be amortized to interest expense over the period of the notes and results in an effective interest rate of 9%. Interest expense on these notes totaled $47,000 and $34,000 during 2003 and 2002, respectively.

On November 12, 2002, the Company renegotiated the terms of notes due to certain former Digital shareholders totaling $470,000. Effective March 2, 2003, the interest rate increased from 6% to 8%, and the accrued interest was converted into principal in the amended notes. The maturity date was extended from March 1, 2003 to March 1, 2005. These renegotiated notes and related accrued interest are classified as long-term liabilities on the December 31, 2003 balance sheet.

(c) LAURUS NOTE

On April 29, 2003, the Company closed on a $266,667 10% convertible note with its primary lender, collateralized by the Company's accounts receivable. The initial note dated July 26, 2002, had $533,333 remaining at April 30, 2003.

On April 7, 2004, the Company restructured its outstanding note with its primary lender to suspend monthly payments until February 2005. The note bears an interest rate of 10% with monthly payments due on the first day of each month of $50,000 plus interest commencing on February 1, 2005 until the maturity date of January 1, 2006. In addition, the Company will pay an amendment fee of $25,000 to the note-holder which will be amortized to interest expense over the life of the loan. In relation to the first note, the note-holder will have the right to convert the principal portion of the note and/or interest due and payable into fully paid and non-assessable shares of common stock of the Company at the fixed conversion price of $0.922. In relation to the second note, the note-holder will have the right to convert the principal and/or interest due and payable into fully paid and non-assessable shares of common stock of the Company at the fixed conversion price of $0.35.

(d) DEBT MATURITIES

At December 31, 2003, aggregate required principal payments of long-term debt are as follows:

Year Ending December 31,	Amount
2004	$ 46,000
2005	1,158,000
2006	111,000
Total	$ 1,315,000

(8) BENEFIT PLANS

(a) **DEFINED BENEFIT PLAN**

Certain employees from a company that Digital Fusion acquired who met certain requirements of age and length of service at the time of acquisition are covered by the Company's sponsored non-qualified, non-contributory defined benefit pension plan. The benefits become fully vested upon the employees' retirements. Benefits paid to retirees are based upon age at retirement, compensation levels and years of credited service. The plan was amended to no longer require the Company to accrue future service benefits. Plan assets are stated at fair value and are comprised of stocks and bonds. Net periodic pension cost at December 31, 2003 and 2002 for this plan includes the following components:

Change in benefit obligation		**2003**		**2002**
Benefit obligation at beginning of year	$	757,000	$	717,000
Service cost		-		-
Interest cost		39,000		41,000
Amendments		-		-
Benefit transactions		(31,000)		-
Actuarial loss/(gain)		52,000		-
Effect of settlement		(41,000)		-
Benefit obligation at end of year	$	776,000	$	758,000
Change in plan assets				
Fair value of plan assets at beginning of year	$	478,000	$	593,000
Actual return on plan assets		90,000		(115,000)
Employer contributions		-		-
Benefit transactions		(87,000)		-
Fair value of plan assets at end of year	$	481,000	$	478,000
Funded status				
Fair value of plan assets	$	481,000	$	478,000
Benefit obligation		776,000		758,000
Funded status at end of year		(295,000)		(280,000)
Unrecognized net actuarial loss (gain)		165,000		181,000
Unrecognized prior service cost (benefit)		(165,000)		(181,000)
Accrued liability at end of year	$	(295,000)	$	(280,000)
Amounts recognized in the statement of financial position				
Prepaid benefit cost	$	(98,000)	$	(59,000)
Accrued benefit cost		-		
Intangible assets				
Accumulated other comprehensive income		(197,000)		(221,000)
Net amount recognized at end of year	$	(295,000)	$	(280,000)
Components of net periodic benefit cost				
Service cost	$	-	$	-
Interest cost		39,000		41,000
Net amortization and deferral		64,000		
Actual return on plan assets		(90,000)		115,000
Net actuarial (gain)/loss		27,000		(167,000)
Net periodic pension cost	$	40,000	$	(11,000)
Assumptions used in determining actuarial valuations				
Discount rate to determine projected benefit		5.5%		5.5%
Rate of increase in compensation levels		2.0%		0.0%

Expected rate of return on plan assets	8.0%	8.0%

(b) 401(K) PLAN

The Company sponsors a defined contribution benefit plan covering its employees. Currently, eligible employees are allowed to contribute annually up to the maximum annual contribution allowed for 401(k) plans. The Company matches 30% of participant contributions to a maximum matching amount of 6% of participant base compensation which totaled $56,000 for the year ended December 31, 2002. Effective August 1, 2002, the Board of Directors of DFI suspended the matching contribution due to the Company being cash flow negative. Company contributions are at the sole discretion of management.

(9) STOCKHOLDERS' EQUITY

(a) CAPITAL STOCK

During the 2001 Annual Shareholders meeting, the shareholders approved increasing the number of authorized shares to 17,000,000. The Company's Board of Directors designated 1,000,000 of the authorized shares as "blank check" preferred stock and 16,000,000 shares as common stock. During March 2001, the Company's Board of Directors designated 60,000 of the preferred shares as Series A Convertible Preferred Stock par value $.01 per share and 45,000 of the preferred shares as Series B Preferred Stock, par value of $.01. No shares of the preferred stock have been issued.

(b) WARRANTS

At December 31, 2003, 651,680 shares of common stock were reserved for the exercise of stock warrants comprised of the following:

1999 Private Placement	166,680
Investment advisory firms	135,000
Legacy Liability Settlement	250,000
Debt financing	100,000
Total	651,680

On January 12, 2000, the Company entered into a consulting agreement with an investment advisory firm in which the Company agreed to issue four-year warrants to purchase 50,000 shares of Common Stock at an exercise price of $12.50 per share upon the closing of certain mergers or acquisitions to be identified. The fair value of these warrants was charged to expense as consulting fees in 2000. In the event that the requisite services are rendered and the warrants are issued, the Company will realize a non-cash charge to operations for the fair value of these warrants. The period that such charge will be recognized will be determined based upon the nature of the merger or acquisition involved.

In connection with the 1999 private placement, the Company issued five-year redeemable warrants to purchase 166,680 shares of its common stock at an exercise price of $12.50 per share.

On June 15, 2000, the Company entered into a consulting agreement with Tekbanc in which we agreed to issue Tekbanc three-year warrants to purchase 75,000 shares of its common stock at an exercise price of $7.00 in exchange for mergers and acquisitions, marketing, business development and financial advisory services. These warrants vested ratably over a six-month period ending December 15, 2000. The fair value of these warrants was charged to expense during 2000.

During January 2002, the Company entered into a settlement agreement on a certain equipment lease. As part of this settlement, the Company issued a five-year warrant to purchase 250,000 shares of the Company's common stock at $1.00 per share. The Company recorded these warrants at fair market value, recording additional equity of $67,000.

On July 26, 2002, the Company closed on an $800,000 convertible note. In conjunction with this financing, the Company issued a five-year warrant to purchase 75,000 shares of the Company's common stock at $1.15 per share. The Company recorded these warrants at fair market value, recording additional equity of $12,000.
On April 29, 2003, the Company closed on a $267,000 convertible note. In conjunction with this financing, the Company issued a seven-year warrant to purchase 25,000 shares of the Company's common stock @ $0.4375 per share. In addition, the Company executed an allonge to the warrant dated July 26, 2002 amending the purchase price to $0.4375.

On April 17, 2003, the Company entered into a consulting agreement with an independent consultant in which the Company agreed to issue five-year warrants to purchase 10,000 shares of the Company's common stock @ $0.33 per share.

(d) SHARES ISSUED FOR ACQUISITIONS

The Company issued 3,235 shares of reserved common stock during 2002 in connection with the resolution of contingencies in prior acquisitions.

The acquisition liability account was reduced by $71,000 during 2002 for the issuance of certain reserve shares related to acquisitions the Company made in prior years.

(e) DELISTING NOTICE FROM NASDAQ

On May 6, Digital Fusion announced that is had been delisted from the NASDAQ Small Cap Market effective at the opening of business May 9, 2003. The Company's common stock is currently traded on the Over-the-Counter (OTC) Bulletin Board.

(f) STOCK OPTION PLAN

The Company maintains three qualified stock option plans. Under the terms of these plans, the Company has reserved 1,369,000 shares of common stock for future grants. The Company also granted 38,000 and 66,000 of nonqualified stock options during 2003 and 2002 respectively. These were granted to Board of Directors as part of their compensation for being on the Company's BOD's, and certain management to retain key personnel during this restructuring and refocusing the Company's strategic vision on being an IT consulting services firm, stream-line on-going operations and sell or shut down unprofitable units.

Under the Company's Stock Option Plans, the Company may grant incentive stock options to certain officers, employees and directors. The options expire five or ten years from the date of grant. Accelerated vesting occurs following a change in control of the Company and under certain other conditions. At December 31, 2003, the Company could grant an aggregate of 585,206 shares under these plans.

The following table summarizes information about qualified and non-qualified stock options outstanding at December 31, 2003:

Exercise Price	Number Outstanding	Weighted Average Remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted Average Exercise Price
$0.29 to $0.37	499,500	8.08	$ 0.30	370,500	$ 0.30
$0.40 to $0.55	473,544	7.97	0.41	454,502	0.41
$0.62 to $1.19	259,700	7.21	0.89	225,890	0.93
$5.78 to $8.13	138,100	6.27	6.15	137,188	6.16

$9.97 to $10.49	461,250	6.16	10.46	461,250	10.46
$17.19 to $22.00	22,000	5.36	20.37	22,000	20.37
	1,854,094	7.28	$ 3.61	1,671,329	$ 3.96

Transactions under various qualified and non-qualified option plans for 2002 and 2003 are summarized as follows:

	Options	Weighted Average Exercise price
Outstanding at January 1, 2002	1,842,650	$ 3.93
Granted	99,750	0.71
Exercised	(500)	0.40
Canceled	(114,550)	2.15
Outstanding at December 31, 2002	1,827,350	$ 3.85
Granted	149,500	0.31
Exercised	-	-
Canceled	(122,756)	2.29
Outstanding at December 31, 2003	1,854,094	$ 3.61
Options exercisable at December 31, 2003	1,671,329	$ 3.96
Options available for grant at December 31, 2003	585,206	

(10) TAXES

Benefits for federal and state income taxes consist of the following as of December 31, 2003 and 2002:

	2003	2002
Current:		
Federal	$ -	$ -
State	-	-
	-	-
Deferred:		
Federal	-	-
State	-	-
	-	-
Total income tax benefit	$ -	$ -

Deferred tax assets (liabilities) arise from the following temporary differences and are classified as follows as of December 31, 2003 and 2002:

	2003	2002
Deferred Tax Asset, Current:		
Accounts receivables	$ 36,000	$ 130,000
Vacation payable	21,000	30,000
Other, net	1,600	-
Valuation allowance	(58,600)	(160,000)
	$ -	$ -
Deferred Tax Asset (Liabilities), Non-Current:		
Intangible assets	$ (658,000)	$ (72,000)
Property and equipment	(161,000)	(165,000)
Net operating loss carryforward	10,119,000	9,285,600
Accrued pension	118,000	112,000
Valuation allowance	(9,418,000)	(9,160,600)
	$ -	$ -

Differences between the federal benefit computed at a statutory rate and the Company's effective tax rate and provision are as follows as of December 31, 2003 and 2002:

	2003	2002
Statutory benefit	$ (134,000)	$ (137,000)
State tax benefit, net of federal effect	(24,000)	(24,000)
Amortization of non-deductible goodwill	-	-
Write-off of non-deductible goodwill	-	-
Non-deductible expenses	3,000	3,000
Increase in deferred income tax valuation allowance	155,000	158,000
	$ -	$ -

The Company has not recognized an income tax benefit for its operating losses generated during 2002 and 2003 based on uncertainties concerning its ability to generate taxable income in future periods. The tax benefit for 2002, and 2003 is offset by a valuation allowance established against deferred tax assets arising from operating losses and other temporary differences, the realization of which could not be considered more likely than not. In future periods, tax benefits and related deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not.

As of December 31, 2003, the Company had available federal and state net operating loss carry forwards of approximately $21 million and $23 million respectively, which begin expiring in 2019 and 2006, respectively.

(11) COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Company leases facilities and equipment under operating leases and subleases expiring through August 2006. Some of the leases have renewal options and most contain provisions for passing through certain incremental costs. At December 31, 2003 future net minimum annual rental payments under non-cancelable leases are as follows:

Year Ending December 31,		Amount
2004		97,000
2005		50,000
2006		18,000
2007		-
Total	$	165,000

Total rental and lease expenses for the years ended December 31, 2003 and 2002 were approximately $152,000 and $312,000, respectively.

(b) LITIGATION

The Company is involved in certain legal actions arising from the cessation of certain business operations and in the ordinary course of business. The Company is defending these proceedings. While it is not feasible to predict or determine the outcome of these matters, the Company does not anticipate that any of these matters or these matters in the aggregate will have a material adverse effect on the Company's business or its consolidated financial position or results of operations.

(12) RELATED PARTY TRANSACTIONS

(a) CONSULTING AGREEMENT

During 2002, the Company provided $27,500 of consulting services to PowerCerv. The Company offset its note owed to PowerCerv by $27,500 for these consulting services provided to PowerCerv. Roy E. Crippen, III, the Company's President and CEO, is a member of the Board of Directors of PowerCerv.

(b) DFI ACQUISITION

In connection with the 2000 Digital acquisition, the Company entered into unsecured promissory notes with the former Digital shareholders in 2002 as described in footnote 7(b). Roy E. Crippen, III, the Company's Chief Executive Officer and President, was a former Digital shareholder and in connection with this transaction is owed $343,000 of principal and interest.

(c) POWERCERV NOTE

The Company's note to PowerCerv was paid by Digital Fusion's President and CEO, Roy E. Crippen, III, tendering to PowerCerv $110,000 in cash and 25,000 shares of PowerCerv preferred stock. In consideration therefore, Digital Fusion issued a note to Mr. Crippen in the amount of $136,580.32 (representing the amount of principal and interest on the PowerCerv note at the time of its retirement). The note bears an interest rate of prime plus 6% and is payable at $600 per month plus interest for the first twelve months, $4,400 per month plus interest for the next eleven months, and a balloon payment of approximately $81,000~~$80,980.32~~ plus interest on January 15, 2006. Subject to a subordination agreement with Digital Fusion's primary lender, the note is secured by a security interest in property currently owned or later acquired by the Debtor (Digital Fusion) to secure the prompt payment and performance of all liabilities, obligations, and indebtedness of the Debtor under the note.

The above amounts are not necessarily indicative of the amounts that would have been incurred had comparable transactions been entered into with independent parties.

(13) CASH FLOW INFORMATION

During 2002, the Company entered into a settlement agreement on a certain equipment lease. As part of this settlement, the Company issued a five-year warrant to purchase 250,000 shares of the Company's common stock at $1.00 per share. The Company recorded these warrants at fair market value, recording additional equity of $67,000, reducing the balance sheet account accrued liabilities on sale of discontinued operations.

On July 26, 2002, the Company closed on an $800,000 convertible note. In conjunction with this financing, the Company issued a five-year warrant to purchase 75,000 shares of the Company's common stock at $1.15 per share. The Company recorded these warrants at fair market value, recording additional equity of $12,000. The Company also recorded $83,000 additional deferred financing costs related to legal fees and other fees that were netted against the debt proceeds given to the Company in conjunction with this convertible note.

During 2002, the Company reduced its acquisition liability account by $71,000 for the issuance of shares of common stock that were reserved for various acquisitions as discussed in Note 9(d). There were no reductions to the liability account in 2003.

(14) MAJOR CUSTOMERS OF THE COMPANY

One customer accounted for 28% and 24% of the Company's revenues for the years ended December 31, 2003 and 2002, respectively.

(15) SEVERANCE AND RESTRUCTURING EXPENSES

During 2002, the Company reduced its severance and restructuring liability by $271,000 based upon its current estimates of remaining liabilities associated with the 2001 restructuring.

No adjustments were made during 2003 to the severance and restructuring accrual.

(16) FORGIVENESS OF DEBT

During 2002, the Company reached settlement agreements on certain debts incurred as a result of significant restructuring, closing of unprofitable offices and selling certain business divisions during 2000 and 2001. These debts included terminated equipment leases, real property leases and telecommunication contracts as well as certain professional fees. Through productive negotiations with these creditors, $3.9 million of these liabilities were settled and paid as of December 31, 2002. This resulted in a forgiveness of debt gain of $1,585,000 during 2002.

EXHIBIT 4.9

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR, IF APPLICABLE, STATE SECURITIES LAWS. THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS NOTE UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO DIGITAL FUSION, INC. THAT SUCH REGISTRATION IS NOT REQUIRED.

PROMISSORY NOTE

$136,580.32 Huntsville, Alabama
January 15, 2004

FOR VALUE RECEIVED, Digital Fusion, Inc., a Delaware corporation (the "Maker"), promises to pay to the order of Roy E. Crippen, III (the "Holder") at 4940-A Corporate Drive, Huntsville, Alabama 35805, or at such other address as the Holder shall designate in writing to the Maker, the principal amount of $136,580.32, plus accrued interest on the unpaid principal balance, to be paid in lawful money of the United States of America, as set forth below.

This promissory note (the "Note") is subject to a Subordination Agreement dated as of January 15, 2004, among the Maker, the Holder and Laurus Master Fund, Ltd. (the "Senior Lender"), which, among other things, subordinates the Maker's obligations under this Note to the prior payment of certain obligations of the Maker to the Senior Lender.

Accrued interest shall be payable on the unpaid principal balance at the variable annual rate that equals (a) 6% plus (b) The Wall Street Journal Prime Rate in effect from time to time during the term of this Note (the "Interest Rate"). Accrued interest shall be paid monthly on the fifteenth day of each month beginning on February 15, 2004 and continuing through January 15, 2005. Each change in the Interest Rate under this Note shall take effect simultaneously with the corresponding change in The Wall Street Journal Prime Rate.

The principal amount of this Note shall be payable as follows:

(1) a monthly payment of $600 will be payable on the fifteenth day of each month beginning on February 15, 2004 and continuing through January 15, 2005; and

(2) a monthly payment of $4,400 will be payable on the fifteenth day of each month beginning on February 15, 2005 and continuing through December 15, 2005; and

(2) a balloon payment of $80,980.32 will be payable on or before January 15, 2006.

Principal, interest and other sums payable in accordance with this Note shall be payable in immediately available funds. The Maker may prepay this Note, in whole or in part, at any time, without penalty. Any partial prepayment shall be applied first to accrued interest and the remainder (if any) of any such prepayment shall be applied to the principal amount.

Nothing in this Note, nor any transaction related to this Note, shall be construed or so operate as to require the Maker to pay interest at a greater rate than shall be lawful. Should any interest or other charges paid by the Maker in connection with this Note result in the computation or earning of interest in excess of the maximum legal contract rate of interest which is legally permitted under the laws of Alabama, from time to time, then any and all such excess shall be, and the same is, hereby waived by the Holder, and any and all such excess shall be automatically credited against and in reduction of the principal balance under this indebtedness, and any portion which exceeds the principal balance due under this Note shall be paid by the Holder to the Maker. At the maturity of the Note (or prior to maturity, in the event of any permitted prepayment, or if the Holder accelerates payment), if the total amount of interest paid, and any other charge upon the principal, exceeds the maximum legal contract rate permitted by law, such interest shall be recomputed and any such excess shall be credited to principal or returned to the Maker.

This Note shall be secured by a pledge of the Maker's assets, including without limitation, equipment, fixtures, accounts, chattel paper, and contract rights, general intangibles and the products and proceeds thereof.

At the option of the Holder, the entire unpaid principal balance of this Note, together with all accrued interest and other sums payable in accordance with this Note, shall become immediately due and payable, without notice or demand, upon the occurrence of any of the following events ("Events of Default"), whether or not within the control of the Maker:

(1) failure to pay any installment of principal or interest on the Note, or any renewal or extension of the Note, when due;

(2) failure to perform or to comply with any of the obligations by the Note or by any other agreement or undertaking of the Maker securing or related to the Note;

(3) failure by the Maker to pay any obligation, whether direct or contingent, for borrowed money, or to perform or observe the terms of any instrument pursuant to which such obligation was created or secured, except when such obligation is being contested in good faith by the Maker;

(4) if any warranty, representation or statement made or furnished to the Holder by or on behalf of the Maker in connection with the loan to the Maker proves to have been false in any material respect when made or furnished;

(5) loss, theft, substantial damage, destruction, abandonment, sale or encumbrance to or of any of the collateral securing payment of the Note, or the making of any levy, seizure or attachment of or on such collateral;

(6) if the Maker becomes insolvent or bankrupt, or ceases, is unable, or admits in writing its inability to pay his debts as they mature, or makes a general assignment for the benefit of, or enters into any composition or arrangement with, creditors; or

(7) if proceedings are commenced for the appointment of a receiver, trustee or liquidator of the Maker, or of a substantial part of its assets or if any bankruptcy, reorganization, readjustment of debt, insolvency, dissolution, liquidation or similar proceedings are commenced, voluntarily or involuntarily, and, if involuntarily, are not discharged within thirty days.

Upon the occurrence of an Event of Default, the Holder, at his sole election, may declare all or any portion of the principal of and accrued interest on this Note to be immediately due and payable, and may proceed at once and without further notice to enforce this Note or any instrument securing this Note, or both, in accordance with their terms. No delay or failure of the Holder in the exercise of any right or remedy under this Note or under any other agreement or undertaking related to this Note shall affect any such right or remedy, and no single or partial exercise of any such right or remedy shall preclude any further exercise of such right or remedy, and no action taken or omitted by the Holder shall be deemed a waiver of any such right or remedy. No waiver shall be binding on the Holder unless in a writing signed by the Holder and then only to the extent specifically set forth in such writing.

If an Event of Default occurs, the Holder shall be entitled to recover all costs of collection, including without limitation, all attorneys' fees and costs for demand, trial and appellate proceedings, as well as all accrued interest. All past due interest shall bear interest at the Interest Rate.

All notices, requests, demands, claims and other communications under this Note shall be in writing, and sent (a) by registered or certified mail, return receipt requested, postage prepaid, or (b) by nationally recognized overnight courier, to the intended recipient as set forth below:

If to the Holder:	Copy to:
Mr. Roy E. Crippen, III 317 Woodcliff Rd. SE Huntsville, AL 35801 Attn: Roy Crippen	Digital Fusion, Inc. 4940-A Corporate Drive Huntsville, AL 35805
If to the Maker:	Copy to:
Digital Fusion, Inc. 4940-A Corporate Drive Huntsville, Alabama 35805 Phone: (973) 227-7783 Attn: Elisa Means	Holland & Knight LLP P.O. Box 1288 Tampa, Florida 33601-1288 Phone: (813) 227-8500 Attn: Richard B. Hadlow, Esq.

This Note is non-negotiable and cannot be sold, assigned, conveyed or otherwise transferred. This Note can be pledged or hypothecated only with the prior consent of the Maker.

This Note shall be binding upon maker and the successors and assigns of the Maker and upon the Holder and his personal representatives, heirs and assigns.

This Note and all rights and obligations under this Note shall be governed by and construed under the laws of Alabama without giving effect to principles of conflicts of laws. If any provision of this Note is or becomes invalid or unenforceable under any law of mandatory application, it is the intent of the Maker and the Holder that such provision will be deemed severed and omitted from this Note, the remaining portions of this Note to remain in full force and effect as written.

IN WITNESS WHEREOF, Digital Fusion, Inc. has caused this Note to be executed by its duly authorized officer on the day and year first above written at Huntsville, Alabama.

Digital Fusion, Inc.

By:
Name:
Title:

EXHIBIT 4.10

SECURITY AGREEMENT

This Security Agreement (the "Agreement") is dated as of January 15, 2004, between Digital Fusion, Inc., a Delaware corporation (the "Debtor"), and Roy E. Crippen, III (the "Secured Party").

Background

The Secured Party has agreed to make a loan to the Debtor as evidenced by a Promissory Note in the principal amount of $136,580.32 dated January 15, 2004 (the "Note"). The Note is subject to a Subordination Agreement among the Secured Party, the Debtor and Laurus Master Fund, Ltd. dated January 15, 2004 (the "Subordination Agreement").

Subject to the Subordination Agreement, the Debtor has agreed to grant the Secured Party a security interest in property currently owned or later acquired by the Debtor to secure the prompt payment and performance of all liabilities, obligations, and indebtedness of the Debtor under the Note.

Terms

In consideration of the foregoing, the Secured Party and the Debtor agree as follows:

1. Grant of Security Interest. To secure the due and punctual payment of the obligations under the Note and all extensions or renewals of the Note, including without limitation all costs and expenses (including reasonable attorneys' fees) incurred in collecting amounts due, the Debtor grants to the Secured Party a security interest in all tangible and intangible personal property of the Debtor, whether now owned or hereafter acquired by the Debtor, or in which the Debtor may now have or hereafter acquire an interest, including without limitation, all accounts, inventory, equipment, goods, documents, instruments (including without limitation, promissory notes), contract rights, general intangibles (including without limitation, payment intangibles), chattel paper, supporting obligations, investment property, letter-of-credit rights, trademarks and tradestyles, and in all proceeds and products of such property in any form (collectively, the "Collateral").

2. Representations and Warranties. The Debtor represents and warrants as follows:

a. The execution, delivery and performance of this Agreement are within the Debtor's corporate powers, have been duly authorized, are not in contravention of law or the terms of the Debtor's charter or bylaws, or any indenture, agreement, or undertaking to which the Debtor is a party or by which it is bound.

b. On demand, the Debtor will execute and deliver to the Secured Party such financing statements and other papers, and do all acts, as in the reasonable judgment of the Secured Party may be necessary or appropriate to establish and maintain a valid and prior security interest in the Collateral.

c. The Debtor will pay when due all taxes and assessments and will discharge any liens on or affecting the Collateral or its use. If the Debtor fails so to do, the Secured Party may at its option pay or discharge the same, unless the Debtor is contesting such taxes, assessments, or liens, and the Debtor will reimburse the Secured Party on demand for any such payment, and if payment is delayed then with interest, which shall begin to accrue beginning five business days after the date of demand at the highest rate allowable by law.

d. The Debtor has obtained the written consent of Laurus Master Fund, Ltd. to the transactions contemplated by the Note, the Subordination Agreement and this Agreement.

3. Default. The Debtor will be in default on the occurrence of any of the following events or conditions (hereafter called an "Event of Default"):

a. Any default by the Debtor under the Note, or any failure to perform any of the agreements of the Debtor contained in this Agreement;

b. The filing of any petition under the Bankruptcy Code, or any similar federal or state statute, by or against the Debtor;

c. The filing of an application for the appointment of a receiver for, the making of a general assignment for the benefit of creditors by, or the insolvency of the Debtor;

d. The issuing of any attachment or garnishment or the filing of any lien against any property of the Debtor; or

e. The taking of possession of any substantial part of the property of the Debtor at the instance of any governmental authority.

4. Remedies on Default. On occurrence of an Event of Default, the Secured Party may, at any time after the Event of Default, declare all or any of the obligations under the Note immediately due and payable. The Secured Party will have, in addition to all its other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Code. In exercising its remedies, the Secured Party shall comply with all applicable requirements of the Uniform Commercial Code, including the exercise of commercial reasonableness in connection with any disposition of the Collateral. The remedies of the Secured Party under this Agreement are cumulative, and the exercise of any one or more of them shall not constitute a general election of remedies.

Nothing in this Agreement shall limit the Secured Party's right to pursue a judgment on any deficiency that may exist after the exercise of any remedy granted in this Agreement.

5. Waiver. No act, delay, omission, or course of dealing between the Secured Party and the Debtor shall be a waiver of any of the Secured Party's rights or remedies under this Agreement, and no waiver, change, modification, or discharge in whole or in part of this Agreement or of any obligation will be effective unless in a writing signed by the Secured Party. A waiver by the Secured Party of any rights or remedies under the terms of this Agreement or with respect to any obligation on any occasion will not be a bar to the exercise of any right or remedy on any subsequent occasion. All rights and remedies of the Secured Party hereunder are cumulative and may be exercised singly or concurrently, and the exercise of any one or more of them will not be a waiver of any other.

6. Power of Attorney. The Debtor appoints the Secured Party as its attorney, with power to execute such documents on the Debtor's behalf and to supply any omitted information and correct patent errors in any documents executed by the Debtor or on the Debtor's behalf; to file financing statements against the Debtor covering the Collateral; to sign the Debtor's name on public records; and to do all other things the Secured Party deems necessary, appropriate or convenient, in his sole discretion, to carry out this Agreement. The Debtor ratifies and approves all acts of the attorney and neither the Secured Party nor the attorney will be liable for any acts of commission or omission, nor for any error of judgment or mistake of fact or law. This power being coupled with an interest, is irrevocable so long as any amount under the Note remains unpaid. Notwithstanding the foregoing, the Secured Party will not exercise any rights contemplated by this paragraph unless an Event of Default has occurred and the Debtor otherwise fails (following the request of the Secured Party) to execute any such documents, supply any such information, correct any such errors, sign the Debtor's name on any such financing statements or do such other things as the Secured Party may deem necessary to carry out this Agreement.

7. Subordination Agreement. This Agreement is subject to the Subordination Agreement and the terms of the Subordination Agreement are incorporated by reference.

8. Notice. All notices, requests, demands, claims and other communications under this Agreement shall be in writing, and sent (a) by registered or certified mail, return receipt requested, postage prepaid, or (b) by nationally recognized overnight courier, to the intended recipient as set forth below:

If to the Secured Party:	Copy to:
Mr. Roy E. Crippen, III 317 Woodcliff Rd., SE Huntsville, AL 35801 Attn: Roy Crippen	Digital Fusion, Inc. 4940-A Corporate Drive Huntsville, AL 35805
If to the Debtor:	Copy to:
Digital Fusion, Inc. 4940-A Corporate Drive Huntsville, Alabama 35805 Phone: (973) 227-7783 Attn: Elisa Means	Holland & Knight LLP P.O. Box 1288 Tampa, Florida 33601-1288 Phone: (813) 227-8500 Attn: Richard B. Hadlow, Esq.

9. Termination. This Agreement and the security interest of the Secured Party under it shall terminate when the Note is paid in full.

10. Binding Effect; Assignment. This Agreement shall be binding on, and shall inure to the benefit of the parties and their heirs, successors, assigns, and legal or personal representatives but shall not be assigned by either party without the prior written consent of the other party.

11. Modification. This Agreement cannot be modified or amended except by a written agreement signed by or on behalf of each of the parties to this Agreement.

12. Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together shall constitute one and the same instrument.

13. Headings. The titles and headings preceding the text of the paragraphs and other parts of this Agreement have been inserted solely for convenience of reference and do not constitute a part of this Agreement or affect its meaning, interpretation, or effect.

14. Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of Alabama, without respect to principles of conflicts of laws.

[signatures appear on next page]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

DIGITAL FUSION, INC.

By:__________________________________
Name:_______________________________
Title:________________________________

/s/ Roy E. Crippen, III
Roy E. Crippen, III

EXHIBIT 4.11

SUBORDINATION AGREEMENT

This Subordination Agreement (the "Agreement") is entered into as of the 15th day of January, 2004, by and among Digital Fusion, Inc., a Delaware corporation (the "Company"), Roy E. Crippen, III (the "Subordinate Lender") and Laurus Master Fund (the "Senior Lender").

BACKGROUND

The Company is currently indebted to PowerCerv Corporation ("PowerCerv") in the amount of $136,580.32 pursuant to a promissory note in the original amount of $827,500 as a result of the Borrower's acquisition of digital fusion, inc., a Florida corporation, in March 2000. The Company is also currently indebted to the Senior Lender pursuant to (a) a convertible note issued on July 26, 2002, as restructured on April 29, 2003 for a principal amount of $533,333 and (b) an additional convertible note issued on April 29, 2003 in the amount of $266,667.

The Subordinate Lender has agreed to make a loan to the Company to be applied by the Company in retirement of the PowerCerv note described above. The parties intend for such loan to be subordinate to the Company's indebtedness to the Senior Lender.

NOW, THEREFORE, the parties agree as follows:

TERMS

1. All obligations of Company, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent or now or hereafter existing, or due or to become due, other than obligations to the Subordinate Lender as an employee of Company, are referred to as "Liabilities". All Liabilities to the Senior Lender are referred to as "Senior Liabilities" and the Note dated January 15, 2004 in the amount of $136,580.32 (a copy of which is attached as Exhibit A to this Agreement) to the Subordinate Lender is referred to as the "Junior Liability". It is expressly understood and agreed that the term "Senior Liabilities", as used in this Agreement, shall include, without limitation, any and all interest accruing on any of the Senior Liabilities after the commencement of any proceedings referred to in paragraph 4 of this Agreement, notwithstanding any provision or rule of law which might restrict the rights of the Senior Lender, as against Company or anyone else, to collect such interest.

2. Except as expressly otherwise provided in this Agreement or as the Senior Lender may otherwise expressly consent in writing, the payment of the Junior Liability shall be postponed and subordinated to the payment in full of all Senior Liabilities, and no payments or other distributions whatsoever in respect of the Junior Liability shall be made, nor shall any property or assets of the Company be applied to the purchase or other acquisition or retirement of the Junior Liability; provided, however, that, until such time as the Senior Lender shall have notified the Subordinate Lender that the Company shall have defaulted in the payment when due, whether by acceleration or otherwise, of any amount payable in respect of the Senior Liabilities (and after the default in payment is cured), there are excepted from the terms of the foregoing provisions of this paragraph 2 those payments to the Subordinate Lender by the Company in respect of the Junior Liability.

3. The Subordinate Lender hereby subordinates all security interests created pursuant to the Security Agreement by and between the Subordinate Lender and the Company dated as of January 15, 2004 (the "Security Agreement"), to the security interests of the Senior Lender (to the extent perfected and enforceable) in all of the property of the Company, now owned or hereafter acquired. Except as provided in the previous sentence, priority of such security interests shall be in accordance with the provisions of the Uniform Commercial Code.

4. In the event of any dissolution, winding up, liquidation, readjustment, reorganization or other similar proceedings relating to the Company or to its creditors, as such, or to its property (whether voluntary or involuntary, partial or complete, and whether in bankruptcy, insolvency or receivership, or upon an assignment for the benefit of creditors, or any other marshalling of the assets and liabilities of the Company, or any sale of all or substantially all of the assets of the Company, or otherwise), the Senior Liabilities shall first be paid in full before the Subordinate Lender shall be entitled to receive and to retain any payment or distribution in respect of the Junior Liability.

5. The Subordinate Lender will mark his books and records so as to clearly indicate that the Junior Liability is subordinated in accordance with the terms of this Agreement. The Subordinate Lender will execute such further documents or instruments and take such further action as the Company or the Senior Lender may reasonably request from time to time request to carry out the intent of this Agreement.

6. The Subordinate Lender hereby waives all diligence in collection or protection of or realization upon the Senior Liabilities or any security for the Senior Liabilities.

7. The Subordinate Lender will not without the prior written consent of the Senior Lender: (a) attempt to enforce or collect the Junior Liability or any rights in respect of the Junior Liability; (b) take any collateral security for the Junior Liability other than pursuant to the Security Agreement; or (c) commence, or join with any other creditor in commencing, any bankruptcy, reorganization or insolvency proceedings with respect to the Company.

8. This Agreement shall in all respects be a continuing agreement and shall remain in full force and effect (notwithstanding, without limitation, the death or incompetence of the Subordinate Lender or that at any time or from time to time all Senior Liabilities may have been paid in full), subject to discontinuance only upon receipt by the Senior Lender of written notice from the Subordinate Lender, or any person duly authorized and acting on behalf of the Subordinate Lender, of the discontinuance of this Subordinate Agreement; provided, however, that no such notice of discontinuance shall affect or impair any of the agreements and obligations of the Subordinate Lender under this Agreement with respect to any and all Senior Liabilities existing prior to the time of receipt of such notice by the Senior Lender, any and all Senior Liabilities created or acquired thereafter pursuant to any previous commitments made by the Senior Lender, any and all extensions or renewals of any of the foregoing, any and all interest accruing on any of the foregoing, and any and all expenses paid or incurred by the Senior Lender in endeavoring to collect or realize upon any of the foregoing or any security for the Senior Liabilities; and all of the agreements and obligations of the Subordinate Lender under this Agreement shall, notwithstanding any such notice of discontinuance, remain fully in effect until all such Senior Liabilities (including any extensions or renewals of any thereof and all such interest and expenses) shall have been indefeasibly paid in full.

9. The Senior Lender may, from time to time, whether before or after any discontinuance of this Agreement, at its sole discretion and without notice to the Subordinate Lender, take any or all of the following actions: (a) retain or obtain a security interest in any property to secure any of the Senior Liabilities; (b) retain or obtain the primary or secondary obligation of any other obligor or obligors with respect to any of the Senior Liabilities; (c) extend or renew for one or more periods (whether or not longer than the original period), alter or exchange any of the Senior Liabilities, or release or compromise any obligation of any nature of any obligor with respect to any of the Senior Liabilities; and (d) release their security interest in, or surrender, release or permit any substitution or exchange for, all or any part of any property securing any of the Senior Liabilities, or extend or renew for one or more periods (whether or not longer than the original period) or release, compromise, alter or exchange any obligations of any nature of any obligor with respect to any such property.

10. The Senior Lender may, from time to time, whether before or after any discontinuance of this Agreement, without notice to the Subordinate Lender, assign or transfer any or all of the Senior Liabilities or any interest in the Senior Liabilities; and, notwithstanding any such assignment or transfer or any subsequent assignment or transfer of the Senior Liabilities, such Senior Liabilities shall be and remain Senior Liabilities for the purposes of this Agreement, and every immediate and successive assignee or transferee of any of the Senior Liabilities or of any interest in the Senior Liabilities shall, to the extent of the interest of such assignee or transferee in the Senior Liabilities, be entitled to the benefits of this Agreement to the same extent as if such assignee or transferee were the Senior Lender, as applicable; provided, however, that, unless the Senior Lender shall otherwise consent in writing, the Senior Lender shall have an unimpaired right, prior and superior to that of any such assignee or transferee, to enforce this Agreement, for the benefit of the Senior Lender, as to those of the Senior Liabilities which the Senior Lender has not assigned or transferred.

11. The Senior Lender shall not be prejudiced in its rights under this Agreement by any act or failure to act of the Company or the Subordinate Lender, or any noncompliance of the Company or the Subordinate Lender with any agreement or obligation, regardless of any knowledge thereof which the Senior Lender may have or with which the Senior Lender may be charged; and no action of the Senior Lender permitted under this Agreement shall in any way affect or impair the rights of the Senior Lender and the obligations of the Subordinate Lender under this Agreement.

12. No delay on the part of the Senior Lender in the exercise of any right or remedy shall operate as a waiver of such right or remedy, and no single or partial exercise by the Senior Lender of any right or remedy shall preclude other or further exercise of such right or remedy or the exercise of any other right or remedy; nor shall any modification or waiver of any of the provisions of this Agreement be binding upon the Senior Lender except as expressly set forth in a writing duly signed and delivered on behalf of the Senior Lender. For the purposes of this Agreement, Senior Liabilities shall include all obligations of the Company to the Senior Lender, notwithstanding any right or power of the Company or anyone else to assert any claim or defense as to the invalidity or unenforceability of any such obligation, and no such claim or defense shall affect or impair the agreements and obligations of the Subordinate Lender under this Agreement.

13. This Agreement shall be binding upon the Subordinate Lender and upon the heirs, legal representatives, successors and assigns of the Subordinate Lender and the successors and assigns of the Company.

14. This Agreement shall be construed in accordance with and governed by the laws of New York without regard to conflict of laws provisions. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.
[signature page follows]

IN WITNESS WHEREOF, this Subordination Agreement has been made and delivered this 15th day of January, 2004.

/s/ Roy E. Crippen, III
Roy E. Crippen, III

LAURUS MASTER FUND, LTD.

By:
Name:
Title:

The Company hereby acknowledges receipt of a copy of the foregoing Subordination Agreement, waives notice of acceptance of the Subordination Agreement by the Senior Lenders, and agrees to be bound by the terms and provisions of the Subordination Agreement, to make no payments or distributions contrary to the terms and provisions of the Subordination Agreement, and to do every other act and thing necessary or appropriate to carry out such terms and provisions.
Dated: January 15th , 2004

DIGITAL FUSION, INC.

By:
Name:
Title:

EXHIBIT A
[Attach copy of note]

EXHIBIT 4.12

RELEASE

This Release (the “Release”), dated as of January 15, 2004, is executed and delivered by PowerCerv Corporation, a Florida corporation (“PowerCerv”) to Digital Fusion, Inc., a Delaware corporation (the “Company”).

BACKGROUND

The Company is currently indebted to PowerCerv pursuant to a promissory note in the original amount of $827,500 (the “Note”) as a result of the Company’s acquisition of digital fusion, inc., a Florida corporation, in March 2000. The Company also granted a security interest in certain of the Company’s assets (the “Assets”) to PowerCerv as security for the Note.

The Company has agreed to deliver to PowerCerv (a) a cash payment of $110,000 and (b) 25,000 shares of PowerCerv preferred stock, as full and final payment of the total amount of principal and interest outstanding under the Note (the “Payoff Amount”). In consideration for such payment, PowerCerv desires to acknowledge the Company’s satisfaction of its obligations under the Note and to release the Company’s Assets from the security interest.

Accordingly, in consideration of the mutual agreements set forth below, the parties agree as follows:

TERMS

1. PowerCerv (a) irrevocably terminates and releases in their entirety all security interests, liens and/or other encumbrances granted by the Company or otherwise arising under the Note (or any other documents or agreements created in relation to the Note) against any and all of the Assets (the "Liens"), (b) agrees to file a Uniform Commercial Code Form UCC-3 release with respect to the Uniform Commercial Code Form UCC-1 financing statement attached to this Release as Annex I, and (c) agrees to execute and deliver to the Company, and to file, such other releases and/or other documents as the Company shall reasonably request to further evidence (of record) the release of any Liens.

2. PowerCerv unconditionally and irrevocably releases and forever discharges the Company from any claims, demands, suits, debts, contracts, agreements, promises, damages, and causes of action and judgments of any kind or nature whatsoever, known or unknown, complete or incomplete, absolute or contingent, and whether arising out of the common law, equity, statute, or otherwise, whether arising before or after the date of this Release that arise out of or relate in any way to the Note.

3. This Release shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns.

4. This Release shall be governed by and construed in accordance with the domestic laws of Florida without regard to principles of conflict of laws.

5. This Release shall be effective upon PowerCerv’s receipt of the Payoff Amount.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Release as of the date set forth above.

POWERCERV CORPORATION

By:
Name:
Title:

Annex I

[UCC-1 Filed 01/09/2001 – Document Number 200100006724]

EXHIBIT 4.13

COMPOSITE AMENDMENT NO. 1

This is COMPOSITE AMENDMENT NO. 1, dated as of April 7, 2004 (this “Amendment”), to the following agreements between Laurus Master Fund, Ltd., a Cayman Islands company (the “Purchaser”), and Digital Fusion, Inc., a Delaware corporation (the “Company”):

The Digital Fusion, Inc. Securities Purchase Agreement, dated as of July 26, 2002, between the Company and the Purchaser (as amended, modified or supplemented from time to time, the “First Purchase Agreement”).

The Convertible Note in the original principal amount of $800,000.00, dated July 26, 2002, and executed by the Company in favor of the Purchaser (as amended, modified or supplemented from time to time, the “First Note”).

The Digital Fusion, Inc. Securities Purchase Agreement, dated as of April 29, 2003, between the Company and the Purchaser (as amended, modified or supplemented from time to time, the “Second Purchase Agreement”).

The Convertible Note in the original principal amount of $266,667, dated April 29, 2003, and executed by the Company in favor of the Purchaser (as amended, modified or supplemented from time to time, the “Second Note”).

Except as set forth below, the terms of the referenced documents remain unchanged and in full force and effect.

I. Amendments and Agreements.

In consideration of the Purchaser’s agreement to enter into this Amendment, the Company hereby agrees to pay to the Purchaser the sum of $25,000 (the “Amendment Fee”). The Amendment Fee shall be earned by the Purchaser upon the execution of this Amendment by the Company, and shall be payable as (and deemed) outstanding principal under the First Note.

Section 2.1 of each of the First Note and the Second Note are hereby deleted in their entirety and, in each case, the following new Section 2.1 is hereby inserted in lieu thereof:

“2.1 Monthly Payments. The Borrower shall repay a principal amount of this Note in accordance with Composite Amendment No. 1 to this Note (and certain other agreements), dated as of April 7, 2004 (to the extent such amount has not been converted pursuant to Article III below), together with interest accrued to date under this Note plus any and all default payments and/or fees owing under the Purchase Agreement or any Related Agreement but not previously paid (collectively, the “Monthly Amount”) beginning on February 1, 2005 and on the first day of each consecutive calendar month thereafter (each, a “Repayment Date”); provided that if such first day any calendar month is not a business day, such Repayment Date shall be the first business day that occurs thereafter. On each Repayment Date, the Borrower shall pay to the Holder an amount equal to the Monthly Amount in satisfaction of such obligation. Any amount under this Note that remains outstanding on the Maturity Date shall be due and payable on the Maturity Date.”.

Section 3.1(a) of the First Note is hereby deleted in its entirety and the following new Section 3.1(a) is hereby inserted in lieu thereof:

“(a) The Holder shall have the right, but not the obligation, to convert the principal portion of this Note and/or interest due and payable on this Note into fully paid and nonassessable shares of common stock of the Borrower into which such common stock shall hereafter be changed or reclassified (the “Common Stock”) at the fixed conversion price of $0.922, which fixed conversion price shall be subject to adjustment as provided in Section 3.1(b) hereof (the “Fixed Conversion Price”).”.

Section 3.1(a) of the Second Note is hereby deleted in its entirety and the following new Section 3.1(a) is hereby inserted in lieu thereof:

“(a) The Holder shall have the right, but not the obligation, to convert the principal portion of this Note and/or interest due and payable on this Note into fully paid and nonassessable shares of common stock of the Borrower into which such common stock shall hereafter be changed or reclassified (the “Common Stock”) at the fixed conversion price of $0.35, which fixed conversion price shall be subject to adjustment as provided in Section 3.1(b) hereof (the “Fixed Conversion Price”).”.

The First Note is hereby amended by deleting the date “January 26, 2004” contained in the first paragraph thereof and inserting the date “January 2, 2006” in lieu thereof.

The Second Note is hereby amended by deleting the date “April 30, 2005” contained in the first paragraph thereof and inserting the date “January 2, 2006” in lieu thereof.

It is hereby agreed that the outstanding principal amount of the First Note on the date hereof (after giving effect to the increase to such principal amount as set forth in Section 1 above) is $340,518.35 and the outstanding principal amount of the Second Note on the date hereof is $266,667.00. Notwithstanding anything to the contrary contained in the First Note, the First Purchase Agreement, the Second Note or the Second Purchase

Agreement, such outstanding principal amounts shall be subject to amortization payments in accordance with Section 2.1 of each of the First Note and the Second Note (as in effect after giving effect to this Amendment) in the aggregate amounts, and on the dates, set forth in Schedule A hereto; provided that the Purchaser shall retain all rights to convert such amortization payments to Common Stock in accordance with the terms and conditions of each of the First Note, the First Purchase Agreement, the Second Note and the Second Purchase Agreement . All interest and fees (if applicable) shall continue to accrue on the outstanding principal amount of each of the First Note and the Second Note in accordance with the terms thereof (after giving effect to this Amendment).
Each of Section 5.9 of the First Purchase Agreement and Section 5.9 of the Second Purchase Agreement are hereby deleted in their entirety.
II. Miscellaneous.

1. This Amendment shall be effective as of the date hereof following the execution of same by the Purchaser and the Company.

2. There are no other amendments to the First Note, the Second Note, the First Purchase Agreement or the Second Purchase Agreement (other than, in each case, as have been agreed in writing by the parties hereto), and all of the other terms and provisions of each of the First Note, the Second Note, the First Purchase Agreement and the Second Purchase Agreement remain in full force and effect.

3. The Company hereby represents and warrants to the Purchaser that as of the date hereof all representation and warranties made by the Company in connection with each of the First Note, the Second Note, the First Purchase Agreement, the Second Purchase Agreement and each other agreement entered into in connection therewith are true, correct and complete in all material respects, all of the Company's covenant requirements have been met and no Event of Default (or event that, but for the passage of time, would be an Event of Default) has occurred and is continuing.

4. This Amendment shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to applicable conflict of laws provisions.

5. This Amendment may be executed by facsimile signatures and in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.
* * * *

IN WITNESS WHEREOF, this Amendment has been executed as of this 7th day of April, 2004.

LAURUS MASTER FUND, LTD.	DIGITAL FUSION, INC.
By:	By:
Name:	Name:
Title:	Title:

SCHEDULE A

Amortization Schedule-First Note

Repayment Date	Principal Amount ($)
2/1/2005	28,000.00
3/1/2005	28,000.00
4/1/2005	28,000.00
5/1/2005	28,000.00
6/1/2005	28,000.00
7/1/2005	28,000.00
8/1/2005	28,000.00
9/1/2005	28,000.00
10/1/2005	28,000.00
11/1/2005	28,000.00
12/1/2005	28,000.00
1/2/2006 (Maturity Date)	32,518.35

Amortization Schedule-Second Note

Repayment Date	Principal Amount ($)
2/1/2005	22,000.00
3/1/2005	22,000.00
4/1/2005	22,000.00
5/1/2005	22,000.00
6/1/2005	22,000.00
7/1/2005	22,000.00
8/1/2005	22,000.00
9/1/2005	22,000.00
10/1/2005	22,000.00
11/1/2005	22,000.00
12/1/2005	22,000.00
1/2/2006 (Maturity Date)	24,667.00

EXHIBIT 14.1

DIGITAL FUSION, INC.
CODE OF ETHICS FOR
PRINCIPAL EXECUTIVE AND FINANCIAL OFFICERS

This Code of Ethics has been adopted by the Board of Directors and it is the policy of Digital Fusion, Inc. (the "Company") that the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or others performing similar functions (the "Principal Officers") adhere to and advocate the following principles governing their conduct in the fulfillment of their responsibilities with the Company.

1. HONEST AND ETHICAL CONDUCT

The Principal Officers must conduct themselves honestly and ethically, and must strive to avoid the appearance of improper behavior in the conduct of their duties. This code does not cover every issue that may arise, but sets out basic principles.

CONFLICT OF INTEREST. A Principal Officer must make business decisions based on the best interest of the Company and must not allow his or her personal interest to influence such decisions. Principal Officers, or members of their family, may not accept gifts, favors or money that may reasonably influence their decisions or performance. Principal Officers must avoid even the appearance of dishonest or unethical behavior in the conduct of their duties. Principal Officers should proactively promote the honest and ethical behavior among subordinates and peers. It is almost always a conflict of interest for a Principal Officer to work simultaneously with a competitor, customer or supplier of the Company. Principal Officers are not allowed to work for a competitor or as a consultant for board members. The best policy is to avoid any direct or indirect business connection with our customers, suppliers or competitors, except on the Company's behalf. Conflicts of interest may not always be clear-cut, and when in doubt, the Company's General Counsel should be consulted. Any Principal Officer who becomes aware of a conflict or potential conflict should bring it to the attention of the Company's General Counsel.

CORPORATE OPPORTUNITIES. Principal Officers are prohibited from taking personal opportunities that are discovered through the use of corporate property, information or position without the consent of the Board of Directors. Principal Officers may not use corporate property, information, or position for improper personal gain, and may not compete with the Company directly or indirectly.

INSIDER TRADING. All non-public information about the Company should be considered confidential information. To use non-public information for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also illegal. Principal Officers must also comply with the Company's Insider Trading Policy. The Company's General Counsel should be consulted if there are any questions.

CONFIDENTIALITY. Principal Officers must take reasonable measures to maintain the confidentiality of confidential information entrusted to them by the Company or its customers or suppliers, except when disclosure is authorized or required by laws or regulations. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers or suppliers, if disclosed. The obligation to preserve confidential information continues even after employment ends.

PROTECTION AND PROPER USE OF COMPANY ASSETS. Principal Officers should protect the Company's assets and ensure their efficient use. All Company assets should be used for legitimate business purposes.

2. DISCLOSURE IN REPORTS

Each Principal Officer must assist in the Company's efforts to provide full, fair, accurate, timely, and understandable disclosure in the periodic reports (collectively, the "Periodic Reports") and other documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company. Principal Officers shall endeavor in good faith to assist the Company in such efforts, including by striving to:

Disclose to the Audit Committee of the Board of Directors any significant deficiencies in the design or operation of the Corporation's internal controls impacting the collection and reporting of financial data and any fraud involving management or other employees who play a significant role in the Corporation's internal controls.

Record and report information in an honest and accurate manner. Principal Officers must endeavor to ensure that the books, records, accounts and financial statements of the Company are recorded and kept in reasonable detail, in a manner that appropriately reflects the Company's transactions and that conforms to applicable legal requirements and the Company's system of internal controls. Unrecorded or "off the books" funds or assets are not to be maintained by the Company unless permitted by applicable law or regulation.

Cooperate with the Company's independent auditors when asked to do so and refrain from taking any action to improperly influence, coerce, manipulate or mislead the Company's independent auditors for the purpose of rendering the Company's financial statements misleading.

Help develop and maintain and observe the Company's disclosure controls and procedures in order to facilitate accurate and timely filings of Periodic Reports.

Principal Officers should proactively promote appropriate disclosure among subordinates and peers.

3. COMPLIANCE WITH LAWS, RULES AND REGULATIONS

Each Principal Officer must comply with the laws, rules and regulations (collectively, the "Rules") of the cities, states and countries and private and public regulatory agencies that are applicable to his or her conduct as a Principal Officer of the Company, which includes but is not limited to the preparation of Periodic Reports. The Principal Officers are not expected to know every detail of these Rules, but they are expected to know enough to determine when to seek advice from the Company's independent auditor, internal legal staff or outside legal counsel. A Principal Officer must comply with all stated policies of the Company applicable to him or her.

4. REPORTING OF ILLEGAL OR UNETHICAL BEHAVIOR

The Principal Officers are encouraged to consult with the Company's General Counsel about observed illegal or unethical behavior and when in doubt about the best course of action in a particular situation. Principal Officers must promptly report any possible violation of this code to the Company's General Counsel and the Chairman of the Audit Committee of the Board of Directors. Principal Officers must fully cooperate in any internal investigation of alleged misconduct.

5. ACCOUNTABILITY

This code is a policy of the Company. Each Principal Officer will be held accountable for any violation of this code by the Board of Directors or a committee appointed by the Board of Directors for such purpose, which could include being relieved of his or her duties or termination of employment.

6. WAIVERS OR AMENDMENT OF THE CODE

Any waiver or Amendment of this code may be made only by the Board of Directors of the Company, or a Board Committee, and will be promptly disclosed as required by applicable law or regulation.

EXHIBIT 21.1

DIGITAL FUSION, INC.

LIST OF SUBSIDIARIES

The following is a list of all of the subsidiaries of Digital Fusion, Inc. and the jurisdictions of incorporation of such subsidiaries. All of the listed subsidiaries do business under their names presented below:

1. Digital Fusion Solutions, Inc. (formerly digital fusion, inc.)
   Florida (state of incorporation)

EXHIBIT 23.1

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Digital Fusion, Inc.
Tampa, Florida

We hereby consent to the incorporation by reference in the Registration Statements of Digital Fusion, Inc. on Form S-3 (SEC file No. 333-100052) dated January 27, 2004, (except for the last paragraph of Note 7(c), as to which the date is April 7, 2004) relating to the consolidated financial statements of Digital Fusion, Inc. appearing in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003.

Pender Newkirk & Company
Tampa, Florida
April 12, 2004

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Roy E. Crippen, III certify that:

1. I have reviewed this annual report on Form 10-KSB of Digital Fusion, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as the end of the period covered by this report based on such evaluation; and

c) disclosed in this any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2004 By: /s/ Roy E. Crippen, III
Roy E. Crippen, III
Chief Executive Officer and President

EXHIBIT 32.1

WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. §1350, I, the undersigned President and Chief Executive Officer of Digital Fusion, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-KSB of the Company for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 14, 2004 By: /s/ Roy E. Crippen, III
Roy E. Crippen, III