

## **PRESS RELEASE**

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### **Digital Fusion Releases Second Quarter 2007 Results**

HUNTSVILLE, ALABAMA. - September 12, 2007 Digital Fusion, Inc. (DIGF.PK), an information technology ("IT"), research and engineering, and acquisition and business support services provider today announced financial results for the second quarter ended June 29, 2007.

#### **Second Quarter 2007 Highlights**

- Revenue of \$11.6 million, an increase of \$3 million over same quarter in the previous year
- Earnings before interest, taxes, share-based compensation, depreciation and amortization (EBITDA) of \$694,000, an increase of \$272,000 or 64.5% over same quarter in the previous year

#### **Financial Comparisons**

On January 1, 2007, Digital Fusion, Inc. elected to change its accounting period. The election changes the financial reporting period to a 52-53-week year. For 2007, Digital Fusion will have the following quarterly reporting periods: 1) twelve weeks ended March 23, 2007, 2) fourteen weeks ended June 29, 2007, 3) twelve weeks ended September 21, 2007, and 4) fourteen weeks ended December 28, 2007. The financial reporting period ended June 29, 2007 is a 14-week period compared to the previous year's 13-week period (three months) ended June 30, 2006.

For the fourteen weeks ended June 29, 2007, revenues increased to \$11.6 million compared to \$8.6 million for the second quarter of 2006. For the quarter, GAAP net income was \$10,000 and earnings per share was \$0.00, compared to GAAP net loss of \$305,000 and loss per share of \$0.03 for the second quarter of 2006.

For the twenty-six weeks ended June 29, 2007, revenues increased to \$20.7 million compared to \$15.7 million for the six months ended June 30, 2006. For the twenty-six weeks ended June 30, 2007, GAAP net loss was \$90,000 and loss per share, was \$0.01 compared to GAAP net loss of \$469,000 and loss per share of \$0.04 for the six months ended June 30, 2006.

#### **Business Discussion**

Service revenue increased approximately \$2.3 million in the second quarter of 2007 compared to the same quarter in the previous year. The increase in service revenues during the second quarter of 2007 compared to the same quarter in the previous year was primarily related to the increase in the number of billable employees, the NASA Marshall Space Flight Center contract, and growth in engineering and IT services. Reimbursed costs revenue increased \$822,000 in the second quarter of 2007 compared to the second quarter of 2006. The increase in reimbursed cost revenue is primarily related to an increase

in sub-contract activity and purchases made for customers. Product revenue decreased approximately \$64,000 in the second quarter of 2007 compared to the same quarter of the previous year. The decrease in product revenue resulted from a reduction of software re-sales to governmental organizations. Reselling software is not something the company is focused on, and product revenue is not expected to be significant in the future.

### **Management Comments**

"The second quarter met our expectations and the trend lines are looking up in regards to revenue and EBITDA. I remain confident that the second half of the year will continue to reflect positive trends, particularly in terms of potential new customers and an expanding scope of operations with our current customer base. We are on track in achieving our annual financial goals, and I'm very pleased that we had GAAP net income in the second quarter.", said Lt. Gen. (Ret.) Frank Libutti, Chairman of the Board and Chief Executive Officer of Digital Fusion.

### **About Digital Fusion**

Digital Fusion, Inc., headquartered in Huntsville, Alabama, is an information technology, research and engineering, and acquisition and business support services company that helps its customers make the most of technology to meet their business needs. Digital Fusion provides state-of-the-art solutions to both government and commercial customers. Digital Fusion's core competencies are focused in the following broad areas: Application Development, Architecture and Security; Network Security; Data Management and Business Intelligence; System Migration and Integration; Sensor Systems Development and Analysis; Aerodynamic Design, Analysis, and Support; Thermal-Structural Modeling; Test and Evaluation; Systems Engineering; Modeling and Simulation; Control System Design and Analysis; Mechanical Design and Analysis; and Program Management Support. For additional information about Digital Fusion visit <http://www.digitalfusion.com>.

*Forward Looking Statements. All statements other than statements of historical fact included in this release are forward-looking statements. When used in this release, words such as "project", "anticipate," "believe," "estimate," "expect," "plan", "intend" and similar expressions, as they relate to the Company or its management, as well as assumptions made by and information currently available to the Company's management, identify forward-looking statements. Similarly, statements herein that describe the Company's business strategy, outlook, objectives, plans, intentions or goals are also forward-looking statements. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors including, but not limited to: the effect of business and economic conditions; the impact of competitive products and pricing; capacity and supply constraints or difficulties, the Company's dependence on continued funding of U.S. government programs; contract procurement and termination risks; competitive factors such as pricing pressures and/or competition to hire and retain employees, and material changes in laws or regulations applicable to the Company businesses. Such statements reflect the current views of the Company with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. These statements reflect the Company's current beliefs and are based upon information currently available to it. Be advised that developments subsequent to this release are likely to cause these statements to become outdated with the passage of time.*

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**DIGITAL FUSION, INC.**  
**Condensed Consolidated Balance Sheets**  
**(In thousands)**

	June 29, 2007 <sup>(1)</sup> (Unaudited)	December 31, 2006
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 2	\$ 1
Accounts receivable (net of allowance for doubtful accounts of \$25 for 2007 and \$25 for 2006)	5,960	5,042
Unbilled receivables	859	1,011
Prepaid expenses and other current assets	239	144
Deferred tax asset, current	1,413	1,291
Total current assets	8,473	7,489
Property and equipment, net of accumulated depreciation of \$1,347 for 2007 and \$1,194 for 2006	1,038	1,137
Goodwill	5,861	5,861
Purchased intangible assets, net	993	1,207
Deferred tax asset, long-term	1,127	1,249
Deferred compensation plan asset	217	-
Other assets	6	24
Total assets	\$ 17,715	\$ 16,967
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 3,461	\$ 2,723
Accounts payable	1,128	983
Deferred revenue	3	8
Accrued compensation and related expenses	2,818	2,412
Other current liabilities	269	384
Income taxes payable	10	34
Total current liabilities	7,689	6,544
Long-term debt, less current maturities	-	1,500
Deferred comp plan liability	285	-
Pension obligation	305	305
Total liabilities	8,279	8,349
Stockholders' Equity:		
Preferred Stock - \$.01 par value; authorized 1,000 shares, no share issued and outstanding	-	-
Common Stock - \$.01 par value; authorized 30,000 shares; 11,589 and 11,474 shares issued and outstanding at June 29, 2007 and December 31, 2006, respectively	116	115
Additional paid in capital	46,925	46,018
Accumulated deficit	(37,605)	(37,515)
Total stockholders' equity	9,436	8,618
Total liabilities and stockholders' equity	\$ 17,715	\$ 16,967

(1) Digital Fusion, Inc. elected to change its accounting period to a 52-53-week year. The financial reporting period ended June 29, 2007 is a 26-week period compared to the previous year's 26-week period (six months) ended June 30, 2006.

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**DIGITAL FUSION, INC.**  
**Condensed Consolidated Statements of Operations**  
**For the fourteen and twenty-six weeks ended June 29, 2007 and**  
**the three and six months ended June 30, 2006**  
**(Unaudited)**  
**(In thousands, except per share data)**

	<u>Fourteen weeks and Three</u> <u>months ended</u>		<u>Twenty-six weeks and Six</u> <u>months ended</u>	
	<u>June 29,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>	<u>June 29,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Revenues:				
Services and fees	\$ 9,245	\$ 6,929	\$ 17,025	\$ 13,305
Reimbursed costs	2,379	1,557	3,638	2,166
Product	<u>-</u>	<u>64</u>	<u>-</u>	<u>183</u>
Total Revenue	<u>11,624</u>	<u>8,550</u>	<u>20,663</u>	<u>15,654</u>
Cost of services and goods sold:				
Services	7,672	5,840	14,078	11,018
Reimbursed costs	2,280	1,515	3,489	2,108
Product	<u>-</u>	<u>51</u>	<u>-</u>	<u>161</u>
Total cost of services and good sold	<u>9,952</u>	<u>7,406</u>	<u>17,567</u>	<u>13,287</u>
Gross profit	1,672	1,144	3,096	2,367
Selling, general and administrative	<u>1,511</u>	<u>1,214</u>	<u>2,848</u>	<u>2,359</u>
Operating income (loss)	<u>161</u>	<u>(70)</u>	<u>248</u>	<u>8</u>
Other income (expenses):				
Interest expense, net	(45)	(44)	(123)	(92)
Amortization of discount on debt and intrinsic value of convertible debt	<u>-</u>	<u>(88)</u>	<u>-</u>	<u>(175)</u>
Total interest expense	(45)	(132)	(123)	(267)
Other income	4	4	6	4
Amortization of intangible assets	<u>(107)</u>	<u>(107)</u>	<u>(214)</u>	<u>(214)</u>
Total other expenses	<u>(148)</u>	<u>(235)</u>	<u>(331)</u>	<u>(477)</u>
Net Income (loss) before income taxes	13	(305)	(83)	(469)
Income tax expense (benefit)	<u>3</u>	<u>-</u>	<u>7</u>	<u>-</u>
Net income (loss) <sup>(1)</sup>	<u>\$ 10</u>	<u>\$ (305)</u>	<u>\$ (90)</u>	<u>\$ (469)</u>
Basic earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Basic weighted average common stock shares outstanding	<u>11,515</u>	<u>11,441</u>	<u>11,515</u>	<u>11,378</u>
Diluted earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Diluted weighted average common stock shares outstanding	<u>13,869</u>	<u>11,441</u>	<u>11,515</u>	<u>11,378</u>

<sup>(1)</sup> Digital Fusion, Inc. elected to change its accounting period to a 52-53-week year. The financial reporting period ended June 29, 2007 is a 14 and 26-week period compared to the previous year's 13-week and 26-week period (three and six months) ended June 30, 2006.

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**DIGITAL FUSION, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**For the twenty-six weeks ended June 29, 2007 and six months ended June 30, 2006**  
**(Unaudited)**  
**(In thousands)**

	<u>June 29,</u> <u>2007<sup>(1)</sup></u>	<u>June 30,</u> <u>2006</u>
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ (90)	\$ (468)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, net of effect of acquisition:		
Depreciation and amortization	153	104
Amortization of beneficial interest	-	126
Amortization of discount on debt	-	49
Amortization of intangible assets	214	214
Stock-based compensation expense	865	787
Proceeds from sale of trading securities	-	66
Changes in assets and liabilities	<u>(378)</u>	<u>121</u>
Net cash provided by (used in) operating activities	<u>764</u>	<u>999</u>
Cash flows provided by (used in) investing activities:		
Capital expenditures - property and equipment	<u>(53)</u>	<u>(509)</u>
Net cash provided by (used in) investing activities	<u>(53)</u>	<u>(509)</u>
Cash flows provided by (used in) financing activities:		
Proceeds from exercise of options and warrants	51	115
Repayments of notes payable	(600)	-
Net proceeds from (payments to) line of credit	<u>(161)</u>	<u>(604)</u>
Net cash provided by (used in) financing activities	<u>(710)</u>	<u>(489)</u>
Net increase (decrease) in cash and cash equivalents	1	1
Cash and cash equivalents, beginning of periods	<u>1</u>	<u>1</u>
Cash and cash equivalents, end of periods	<u>\$ 2</u>	<u>\$ 2</u>

<sup>(1)</sup> Digital Fusion, Inc. elected to change its accounting period to a 52-53-week year. The financial reporting period ended June 29, 2007 is a 14 and 26-week period compared to the previous year's 13-week and 26-week period (three and six months) ended June 30, 2006.

-MORE-

**Earnings before interest, income taxes, share-based compensation, depreciation,  
and amortization (EBITDA)  
(unaudited in thousands)**

EBITDA (which we define as earnings before interest, income taxes, share-based compensation, depreciation, and amortization) is not a measure of financial performance under United States generally accepted accounting principles ("US GAAP") and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to cash flow from operating activities as a measure of liquidity. Management believes EBITDA provides additional, useful information regarding Digital Fusion's ability to meet our debt service, capital expenditure and working capital requirements. EBITDA is a traditional measure of a business' ability to generate cash flows irrespective of financing costs and is presented as a supplemental financial measurement in the evaluation of our business.

	<u>Twenty-six weeks ended June 29, 2007</u>	<u>Six months ended June 30, 2006</u>
Net income (loss)	\$ (90)	\$ (469)
Interest expense	123	92
Income tax expense	7	-
Share-based compensation	865	787
Depreciation	153	104
Amortization of intangible assets	214	214
Amortization of discount on debt and intrinsic value of convertible debt	-	175
EBITDA	<u>\$ 1,272</u>	<u>\$ 903</u>