

PRESS RELEASE

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Digital Fusion Releases Fourth Quarter 2007 Results

HUNTSVILLE, ALABAMA. – February 25, 2008 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 fourth quarter ended December 28, 2007.

Fourth Quarter 2007 Highlights

- Revenue of \$14.7 million, an increase of \$4.9 million or 50% over same quarter in the previous year
- Earnings before interest, taxes, share-based compensation, depreciation and amortization (EBITDA) of \$1.3 million, an increase of \$830,000 or 191.7% 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 ending March 23, 2007; 2) fourteen weeks ending June 29, 2007; 3) twelve weeks ending September 21, 2007; and 4) fourteen weeks ending December 28, 2007. The financial reporting period ending December 28, 2007 is a 14-week period compared to the previous year’s 13-week period (three months) ending December 31, 2006.

For the fourteen weeks ended December 28, 2007, revenues increased to \$14.7 million compared to \$9.8 million for the fourth quarter of 2006. For the quarter, GAAP net income was \$1.5 million and earnings per share was \$0.11, compared to GAAP net income of \$1.9 million and earnings per share of \$0.15 for the fourth quarter of 2006.

For the fifty-two weeks ended December 28, 2007, revenues increased to \$47.5 million compared to \$34.4 million for the twelve months ended December 31, 2006. For the fifty-two weeks ended December 28, 2007, GAAP net income was \$1.6 million and earnings per share was \$0.12 compared to GAAP net income of \$1.3 million and earnings per share of \$0.09 for the twelve months ended December 31, 2006.

Business Discussion

Service revenue increased approximately \$2.2 million in the fourth quarter of 2007 compared to the same quarter in the previous year. The increase in service revenues during the fourth 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, growth in engineering and IT services, and one additional week included in the fourth quarter of 2007 associated with the change in quarterly reporting periods. Reimbursed costs revenue increased \$2.8 million in the fourth quarter of 2007 compared to the fourth quarter of 2006. The increase in reimbursed cost revenue is primarily related to an increase in sub-contract activity, purchases made for customers, and one additional week included in the fourth quarter of 2007 associated with the change in quarterly reporting periods. Product revenue decreased approximately \$5,000 in the fourth 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 fourth quarter results as well as the yearly results met our expectations and I remain confident that 2008 will continue to reflect our positive trends. We are well positioned for continued success and we have numerous potential new business opportunities. We set out almost three years ago with a plan to expand our business base in our core competencies and I am proud to report that we have been successful, particularly in terms of new customers and expanding scope of operations with our current customer base”, 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.

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

	December 28, 2007 ⁽¹⁾	December 31, 2006
	<u>(Unaudited)</u>	<u>2006</u>
ASSETS		
Current Assets:		
Cash	\$ 2	\$ 1
Accounts receivable (net of allowance for doubtful accounts of \$167 for 2007 and \$25 for 2006)	7,952	5,042
Unbilled receivables	1,170	1,011
Prepaid expenses and other current assets	138	144
Deferred tax asset, current	2,062	1,291
Total current assets	<u>11,324</u>	<u>7,489</u>
Property and equipment, net of accumulated depreciation of \$673 for 2007 and \$1,194 for 2006	1,004	1,137
Goodwill	5,861	5,861
Purchased intangible assets, net	780	1,207
Deferred tax asset, long-term	1,710	1,249
Deferred compensation plan asset	326	-
Other assets	18	24
Total assets	<u>\$ 21,023</u>	<u>\$ 16,967</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 1,762	\$ 2,723
Accounts payable	3,077	983
Deferred revenue	28	8
Accrued compensation and related expenses	2,891	2,412
Other current liabilities	239	384
Income taxes payable	235	34
Total current liabilities	<u>8,232</u>	<u>6,544</u>
Long-term debt, less current maturities	-	1,500
Deferred comp plan liability	502	-
Pension obligation	-	305
Total liabilities	<u>8,734</u>	<u>8,349</u>
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; 11,700 and 11,474 shares issued and outstanding at December 28, 2007 and December 31, 2006, respectively	117	115
Additional paid in capital	48,095	46,018
Accumulated deficit	(35,923)	(37,515)
Total stockholders' equity	<u>12,289</u>	<u>8,618</u>
Total liabilities and stockholders' equity	<u>\$ 21,023</u>	<u>\$ 16,967</u>

⁽¹⁾ Digital Fusion, Inc. elected to change its accounting period to a 52-53-week year. The financial reporting period ended December 28, 2007 is a 52-week period compared to the previous year's twelve month period ended December 31, 2006.

DIGITAL FUSION, INC.
Condensed Consolidated Statements of Operations
For the fourteen and fifty-two weeks ended December 28, 2007 and
three and twelve months ended December 31, 2006
(Unaudited)
(In thousands, except per share data)

	<u>Fourteen weeks and Three months ended</u>		<u>Fifty-two weeks and Twelve months ended</u>	
	<u>December 28,</u>	<u>December 31,</u>	<u>December 28,</u>	<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:				
Services and fees	\$ 9,772	\$ 7,617	\$ 34,880	\$ 28,617
Reimbursed costs	4,930	2,158	12,577	5,504
Product	7	12	7	229
Total Revenue	<u>14,709</u>	<u>9,787</u>	<u>47,464</u>	<u>34,350</u>
Cost of services and goods sold:				
Services	7,750	6,243	28,412	23,630
Reimbursed costs	4,745	2,146	12,027	5,402
Product	7	(8)	7	180
Total cost of services and good sold	<u>12,502</u>	<u>8,381</u>	<u>40,446</u>	<u>29,212</u>
Gross profit	2,207	1,406	7,018	5,138
Pension termination	9	227	9	227
Selling, general and administrative	1,582	1,218	5,736	4,870
Operating income (loss)	<u>616</u>	<u>(39)</u>	<u>1,273</u>	<u>41</u>
Other income (expenses):				
Interest expense, net	(22)	(56)	(202)	(218)
Amortization of discount on debt and intrinsic value of convertible debt	-	(346)	-	(610)
Total interest expense	(22)	(402)	(202)	(828)
Other income (expense)	(3)	(40)	1	(35)
Amortization of intangible assets	(107)	(106)	(427)	(427)
Total other expenses	<u>(132)</u>	<u>(548)</u>	<u>(628)</u>	<u>(1,290)</u>
Net Income (loss) before income taxes	484	(587)	645	(1,249)
Income tax benefit	1,030	2,506	947	2,506
Net income ⁽¹⁾	<u>\$ 1,514</u>	<u>\$ 1,919</u>	<u>\$ 1,592</u>	<u>\$ 1,257</u>
Basic earnings per share	<u>\$ 0.13</u>	<u>\$ 0.17</u>	<u>\$ 0.14</u>	<u>\$ 0.11</u>
Basic weighted average common stock shares outstanding	<u>11,673</u>	<u>11,471</u>	<u>11,582</u>	<u>11,422</u>
Diluted earnings per share	<u>\$ 0.11</u>	<u>\$ 0.15</u>	<u>\$ 0.12</u>	<u>\$ 0.09</u>
Diluted weighted average common stock shares outstanding	<u>13,694</u>	<u>13,092</u>	<u>13,639</u>	<u>13,969</u>

(1) Digital Fusion, Inc. elected to change its accounting period to a 52-53-week year. The financial reporting period ended December 28, 2007 is a 14 and 52-week period compared to the previous year's 13 and 52-week period (three and twelve months) ended December 31, 2006.

DIGITAL FUSION, INC.
Condensed Consolidated Statements of Cash Flows
For the fifty-two weeks ended December 28, 2007 and
twelve months ended December 31, 2006
(Unaudited)
(In thousands)

	<u>December 28, 2007</u>	<u>December 31, 2006</u>
Cash flows provided by operating activities:		
Net income	\$ 1,592	\$ 1,257
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	294	230
Loss on abandonment of leasehold improvement	4	39
Bad debt, increase (reduction) of allowance	142	(1)
Proceeds from sale of trading securities	-	66
Amortization of beneficial interest	-	444
Amortization of discount on debt	-	166
Amortization of intangible assets	427	427
Prepaid warrant expense	13	13
Stock-based compensation expense	1,960	1,490
Pension accrual	-	(36)
Deferred taxes	(1,232)	(2,540)
Changes in assets and liabilities	<u>(692)</u>	<u>347</u>
Net cash provided by operating activities	<u>2,508</u>	<u>1,902</u>
Cash flows used in investing activities:		
Capital expenditures – property and equipment	<u>(165)</u>	<u>(914)</u>
Net cash used in investing activities	<u>(165)</u>	<u>(914)</u>
Cash flows provided by (used in) financing activities:		
Proceeds from exercise of options and warrants	119	125
Repayments of notes payable	(600)	(600)
Net payments to line of credit	<u>(1,861)</u>	<u>(513)</u>
Net cash used in financing activities	<u>(2,342)</u>	<u>(988)</u>
Net increase in cash and cash equivalents	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>\$ 1</u>

⁽¹⁾ Digital Fusion, Inc. elected to change its accounting period to a 52-53-week year. The financial reporting period ended December 28, 2007 is a 14 and 52-week period compared to the previous year's 13-week and 52-week period (three and twelve months) ended December 31, 2006.

**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>Fourteen weeks and Three months</u> <u>ended</u>		<u>Fifty-two weeks and Twelve months</u> <u>ended</u>	
	<u>December 28,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>	<u>December 28,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Net income (loss)	\$ 1,514	\$ 1,919	\$ 1,592	\$ 1,257
Net interest expense and other income	25	96	201	253
Income tax benefit	(1,030)	(2,506)	(947)	(2,506)
Share-based compensation	580	408	1,973	1,490
Depreciation	67	64	294	230
Amortization of intangible assets	107	106	427	427
Amortization of discount on debt and intrinsic value of convertible debt	-	346	-	610
EBITDA	<u>\$ 1,263</u>	<u>\$ 433</u>	<u>\$ 3,540</u>	<u>\$ 1,761</u>