LIGHTBRIDGE INC
Form 10-K
March 17, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2004

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from to

Commission file number: 000-21319
Lightbridge, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**04-3065140**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
30 Corporate Drive **Burlington, Massachusetts**	**01803**
(Address of Principal Executive Offices)	*(Zip Code)*

(781) 359-4000
(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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes þ No o

The aggregate market value of the voting common stock held by nonaffiliates of the registrant as of June 30, 2004 was $146,254,634 based on a total of 26,116,899 shares held by nonaffiliates and on a closing price of $5.60 as reported on The Nasdaq Stock Market (National Market System).

The number of shares of common stock outstanding as of March 11, 2005 was 26,585,455.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A with regard to its 2005 annual meeting of stockholders or special meeting in lieu thereof on or before April 30, 2005. Certain portions of such proxy statement are incorporated by reference in Part III of this Form 10-K.

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THIS ANNUAL REPORT ON FORM 10-K CONTAINS 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. ANY STATEMENTS CONTAINED HEREIN THAT ARE NOT STATEMENTS OF HISTORICAL FACT MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. WITHOUT LIMITING THE FOREGOING, THE WORDS BELIEVES, ANTICIPATES, PLANS, EXPECTS AN SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THE FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, INCLUDING THE FACTORS SET FORTH BELOW IN ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RISK FACTORS, THAT MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS OF LIGHTBRIDGE, INC. TO DIFFER MATERIALLY FROM THOSE INDICATED BY THE FORWARD-LOOKING STATEMENTS. LIGHTBRIDGE, INC. UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS IT MAKES.

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PART I

Item 1. *Business*

Lightbridge, Inc. (Lightbridge or the Company) develops, markets and supports products and services primarily for businesses that sell products or services online and for communications providers.

Lightbridge s four areas of business consist of Payment Processing Services (Payment Processing), Telecom Decisioning Services (TDS), Intelligent Network Services (INS), and Instant Conferencing Services (Instant Conferencing). The Payment Processing business consists of a set of Internet Protocol (IP) based payment processing gateway services that enable online and other merchants to authorize, settle, manage risk, and manage credit card or electronic check transactions via a variety of interfaces. The TDS business consists of Lightbridge s customer qualification and acquisition, risk management and authentication services, delivered primarily on an outsourced or service bureau basis, together with the Company s TeleServices offerings. Lightbridge s TDS solutions provide multiple, remote, systems access for workflow management, along with centrally managed client-specified business policies, and links to client and third-party systems. The Company s INS business offers a license-based software product, bundled with third-party hardware, enabling prepaid rating and charging for voice, messaging, and data, as well as postpaid charging functionality and calling card services for wireless telecommunications carriers. The Company s Instant Conferencing Services allow users to create and join reservationless audio conferences instantly across multiple carrier and service provider networks. Lightbridge also provides consulting and maintenance services sold primarily in conjunction with the TDS and INS solutions.

The Company s IP-based Payment Processing solution offers products and services to merchants in both the Card Not Present (CNP) (e-commerce and mail order/telephone order or MOTO) and Card Present (CP) (retail point-of-sale (POS) and mobile devices) segments of the U.S. credit card transaction processing market. In addition, the Payment Processing services include an electronic check payment processing solution for CNP merchants. The Payment Processing solution provides secure transmission of transaction data over the Internet and manages submission of this payment information to the credit card and Automated Clearing House (ACH) processing networks. The Company provides its Payment Processing solutions primarily through a network of outside sales partners, Independent Sales Organizations (ISOs), and merchant bank partners.

The Lightbridge TDS solution offers online, real-time transaction processing and call center services to aid communications clients in qualifying and activating applicants for service, as well as software-based point-of-sale support services for a variety of distribution channels, including dealers and agents, mass market retail stores, and Internet commerce. The TDS business unit also offers services designed to authenticate users engaged in online transactions. Additionally, Lightbridge TDS develops and implements interfaces that integrate its systems with client and third-party systems, such as those for billing, point-of-sale, activation and order fulfillment. Lightbridge TDS also maintains and has access to databases used to screen applicants and online users for fraud, and maintains a global telecommunications consulting practice that provides clients with solution development and deployment services, and business advisory consulting. The Company s TDS solutions are provided on a direct sales basis.

The Lightbridge INS solution offers to wireless telecommunications carriers a prepaid billing system that is designed to integrate with Intelligent Network standards and offer the capability for subscribers to replenish their prepaid accounts. The INS software enables prepaid rating and charging for voice, messaging, and data, as well as postpaid charging functionality and calling card services for wireless telecommunications carriers. The Company s INS solutions are provided mainly through indirect sales channels.

Lightbridge s Instant Conferencing Service provides users access to instant, reservationless teleconferencing over a variety of wireless or wireline carriers. Its dynamic configuration allows users to define specific call groups and manage these groups and their accounts through a web-based interface. Calls can be initiated from telephones, web browsers, instant messaging sessions, or desktop applications. The Company s Instant Conferencing Service is provided on a direct sales basis.

In January 2004, the Company announced a reorganization of its internal business operations, resulting in the termination of ten individuals in the Company s corporate office in Burlington, Massachusetts. In September 2004, the Company announced a restructuring of its business in order to lower overall expenses to better align them with future revenue expectations. This action resulted in the termination of 64 employees and 2 contractors in the Company s offices in Burlington, Massachusetts and Broomfield, Colorado. In December 2004, the Company announced a restructuring of its business following an announcement regarding lower expected revenue from the Company s client AT&T Wireless Services, Inc. as a result of its acquisition by Cingular Wireless LLC. This action resulted in the termination of 38 employees and one contractor in the Company s corporate office in Burlington, Massachusetts. In January 2005, the Company announced the closing of its Broomfield, Colorado call center, resulting in the termination of 44 employees in the Company s Broomfield office. The Broomfield, Colorado call center facility had been supporting the Company s TDS operating segment. The work performed at the facility was transitioned to other Lightbridge call center facilities. In conjunction with the closure, the Company expects to record a restructuring charge of approximately $0.9 million in the first quarter of 2005, primarily relating to facility closing costs and employee severance and termination benefits.

On March 31, 2004, the Company acquired all of the outstanding stock of Authorize.Net Corporation (Authorize.Net) for $81.6 million in cash from InfoSpace, Inc. In addition, the Company incurred approximately $2.0 million in acquisition related costs. The total purchase price for the acquisition was $83.6 million. Authorize.Net provides the solutions that make up the Company s Payment Processing Services business.

On October 1, 2004, the Company sold the assets of its Fraud Centurion® product suite to Subex Systems Limited (Subex) for $2.4 million in cash. The Fraud Centurion® product is a suite of network monitoring software tools designed to detect fraudulent activity on wireless networks. Network monitoring tools no longer support Lightbridge s strategy for its fraud product lines, which is focused on continued development of the Company s customer screening, risk, and value management solutions.

Subsequent to December 31, 2004 the Company determined that the Fremont, California facility, where its Instant Conferencing business is located, would be closed during the first quarter of 2005. In connection with the closure, the Company expects to record a restructuring charge in the first quarter of 2005 of approximately $0.3 million, primarily relating to employee severance and termination benefits. Lightbridge expects to continue to provide the services for GroupTalk, its Instant Conferencing product, under its agreement with America Online, Inc.

Lightbridge was incorporated in Delaware in June 1989 under the name Credit Technologies, Inc. and in November 1994 changed its name to Lightbridge, Inc. Lightbridge sells and markets its products and services throughout the world both directly and through its wholly owned subsidiaries. Unless the context requires otherwise, references in this Annual Report on Form 10-K to Lightbridge, the Company, we, us and similar terms refer to Lightbridge, Inc. and its subsidiaries.

ALIAS, AUTHORIZE.NET, the Authorize.Net logo, ECHECK.NET, FRAUDBUSTER, FRAUD CENTURION, FRAUDSCREEN.NET, FRAUD SENTINEL, LIGHTBRIDGE, PHONEPRINT and PROFILE are registered trademarks of Lightbridge, and @RISK, AUTOMATED RECURRING BILLING, CAS, CUSTOMER ACQUISITION SYSTEM, FDS, GROUPTALK, INSIGHT, LIGHTBRIDGE FRAUDBRIDGE, LIGHTBRIDGE IDENTITYBRIDGE, LIGHTBRIDGE CREDITBRIDGE, PREPAY IN, LIGHTBRIDGE TELESERVICES, POPS, PREPAY, RETAIL MANAGEMENT SYSTEM, RMS, the Lightbridge logo, and TALKGROUP are trademarks of Lightbridge. All other trademarks or trade names appearing in this annual Report on Form 10-K are the property of their respective owners.

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Business Segment Data

As a result of the Company s corporate reorganization efforts during 2004, the Company has changed its previously reported operating segments effective in the fourth quarter of 2004. Based upon the way the Company s chief operating decision maker, its Chief Executive Officer, monitors operations, the Company operates in four distinct segments: Payment Processing, TDS, INS, and Instant Conferencing. Within these four segments, performance is measured based on revenues and gross profit realized from each segment. Information about revenues, cost of revenues, and gross profit of each segment is presented in Note 3 to the financial statements and discussed below in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. There are no transactions between segments.

In addition, information concerning the four segments in which Lightbridge operates, and export sales is set forth in Note 3 of Notes to Consolidated Financial Statements.

Products and Services

Payment Processing Services

Lightbridge s Payment Processing solutions, provided on an ASP basis, allow IP-enabled merchants to connect with large credit card processors and banking organizations, thereby enabling those businesses to accept electronic payments. Lightbridge offers its Payment Processing products and services through its wholly owned subsidiary Authorize.Net Corporation in two broad solutions groups, Core Solutions and Additional Services:

Solutions Groups	Functions
Core Solutions	The payment gateway allows IP-enabled merchants to accept credit card payments via web sites and mobile devices or from retail storefronts and MOTO merchants.
	The Virtual Terminal and Batch Upload allow merchants to authorize, process, and manage credit card transactions manually from any computer that has an Internet connection and a web browser.
	The Merchant Interface is a secure web site that allows merchants to view and manage transactions and other details of their accounts, including activity reports and authorizations for purchases, credits and returns.
	The Advanced Integration Method (AIM) is a merchant-initiated server-to-server connection for submitting CNP transactions to the payment gateway.
	The Simple Integration Method (SIM) provides a solution for CNP merchants with basic customization needs where the payment gateway handles all steps in the secure transaction process.
	Although in most cases, CP retail and mobile merchants simply purchase a ready-to-install POS solution or device that is integrated in the payment gateway, those that wish to integrate to the payment gateway directly can use a CP application programming interface (API).
	Daily transaction settlement and two-to-three day transaction funding time.

Additional Services	eCheck.Net® allows CNP merchants to authorize and process electronic check transactions directly from a web site or through the Virtual Terminal.
	Fraud Detection Suite (FDS sm) allows web merchants to identify, manage, and reduce fraudulent transactions with a customizable, rules-based solution.
	Automated Recurring Billing tm (ARB) provides a system for CNP merchants to automatically handle regularly recurring billings or subscriptions according to a specific billing interval and duration.
	Cardholder Authentication Programs implement, for the benefit of merchants that sell products or services online, the Verified by Visa® and MasterCard® SecureCode tm programs for reducing liabilities and expenses of merchants arising from unauthorized use of credit cards.
	FraudScreen.Net®, provided under agreement with Fair Isaac Corporation, provides CNP merchants with strategies and customer service tools to help protect themselves from fraudulent transactions using neural net technologies. The Company no longer actively markets this product.
	SalesBoost.Net, provided under agreement with eBoz, Inc., is an integrated suite of fifty web promotion tools designed to boost CNP merchants sales by attracting shoppers to their web sites.

Payment Gateway Solutions

The Payment Processing segment s core product is the payment gateway, which enables CNP and CP merchants to accept credit card and electronic check (CNP only) payments via IP. The Authorize.Net gateway is a hosted solution that integrates with existing web sites and IP-enabled POS and mobile devices. It is hardware and software independent, and is supported by over 200 web development and shopping cart systems.

A typical automatic transaction occurs in the following way:

When purchasing an item, whether online or at retail, the customer provides credit card or bank account information. To authorize credit card transactions, merchants must post an electronic request, including the customer s payment information, to the Company s secure payment gateway service. Transaction information is encrypted using 128-bit Secure Socket Layer (SSL) technology. Regardless of whether the information is submitted via a web site payment form or swiped, the payment gateway captures the transaction data and, using real time IP technology, directs the information through the authorization network to the merchant s credit card payment processor or issuing bank using a secure, proprietary connection or via the ACH network in the case of an eCheck.Net transaction. After the credit card is authorized and the transaction approved, the Company receives confirmation from the processing network, communicates the approval to the merchant, and stores the transaction. Transactions are automatically settled each day and are typically funded within two to three business days. eCheck.Net transactions may take up to seven to ten days to be funded.

For submitting manual CNP transactions, the secure, browser-based Virtual Terminal and Batch Upload features of the Merchant Interface are accessible from any computer with an Internet connection and a web browser, and may be used by MOTO merchants.

Account Management

Merchants can manage their payment gateway account through the Merchant Interface, a password-protected web site that offers the ability to monitor and review transactions, configure account and transaction settings, view account billing statements and report, and manually submit transactions via the Virtual Terminal and Batch Upload features.

Connection Methods

The Payment Processing segment offers several methods for connecting web sites and POS systems to the payment gateway. Web merchants can choose the method that is right for them, according to their customization requirements. Retail and mobile merchants connect to the payment gateway via third-party hardware and software solutions that are integrated to the payment gateway.

AIM is a secure, merchant-initiated server-to-server connection for submitting transactions to the payment gateway. AIM provides merchants with control over each phase of the customer s online transaction experience, including the payment form and receipt page. AIM employs industry standard secure data encryption technology 128-bit SSL protocol. Additional features include: transaction key authentication, merchant control over all phases of the customer s online transaction experience, and configurable transaction response that integrate with merchant enterprise applications.

SIM is a solution for web merchants with basic customization needs. The Authorize.Net payment gateway handles all the steps in the secure transaction process payment data collection, data submission and the response to the customer. Additional features of SIM include: a payment gateway hosted payment form employing 128-bit SSL data encryption, transaction digital fingerprints to enhance security, and a customizable payment gateway hosted payment form and/or receipt page.

The Company has certified approximately 85 shopping cart solutions providers that have integrated their e-commerce shopping carts with the payment gateway. Certified shopping carts are Internet companies that provide merchants with easy to implement checkout page solutions or software that are already integrated to the payment processing gateway.

In most cases, for CP merchants, technical integration is handled by the merchant s POS system provider (hardware or software). CP merchants interested in integrating directly to the payment gateway can use a Card Present API.

Additional Services

eCheck.Net® is a payment processing solution that allows both online and MOTO merchants to accept and process electronic check payments from consumer and corporate bank accounts directly through their e-commerce web site or through the Virtual Terminal. The eCheck.Net service transmits transactions via 128-bit SSL technology, and automatically submits transactions for settlement daily. Through the Merchant Interface, merchants using eCheck.Net have access to tools allowing them to look up returns and chargebacks, run batch statistics on transactions, and receive notification of settlement activity in sufficient detail to facilitate account reconciliation.

Fraud Detection Suite (FDS™) is a customizable, rules-based solution that helps merchants that sell products or services online to reduce, detect and manage fraudulent transactions through a combination of multiple fraud filters and tools, including the following:

Amount Filter allows merchants to set upper and lower transaction amount limits

Velocity Filter allows merchants to limit the total volume of transactions received per hour, preventing high-volume attacks common with fraudulent transactions

Shipping-Billing Mismatch Filter identifies high-risk potentially fraudulent transactions containing an address mismatch

Transaction IP Velocity Filter identifies excessive transactions received from the same IP address, isolating suspicious activity from a single source

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Suspicious Transaction Filter detects suspicious transactions using proprietary identification criteria and transaction behavior analysis

Authorized AIM IP Address feature allows merchants connected via the AIM feature to list server IP addresses that are authorized to submit transactions

IP Address Blocking feature, allows merchants to block transactions from selected IP addresses

*Automated Recurring Billing*tm (ARB) allows online and MOTO merchants to generate recurring transactions based on a subscription model. To use the ARB feature, a merchant creates a subscription consisting of a customer s payment information, billing amount, interval, and duration. ARB then places the customer on an automatic payment schedule based on the merchant s instructions.

The *Cardholder Authentication* service, provided under agreements with Visa and MasterCard, makes use of the Verified by Visa® and MasterCard® SecureCodetm programs to allow CNP merchants that sell products or services online to validate the identity of registered cardholders during web-based transactions by requiring a personal identification number (PIN) at checkout.

FraudScreen.Net® is a fraud screening service provided under Agreement with Fair Isaac Corporation. The Company no longer markets this product and does not expect FraudScreen.Net revenues to be significant in the future.

SalesBoost.Net, provided under agreement with eBoz, Inc., is a suite of fifty Internet-based web site promotional and marketing tools that consolidate applications into functional categories for search engine submission, banner ad impressions, newsletter mailing, email list management, web site monitoring, and a compilation of comprehensive how-to guides. SalesBoost.Net is designed to boost CNP merchants sales by attracting shoppers to their web sites.

Payment Processing Services are priced on a per transaction basis and prices vary with the mix of services a merchant selects, the term of the contract and the volume of transactions. Fees for additional services are charged on a monthly basis, on a per-transaction basis, or may be volume based. The Company also earns Payment Processing Services revenue from initial set-up fees and monthly subscription fees.

TDS

Lightbridge s TDS solutions help communications providers and businesses that sell products or services online deploy integrated, customized solutions in support of their operational business processes. Lightbridge offers its TDS products and services in five broad solutions groups:

Solutions Groups	Functions
Customer Qualification and Acquisition	Online, real-time transactionprocessing services and callcenter services to help carriersqualify applicants and activate service. Transaction processing services include applicant qualification and service activation, as well as risk management. Transaction processing interfaces include interfaces that support the processing of data at a variety of distribution channels, including retail stores, call centers and Internet applications, and voice recognition systems.
TeleServices	TeleServices include qualification and activation, analyst reviews, telemarketing to existing and new subscribers, back-up and disaster recovery for acquisition and activation services, porting support and customer care.
Authentication Services	Services that provide screening and authentication of identity data for users engaged in online transactions.

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Risk Management	A suite of services that make online, real-time inquiries into proprietary databases, industry databases and processing modules to screen applicants for potential fraud.
Consulting Services	Solution Development and Deployment Services include requirements planning, systems integration, custom software development, project management, and training services. Business Advisory Consulting encompasses management consulting services designed to leverage best practices in telecommunications, online commerce and allied industries.

Customer Qualification and Acquisition

*Lightbridge® Customer Acquisition System*tm(*CAS*tm) offers online, real-time transaction processing services for applicant credit qualification and service activation.

Introduced in 1989 and enhanced over time, CAS enables a carrier to close a sale at the time the customer is ready to purchase by qualifying applicants, screening for indications of subscriber fraud and activating service quickly. Although CAS typically requires no human intervention beyond the initial data entry, it can include analyst intervention in carrier-specified situations. When intervention is required, CAS routes the exception data to a queue in order to manage workflow.

CAS accepts applicant information online from retail stores and a variety of other carrier distribution points. Once CAS receives the application, it can qualify the applicant for service using both Lightbridge proprietary databases and external sources, such as credit bureaus. CAS validates the applicant s identification and determines creditworthiness based on client-specified business policies. If CAS identifies an issue, it electronically routes the application to a Lightbridge or carrier analyst for review and action. When the analyst makes a decision, CAS notifies the point-of-sale agent. If the applicant wants to activate service at that time, CAS verifies the information necessary to establish the billing account and activate service and then transmits it to the carrier s billing and activation systems. Throughout the process, CAS routes the application and information to system components and individuals in a secure, controlled environment.

CAS includes the following fully integrated modules:

*InSight*tm is a database containing information about a carrier s current accounts, previous accounts, previous applicants and preapproved applicants. InSight can decrease a carrier s costs for evaluating a prospective subscriber by using carrier-controlled data points such as subscriber payment histories rather than third-party data points, such as credit bureau reports, or manual review processes.

Small Business Exchange, a database of credit information on small businesses provided under agreement with Equifax Information Services LLC, screens businesses for credit risk.

CAS interfaces deliver data from the point of sale directly to CAS for decisioning. If manual intervention is required, data is presented to the appropriate person. Once the decision is made, CAS communicates it to the point-of-sale agent.

*Lightbridge® POPS*tm a browser-based point-of-sale application typically used in carrier-owned or dealer store locations. POPS runs over the Internet or an intranet and features a graphical user interface (GUI) that allows even inexperienced sales staff to qualify applicants quickly and activate service via a dial-up or network connection to CAS.

*Lightbridge® Retail Management System*tm(*RMS*tm) a point-of-sale application that helps telecommunications retailers manage the sale of telecommunications products more efficiently. RMS handles credit screening, transaction and payment processing, service activation, cash drawer management, inventory and purchasing management and management reporting. The Company no longer actively markets or sells this product and does not expect RMS revenues to be significant in the future.

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Lightbridge® Speech Interface a point-of-sale application used in carriers agents stores or kiosks. Speech Interface converts voice information to text to allow even inexperienced sales staff to qualify applicants quickly via a connection to CAS.

Credit Workstation a character-based workstation that allows a carrier s credit analyst to enter information or to evaluate applications that require manual review.

Browser Interface allows a carrier s credit analyst to enter information or to evaluate applications that require manual review via a Lightbridge-developed GUI.

Activation Workstation allows the user to review, correct and reprocess activation requests returned from the billing system because of an error.

Fulfillment Workstation allows the user to fulfill orders for wireless handsets and accessories at a remote or third-party fulfillment center.

CAS service modules are priced on a per transaction, per qualification or per activation basis, or, in the case of application modules, on a licensed basis. Fees for CAS services or applications may vary with the term of the contract, the volume of transactions, the other products and services selected and integrated with CAS services, the configurations selected, the number of locations licensed or the degree of customization required.

TeleServicestm

Lightbridge TeleServices encompasses a range of call center solutions. TeleServices offerings include call center solutions for credit decisions and activations, analyst reviews, telemarketing to existing subscribers, back-up and disaster recovery for acquisition and activation services, porting support and customer care. TeleServices solutions can be provided using CAS or a client s own customer acquisition system. Lightbridge s clients can integrate TeleServices solutions into their existing sales and distribution strategies to support special projects without the overhead of building and maintaining call centers.

TeleServices solutions are priced on a per transaction or per minute basis and prices may vary with the term of the contract, the volume of transactions, the number of minutes and the other products and services selected and integrated with the solutions.

Authentication Services

Authentication services offer the ability to screen and authenticate the identity data of users engaged in online transactions. Lightbridge offers the following authentication services on an Application Service Provider (ASP) model:

*Lightbridge® IdentityBridge*tm*:* A service that allows clients to authenticate the identities of users involved in online transactions.

*Lightbridge® FraudBridge*tm*:* A service that allows clients to screen users involved in online transactions for potential fraud.

Authentication services are priced on a per transaction basis and prices may vary with the term of the contract, the volume of transactions and the other products and services selected.

Risk Management

Lightbridge s risk management solutions are offered as an ASP or hosted service. The ASP or hosted model supports real-time, online access to the Company s proprietary databases, client proprietary databases and third-party databases in support of pre-activation applicant screening. These solutions generally include the following:

AirWaves OneScore: A risk management score provided under agreement with RiskWise, L.L.C. that is designed to identify the most profitable customers, even among consumers whose financial history is non-existent or too thin for traditional risk assessment tools.

Fraud Sentinel®: A suite of subscription fraud management tools, offered separately or in combination. Fraud Sentinel includes the following components:

ProFile®, presently a proprietary, inter-carrier database of fraud and bad debt information, identifies customers whose previous accounts were written off or shut off by a participating carrier and provides ongoing screening of existing customers. The Company plans to expand the content of ProFile to include information from other industries and to market and offer database services to clients other than carriers.

Fraud Detect, a multifaceted fraud detection tool provided under agreement with Trans Union L.L.C., analyzes data such as an applicant s Social Security number, date of birth, address, telephone number and driver s license information and identifies any discrepancies.

Fraud Detect Model, a fraud scoring tool developed jointly by Lightbridge and Trans Union L.L.C., is a neural-net scoring model that quantifies the probability that a subscriber will be written off.

Fraud ID-Tect, a multifaceted verification tool provided under agreement with Trans Union L.L.C., verifies subscriber data, identifies possible data entry errors, and alerts carriers to potential subscription fraud.

TotalID, an identity verification and application analysis service, provided under agreement with Trans Union L.L.C., checks for potential fraudulent information in an application by comparing application data against multi-source databases.

@Risk™, a database of suspect fraud information, identifies subscribers whose information matches suspect fraud information gathered from previous fraud investigations.

InstantID, a multifaceted verification tool provided under agreement with RiskWise, L.L.C., highlights verified information and possible data entry errors, and alerts carriers to conditions that are often associated with identity theft.

FraudPoint, a fraud detection tool provided under agreement with RiskWise, L.L.C., validates data provided by subscribers to help prevent subscription fraud and identify data entry errors.

FraudDefender, a fraud scoring tool provided under agreement with RiskWise, L.L.C., rank-orders fraud risk based on a score and helps manage review rates.

Business FraudDefender, a fraud scoring tool provided under agreement with RiskWise, L.L.C, rank-orders fraud risk based on a score and helps manage review of business applications.

Chargeback Defender, a fraud screening tool provided under agreement with RiskWise, L.L.C., verifies information of applicants to minimize chargebacks to online retailers.

Risk management solutions are priced on a per inquiry basis and prices may vary with the term of the contract and the volume of transactions. Additional fees may also be charged for consulting, implementation and support requirements of clients.

Consulting Services

Lightbridge Consulting Services (LCS) delivers full-service consulting for customer acquisition and retention, statistical models, authentication, and risk management. LCS leverages Lightbridge s market expertise and focus in telecommunications to help clients bring new services to market quickly, acquire low-risk subscribers and build customer loyalty. Clients can use LCS to supplement their resources with both domain expertise and project-based resources. The worldwide practice can support Lightbridge clients worldwide.

LCS capitalizes on Lightbridge s established expertise with multiple carriers, across multiple geographic regions to provide clients with two distinct types of service:

- *Solution Development and Deployment Services* includes systems installation, integration, custom software development, project management and training services.

- *Business Advisory Consulting* includes management consulting services in customer acquisition, distribution and retention, and risk management.

Consulting Services are priced on a time and materials basis in a majority of cases or, in some circumstances, on a fixed fee basis.

INS

*Lightbridge® PrePay*tm Software allows carriers to sell services to customers who prefer to pay with cash or who do not qualify for credit and would otherwise be required to provide substantial deposits. Lightbridge s Intelligent Network standards and architecture allow carriers to use existing switches without costly adjunct switches and voice trunk resources. The INS software architecture is designed to scale as the number of INS subscribers on a system grows. Because prepaid calls are controlled by the carrier s existing switch, there is no impact on call setup times. Calls by prepaid subscribers are rated in real time, and an integrated, interactive, voice-response system automatically informs the subscriber when account funds are low. If a subscriber depletes prepaid funds during a call, the INS software automatically terminates the call and suspends service until the subscriber deposits additional funds. The subscriber can deposit additional funds over the air by using a prepaid phone card or by depositing or transferring cash at a replenishment center or web site designated by the carrier.

PhonePrint® offers wireless telecommunications carriers a cloning-fraud prevention system by using proprietary radio frequency signal analysis to identify attempted fraudulent calls and prevent cloners from gaining access to a carrier s analog network. The Company no longer actively sells or markets this product and does not expect PhonePrint revenues to be significant in the future.

Prepaid billing applications are priced on a licensed basis. Additional fees may also be charged for subscriber growth, annual maintenance, customization, consulting services, implementation, training and other support requirements requested by the client. Fees may vary with the term of the contract and the number of licenses. Additional revenues are derived from hardware sales associated with PrePay and PhonePrint products.

Instant Conferencing

Lightbridge® Instant Conferencing, provided under the product name GroupTalktm, is an ASP hosted teleconferencing service that allows groups of users to connect instantly via multiple wireless or wireline carriers.

The GroupTalk product requires no reservations, PINs, or call-in numbers, and is capable of being integrated into existing workflow applications such as contact managers, CRM, and instant messaging. The GroupTalk application provides a turnkey solution, including ASP hosting, conference bridge services, public switch telephone network (PSTN) or wireless transport, and all back-end processing such as customer activation, customer care, billing, payment, and operations. GroupTalk was developed from the technology the company acquired from Altawave, Inc.

Instant Conferencing services are priced on a per-unit, volume-based basis. Additional fees may also be charged for annual maintenance, customization, consulting services, implementation, training and other support requirements requested by the client. Fees may vary with the term of the contract and with volume.

Clients

Revenues attributable to Lightbridge s 10 largest clients accounted for approximately 72%, 91%, and 90% of Lightbridge s total revenues in the years ended December 31, 2004, 2003, and 2002, respectively. The following Lightbridge clients accounted for more than 10% of total revenues in the years indicated:

	Years Ended Dec. 31,		
	2004	**2003**	**2002**
Sprint Spectrum L.P.	21%	28%	30%
AT&T Wireless Services, Inc.	16	21	21
Ericsson AB	*	14	15
Nextel Finance Company	11	12	11
Total	48%	75%	77%

* Less than 10% of total revenues for 2004

Payment Processing

The Company sells its Payment Processing Services primarily through a network of outside sales partners, ISOs, and merchant banking partners, mainly to merchants that sell products or services online. Additionally, the Company maintains an inside sales team for management of inbound merchant inquiries regarding its Payment Processing Services. As of December 2004, the Company had over 113,000 active merchants using its Authorize.Net gateway product. Because of the size and diversity of the Company s installed merchant base for its gateway product, the Payment Processing segment does not have significant customer concentration.

TDS

Lightbridge historically has provided its TDS products and services to wireless carriers in the United States. The TDS business unit also offers services designed to screen, authenticate and approve users engaged in online transactions.

In November 2004, the Company announced revised guidance for the fourth quarter of 2004, due to lower revenue expectations from AT&T Wireless Services, Inc. (AT&T), following the acquisition of AT&T by Cingular Wireless LLC. As a result of that acquisition, the Company does not expect significant revenues from AT&T in 2005. On December 15, 2004, Sprint Spectrum L.P. (Sprint) and Nextel Operations, Inc. (Nextel) announced that their respective Boards of Directors had approved a definitive agreement for a merger of the two companies. Lightbridge is unable to predict the effect of the merger of Nextel and Sprint on its relationship with either customer including, without limitation, the timing or extent of any reductions in applications processed or other services provided under its contracts with those customers. The loss of another one or more of these major clients, a decrease in orders by one or more of them or a change in the combination of products and services they obtain from the Company would adversely affect Lightbridge s revenues, margins and net income.

Lightbridge has agreements with many of its clients that provide for the purchase of various combinations of TDS products and services including CAS, risk management and TeleServices over periods of one to three years. Although some of these agreements contain annual minimum payment requirements, such minimum payments are typically substantially less than the amount of revenue Lightbridge has historically received from the particular client and therefore provide only limited assurance of future sales. Lightbridge s client agreements also often permit changes in the combination of products and services purchased by the client during the term of the agreement. Such changes can affect the revenues, margins and net income that Lightbridge achieves from quarter to quarter in its TDS business.

Lightbridge has agreements for its TDS services with AT&T, Sprint and Nextel. The agreements with Nextel and Sprint were renewed in 2003 and extended in each case through December 2006. The agreement

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with AT&T extends through March 2009, but the Company does not expect to receive significant revenues from AT&T in 2005 because of AT&T s acquisition by Cingular Wireless, LLC, which is not a client of the Company.

Because Lightbridge derives almost all of its TDS revenues from telecommunications carriers, the demand for Lightbridge s products and services is dependent, in major part, on the overall market demand for the products and services provided by telecommunications carriers. In particular, Lightbridge s TDS business is dependent on the rate of new subscriber growth and the rate at which subscribers switch from one carrier to another, known as the churn rate. Accordingly, if the growth rate of the telecommunications industry continues to slow and the churn rate does not increase, sales of Lightbridge s TDS products and services could continue to decline. TDS revenues may also be affected by mergers or consolidations involving telecommunications carriers, such as the planned merger of Sprint and Nextel.

INS

The Company sells its INS system primarily through distribution agreements with Ericsson AB (Ericsson) and Nortel Networks, Inc. (Nortel) and through direct sales, mainly to international wireless telecommunications carriers. The agreement with Ericsson was amended in 2003 and continues in effect until either party gives the other 180 days notice of cancellation. The agreement with Nortel extends through February 2006. A significant portion of the Company s INS revenues in 2004 were generated from the Ericsson and Nortel relationships. The loss of one or more of these major distribution partners, a decrease in orders by one or more of them or a change in the combination of products and services they obtain from the Company would adversely affect Lightbridge s INS revenues, margins and net income.

Because Lightbridge derives all of its INS revenues from telecommunications carriers, the demand for Lightbridge s INS products and services is dependent, in major part, on the overall market demand for the prepaid products and services provided by telecommunications carriers, and may be affected by mergers or consolidations involving telecommunications carriers. The Company s INS sales are also largely dependent on the efforts of Ericsson and Nortel and its other indirect channel partners to market and sell the INS products, over which the Company has no control. To date, only a small number of wireless telecommunications carriers, almost all of them outside the U.S., have deployed the Company s INS products and services, and the rate of adoption of the INS system will need to increase significantly in order for Lightbridge to increase future revenues from INS.

Instant Conferencing

The Company presently provides its GroupTalk^{tm} product pursuant to an agreement with America Online, Inc. (AOL) to the users of AOL s instant messaging service (AIM) under the branded name AIM Voice Conferencing. The agreement contains certain restrictions on selling the GroupTalk product to other instant messaging providers. To date, the Company has not recorded any revenue from its GroupTalk product and it does not expect to generate significant revenue from the product in 2005.

Sales and Marketing

Payment Processing

The Company s sales strategy for the Payment Processing segment is to continue to grow its business through a differentiated model that primarily focuses on IP-enabled merchants, utilizing its relationships with its outside sales partners, ISOs, and merchant banking partners. The sales and client services activities involved in the Payment Processing segment are led by relationship teams. Lightbridge employs a team approach to selling its Payment Processing Services in order to develop a consultative relationship with existing and prospective outside sales partners, merchant banking partners, and ISOs. The Company s outside sales partner, ISO, and banking partner relationships are not exclusive, and the Company relies on differentiation, including its support and service, of its Payment Processing products and services to motivate these outside sales partners and others to promote Lightbridge s services over those of another gateway service provider.

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Service and technical support for Payment Processing products are provided to merchants and outside sales partners through a call center, an online help desk, and a dedicated team of account managers that provide services to the Company s outside sales partners. A high level of continuing service and support is critical to the objective of differentiating the Company s services from those of its competitors. The Company provides a range of technical implementation and sustaining support services in order to support this goal.

TDS

Lightbridge s TDS sales strategy is to establish, maintain and foster long-term relationships with its clients. TDS sales and client services activities are led by relationship teams. The TDS segment employs a team approach to selling in order to develop a consultative relationship with existing and prospective clients. In addition to relationship teams, Lightbridge s TDS sales approach includes direct sales staff with expertise in particular solutions.

Implementation of Lightbridge s TDS products and services may involve significant investment by the carrier with delays frequently associated with capital expenditures, and involve multilevel testing, integration, implementation and support requirements. Product managers, as well as other technical, operational and consulting personnel, are frequently involved in the business development and sales process. The teams conduct needs assessments and, working with the client, develop a customized solution.

The sales cycle for TDS services is typically six to eighteen months, and is subject to a number of risks over which the Company has little control, including the client s budgetary and capital spending constraints, internal decision-making processes, industry consolidation and general industry, market and economic conditions.

Service and technical support for TDS services are provided through direct field service and support personnel. A high level of continuing service and support is critical to the objective of developing long-term relationships with clients. Technical assistance is also provided as part of the standard support and service package that clients typically purchase for the length of their respective agreements. On-site installations and various training courses for clients are also offered.

INS

Lightbridge s INS sales approach includes direct sales, using staff with expertise in particular solutions and sales through channel partners and alliances, particularly internationally. Historically, the Company s INS solutions have been sold principally through third parties such as Ericsson and Nortel. The Company s INS sales strategy is to establish, maintain and foster long-term relationships with its clients and outside sales partners. Lightbridge employs a team approach to selling in order to develop a consultative relationship with existing and prospective clients.

Implementation of Lightbridge s INS products and services typically require significant investment by the carrier with delays frequently associated with capital expenditures, and involve multi-level testing, integration, implementation and support requirements. Product managers, as well as other technical, operational and consulting personnel, are frequently involved in the business development and sales process. The teams conduct needs assessments and, working with the client, develop a customized solution.

The sales cycle for INS is typically nine to twenty-four months, although the period may be substantially longer in some cases, and is subject to a number of risks over which the Company has little control, including the carrier s budgetary and capital spending constraints, internal decision-making processes, and general industry, market and economic conditions.

Service and technical support for INS products are provided through both direct field service and support personnel and distributors. A high level of continuing service and support is critical to the objective of developing long-term relationships with clients. The Company provides technical assistance as part of the standard support and maintenance package that clients typically purchase for the length of their respective agreements. Lightbridge also offers on-site installations and various training courses for distributors and clients.

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Instant Conferencing

The Company presently provides its Instant Conferencing Services through an agreement with AOL under the branded name AIM Voice Conferencing. The Company is no longer actively marketing or selling this product.

Engineering, Research and Development

Lightbridge believes that its future success in all business segments will depend in part on its ability to continue to enhance, implement, and maintain its existing product and service offerings including, without limitation TDS, INS and the Payment Processing gateway, and to develop, implement and maintain new products and services that allow clients to respond to changing market requirements. Lightbridge s research and development activities consist of long-term efforts to develop, enhance and maintain products and services and short-term projects to make modifications to respond to immediate client needs. In addition to internal research and development efforts, Lightbridge intends to continue its strategy of gaining access to new technology through strategic relationships and acquisitions where appropriate. Lightbridge also intends to utilize contracted development resources when desirable in order to manage its development costs.

Competition

The market for the Company s Payment Processing Services is characterized by a few large competitors and many smaller competitors. The market is fragmented, and a number of companies currently offer one or more payment gateway products or services competitive with those offered by Lightbridge. In particular, the Company faces competition from its Payment Processing outside sales partners, which often resell multiple competing gateway products in addition to the Authorize.Net products and services. Some of the principal competitors are VeriSign, Inc., CyberSource Corporation, Plug & Pay Technologies, Inc. and LinkPoint International, Inc.

The market for products and services to wireless and other communications providers served by the Company s TDS, INS, and Instant Conferencing businesses is highly competitive and subject to rapid change. The market is fragmented, and a number of companies currently offer one or more products or services competitive with those offered by Lightbridge. In addition, many telecommunications carriers are providing, or can provide internally, products and services competitive with those Lightbridge offers in these segments. Trends in the telecommunications industry, including greater consolidation and technological or other developments that make it simpler or more cost-effective for carriers to provide certain services themselves, could affect demand for Lightbridge s TDS, INS, and Instant Conferencing products or services. These developments could make it more difficult for Lightbridge to offer a cost-effective alternative to a telecommunications carrier s own capabilities.

Lightbridge believes that the principal competitive factors in the communications provider and online industries include the ability to identify and respond to client needs, timeliness, quality and breadth of product and service offerings, price, continuous availability of service, and technical expertise. Lightbridge believes that its ability to compete in these industries also depends in part on a number of factors outside its control, including the ability to hire and retain employees, the development of products and services by others that are competitive with Lightbridge s products and services, the price at which others offer comparable products and services, and the extent of its competitors responsiveness to client needs.

Government Regulation

The Federal Communications Commission (FCC), under the terms of the Communications Act of 1934, regulates interstate communications and use of the radio spectrum. Although Lightbridge is not required to and does not hold any licenses or other authorizations issued by the FCC for its TDS business segment, the domestic telecommunications carriers that constitute Lightbridge s TDS clients are regulated at both the federal and state levels. Federal and state regulation may decrease the growth of the telecommunications industry, affect the development of the wireless markets, limit the number of potential clients for Lightbridge s TDS services, impede Lightbridge s ability to offer competitive services to the telecommunications market, or otherwise have a material adverse effect on Lightbridge s TDS business, financial condition, results of operations and cash flows. Changing laws and regulations have caused, and are likely to continue to cause, significant changes in the industry, including the entrance of new competitors, consolidation of industry participants, the introduction of bundled wireless and wireline services and the introduction of wireless number portability (WNP) in November 2003. Those changes could in turn subject Lightbridge to increased pricing pressures, decrease the demand for Lightbridge s TDS products and services, increase Lightbridge s cost of doing business or otherwise have a material adverse effect on Lightbridge s TDS business, financial condition, results of operations and cash flows. The telecommunications industry outside the United States is also subject to government regulation, which could have similar effects on Lightbridge s ability to increase or maintain its penetration of international markets with its INS products and services.

The Banking Secrecy Act, the USA Patriot Act of 2001, and the Homeland Security Act contain anti-money laundering and financial transparency law and mandate the implementation of various new regulations applicable to financial services companies, including obligations to monitor transactions and report suspicious activities. The obligations under these acts which may apply directly or could be applied to Lightbridge s financial services partners or to certain of its merchant services, require the implementation and maintenance of internal practices, procedures, and controls which may increase the Company s costs and may subject the Company to liability.

Businesses that handle consumers funds, such as the Company s Payment Processing business, are subject to numerous regulations, including those related to banking, credit cards, escrow, fair credit reporting, privacy of financial records and others. State money transmitter regulations and federal anti-money laundering and money services business regulations can also apply under some circumstances. The application of many of these laws with regard to electronic commerce is currently unclear. In addition, it is possible that a number of laws and regulations may be applicable or may be adopted in the future with respect to conducting business over the Internet concerning matters such as taxes, pricing, content and distribution.

Furthermore, the growth and development of the market for e-commerce may prompt more stringent consumer protection laws that may impose additional regulatory burdens on those companies, such as Lightbridge, that provide services to online business. The adoption of additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for the Company s products and services and increase the Company s cost of doing business.

Consumer protection laws in the areas of privacy, credit and financial transactions have been evolving rapidly at the state, federal and international levels. As the electronic transmission, processing and storage of financial information regarding consumers continues to grow and develop, it is likely that more stringent consumer protection laws may impose additional burdens on companies involved in such transactions. Uncertainty and new laws and regulations, as well as the application of existing laws to e-commerce, could limit the Company s ability to operate in its markets, expose the Company to compliance costs and substantial liability and result in costly and time-consuming litigation.

The Federal Communications Commission (FCC) and state public service commissions may require Lightbridge to submit to traditional telecommunications carrier regulations for its GroupTalk on-demand, voice conferencing service under the Communications Act of 1934, as amended, and various state laws or regulations as a provider of telecommunications services. If the FCC or any state public service commission seeks to enforce any of these laws or regulations against the Company, Lightbridge could be prohibited from providing the voice aspect of its voice conferencing service until it has obtained various federal and state licenses and filed tariffs.

In addition, privacy legislation including the Gramm-Leach-Bliley Act (GLBA) and regulations thereunder affect the nature and extent of the products or services the Company is able to provide to clients across all segments as well as the Company s ability to collect, monitor and disseminate information subject to privacy protection. Consumer legislation such as the Fair Credit Reporting Act (FCRA) and Equal Credit Opportunity Act (ECOA) and state laws also affect the nature and extent of the products or services the Company is able to provide to clients.

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The Securities and Exchange Commission (SEC) and the National Association of Securities Dealers, Inc. (NASD) have also enacted regulations affecting corporate governance, securities disclosure or compliance practices. The Company expects these regulations to increase its compliance costs and to make some of its activities more time-consuming.

Proprietary Rights

Lightbridge s success across all segments is dependent upon proprietary technology. Lightbridge has traditionally relied on a combination of copyrights, patents, trade secrets and employee and third-party non-disclosure agreements to establish and protect its rights in its software products and proprietary technology. Lightbridge protects the source code versions of its products as trade secrets and as unpublished copyrighted works, and has internal policies and systems designed to limit access to and require the confidential treatment of its trade secrets. Lightbridge software is provided either on an outsourced basis or under license agreements that grant clients the right to use, but contain various provisions intended to protect Lightbridge s ownership and confidentiality of the underlying copyrights and technology. Lightbridge requires its employees and other parties with access to its confidential information to execute agreements prohibiting unauthorized use or disclosure of Lightbridge s technology. In addition, all of Lightbridge s employees are required as a condition of employment to enter into confidentiality agreements with Lightbridge. Lightbridge also relies on the law of trademarks to establish and protect rights in its products, services and brand names.

Lightbridge currently has several issued U.S. and foreign patents and applications pending in the U.S. Patent and Trademark Office and with certain foreign regulatory bodies. There can be no assurance that any pending patent applications will result in the issuance of any patents, or that Lightbridge s current patents or any future patents will provide meaningful protection to Lightbridge.

There can be no assurance that the steps taken by Lightbridge to protect its proprietary rights will be adequate to prevent misappropriation of its technology or independent development by others of similar technology. It may be possible for unauthorized parties to copy certain portions of Lightbridge s products or reverse engineer or obtain and use information that Lightbridge regards as proprietary. Existing copyright and trade secret laws and patents issued to Lightbridge offer only limited protection. In addition, the laws of some foreign countries do not protect Lightbridge s proprietary rights to the same extent as do the laws of the United States.

Lightbridge s competitive position may be affected by limitations on its ability to protect its proprietary information. However, Lightbridge believes that patent, trademark, copyright, trade secret and other legal protections are less significant to Lightbridge s success than other factors, such as the knowledge, ability and experience of Lightbridge s personnel, new product and service development, frequent product enhancements, customer service and ongoing product support.

Certain technologies used in Lightbridge s products and services are licensed from third parties. Lightbridge generally pays license fees on these technologies and believes that if the license for any such third-party technology were terminated, it would be able to develop such technology internally or license equivalent technology from another vendor, although no assurance can be given that such development or licensing could be effected without significant delay or expense.

Although Lightbridge believes that its products and technology do not infringe on any existing proprietary rights of others, the Company expects to become a party to a pending lawsuit entitled Net MoneyIN, Inc. v. VeriSign, Inc., et al., involving intellectual property infringement claims against businesses providing electronic payment gateway services. The Company has also received notices alleging that certain of its products or services may infringe on another party s intellectual property rights. There can be no assurance that third parties will not assert other infringement claims against Lightbridge in the future or that any asserted or future claims will not be successful. Lightbridge could incur substantial costs and diversion of management resources with respect to the defense of any claims relating to proprietary rights, which could have a material adverse effect on Lightbridge s business, financial condition, results of operations and cash flows. Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief, which could effectively block Lightbridge s ability to make, use,

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sell, distribute or market its products and services in the United States or abroad. Such a judgment could have a material adverse effect on Lightbridge. In the event a claim relating to proprietary technology or information is asserted against Lightbridge, Lightbridge may seek licenses to such intellectual property. There can be no assurance, however, that such a license could be obtained on commercially reasonable terms, if at all, or that the terms of any offered licenses will be acceptable to Lightbridge. The failure to obtain the necessary licenses or other rights could preclude the sale, manufacture or distribution of Lightbridge s products and, therefore, could have a material adverse effect on Lightbridge.

Employees

As of January 31, 2005, Lightbridge had a total of 789 employees, of which 727 were full-time and 62 were part-time or seasonal. The number of personnel employed by Lightbridge varies seasonally. None of Lightbridge s employees are represented by a labor union, and Lightbridge believes that its employee relations are good.

The future success of Lightbridge will depend in large part upon its continued ability to attract and retain highly skilled and qualified personnel. Competition for such personnel can be strong, particularly for sales and marketing personnel, software developers and service consultants.

Additional Available Information

Lightbridge s principal Internet address is *www.lightbridge.com.* The Company s web site provides a hyperlink to a third-party web site through which Lightbridge s annual, quarterly and current reports, and amendments to those reports, are available free of charge. Lightbridge believes these reports are made available as soon as reasonably practicable after it electronically files them with, or furnishes them to, the SEC. The Company does not maintain or provide any information directly to the third-party web site, and does not check its accuracy. Copies of the Company s SEC reports can also be obtained from the SEC s web site at *www.sec.gov.*

Item 2. ***Properties***

Lightbridge leases approximately 80,000 square feet in a single building in Burlington, Massachusetts for its corporate headquarters and its principal sales, consulting, marketing, operations and product development facility for its TDS business. This lease was executed and delivered in January, 2004, had a rent commencement date in June 2004 and expires in 2011. Under the terms of the lease, the Company was not required to pay rent during the construction period from January 2004 through May 2004 and the maximum amount of the landlord s tenant improvement allowance was approximately $3.3 million. There is approximately 3,000 square feet under lease in the Company s former Burlington, Massachusetts headquarters which expires in October 2005.

The Company leases approximately 12,000 and 19,000 square feet with lease expiration dates in 2006 and 2009, respectively, in American Fork, Utah and Bellevue, Washington, respectively, for its Payment Processing operations. The Company s Bellevue, Washington lease was executed in August 2004, and had a rent commencement date in September 2004. Under the terms of the lease, the Company was not obligated to pay rent during the construction period prior to the rent commencement date and the maximum amount of the landlord s tenant improvement allowance was approximately $177,000. The Company also received abated rent for the first three months of the lease term.

The Company leases approximately 10,000, 21,000 and 30,000 square feet with lease expiration dates in 2005, 2006 and 2008, respectively, for product development facilities in Fremont and Irvine, California and Broomfield, Colorado, respectively. The Company leases 32,000 and 29,000 square feet with lease expiration dates in 2005 and 2009, respectively, for call centers in Liverpool, Nova Scotia, Canada and Lynn, Massachusetts, respectively. The Company s Nova Scotia lease was entered into in February 2004, and had a rent commencement date in May 2004. The Company was allowed access to the premises in Nova Scotia for a period of 90 days prior to May 2004 in order to make tenant improvements. The Company leases approximately 4,000 square feet in Waltham, Massachusetts for one of its three data centers. The terms of the

Company s leases generally run from one to six years. From time to time, Lightbridge enters into short-term leases to provide space for international sales offices. Lightbridge believes that its present facilities are adequate for its current needs and that suitable additional space will be available as needed.

Item 3. ***Legal Proceedings***

In a case pending in the United States District Court for the District of Arizona, a variety of defendants, including payment processing gateway providers and banks, are accused of infringing certain patents involving payment processing over computer networks. The case is captioned *Net MoneyIN, Inc. v. VeriSign, Inc., et al.*, Case No. CIV 01-441 TUC RCC. The plaintiff alleges that numerous products or services infringe its patents, including the Authorize.Net Payment Gateway Service and eCheck.Net Service. Neither Lightbridge nor Authorize.Net is a party to the lawsuit, but Authorize.Net is indemnifying and defending defendants InfoSpace, Inc. and E-Commerce Exchange, Inc. as to services provided by Authorize.Net. Defendant Wells Fargo Bank, N.A. has also requested indemnification, including defense costs, from Authorize.Net based on certain contracts with Authorize.Net. Lightbridge anticipates that plaintiff may attempt to add Authorize.Net and/or Lightbridge as party defendants. The litigation is currently in the fact discovery phase, and no trial date has been set. The Company intends to defend any claims brought against it, Authorize.Net or third parties that it is contractually obligated to defend in connection with the lawsuit. While there can be no assurances as to the outcome of the lawsuit, an adverse outcome in the lawsuit could have a material effect on the Company s financial condition, results of operations or cash flow.

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

No matter was submitted to a vote of security holders during the quarter ended December 31, 2004.

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Shares of the Company s common stock, $.01 par value per share, are quoted on The NASDAQ Stock Market under the symbol LTBG. The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of the common stock on the National Market System, as reported in published financial sources:

	High	Low
2004		
First Quarter	$ 9.06	$ 5.90
Second Quarter	$ 6.62	$ 5.16
Third Quarter	$ 5.54	$ 3.74
Fourth Quarter	$ 6.04	$ 4.44
2003		
First Quarter	$ 6.82	$ 5.88
Second Quarter	$ 9.10	$ 6.40
Third Quarter	$ 10.79	$ 8.61
Fourth Quarter	$ 10.70	$ 8.21

As of March 11, 2005, there were 179 holders of record of common stock (which number does not include the number of stockholders whose shares are held of record by a broker or clearing agency but which does include each such brokerage house or clearing agency as one record holder).

The Company has never declared or paid any cash dividends on its common stock. The Company currently anticipates that it will retain future earnings, if any, to fund the development and growth of its business and therefore does not expect to pay any cash dividends in the foreseeable future.

The Company did not make any repurchases of its common stock during the fourth quarter of 2004.

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Item 6. ***Selected Financial Data***

The following selected financial data have been derived from the Company s audited historical consolidated financial statements, certain of which are included elsewhere in this Annual Report on Form 10-K. The following selected financial data should be read in conjunction with the Company s consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K.

The following selected financial data includes the results of operations, from the date of acquisition, of Authorize.Net Corporation, which the Company acquired on March 31, 2004. See Note 1 to the Company s consolidated financial statements for further information concerning this acquisition.

	Years Ended Dec. 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Revenues	$ 133,055	$ 119,978	$ 133,438	$ 176,616	$ 186,644
Cost of revenues	67,890	61,949	65,943	80,811	81,732
Gross profit	65,165	58,029	67,495	95,805	104,912
Operating expenses:					
Engineering and development costs	29,000	28,426	29,269	32,259	29,256
Sales and marketing	22,541	14,239	13,270	20,460	22,159
General and administrative	15,987	14,143	18,170	19,517	17,955
Restructuring costs	4,346	5,079	3,616	4,000	
Impairment of goodwill and other intangible assets	2,263				
Purchased in-process research and development	679		1,618		
Gain on sale of Fraud Centurion assets	(2,673)				
Amortization of goodwill and acquired workforce					502
Merger related costs				5,999	
Total operating expenses	72,143	61,887	65,943	82,235	69,872
Income (loss) from operations	(6,978)	(3,858)	1,552	13,570	35,040
Interest income	1,185	1,778	2,439	4,233	5,446
Equity in loss of partnership investment		(471)	(464)		
Income (loss) before income taxes	(5,793)	(2,551)	3,527	17,803	40,486
Provision for (benefit from) income taxes	8,351	(1,102)	(103)	3,848	9,974
Net income (loss)	$ (14,144)	$ (1,449)	$ 3,630	$ 13,955	$ 30,512

Basic earnings (loss) per share	$	(0.53)	$	(0.05)	$	0.13	$	0.50	$	1.12
Diluted earnings (loss) per share	$	(0.53)	$	(0.05)	$	0.13	$	0.48	$	1.04

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	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 52,225	$ 133,488	$ 133,470	$ 118,570	$ 98,743
Working capital	$ 43,597	$ 137,684	$ 136,501	$ 127,129	$ 109,672
Total assets	$ 170,486	$ 177,836	$ 180,672	$ 188,882	$ 187,680
Long-term obligations, less current portion	$ 2,858	$ 33	$ 259	$ 667	$ 963
Stockholders equity	$ 136,928	$ 154,503	$ 159,641	$ 161,522	$ 144,986

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily derived from other sources. There can be no assurance that actual amounts will not differ from those estimates.

We have identified the policies below as critical to our business operations and the understanding of our results of operations.

Revenue Recognition. Our revenue recognition policy is significant because revenue is a key component affecting our operations. In addition, revenue recognition determines the timing of certain expenses, such as commissions and bonuses. Certain judgments relating to the elements required for revenue recognition affect the application of our revenue policy. Revenue results are difficult to predict, and any shortfall in revenue, change in judgments concerning recognition of revenue, change in mix, amount of international sales or delay in recognizing revenue could cause operating results to vary significantly from quarter to quarter.

Allowance for Doubtful Accounts. We must also make estimates of the collectibility of our accounts receivable. An increase in the allowance for doubtful accounts is recorded when the prospect of collecting a specific account receivable becomes doubtful. We analyze accounts receivable and historical bad debts, customer creditworthiness, current domestic and international economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, or if our estimates of uncollectibility prove to be inaccurate, additional allowances would be required.

Income Taxes and Deferred Taxes. Our income tax policy records the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and the amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carryforwards. We assess the recoverability of any tax assets recorded on the balance sheet and provide any necessary valuation allowances as required. If we were to determine that it was more likely than not that we would be unable to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to operations in the period that such determination was made.

Restructuring Estimates. Restructuring-related liabilities include estimates for, among other things, anticipated disposition of lease obligations. Key variables in determining such estimates include anticipated commencement of sublease rentals, estimates of sublease rental payment amounts and tenant improvement costs and estimates for brokerage and other related costs. We periodically evaluate and, if necessary, adjust our estimates based on currently available information.

Goodwill and Acquired Intangible Assets. We recorded goodwill of $1.7 million and $57.6 million in connection with the acquisitions of Altawave, Inc. (Altawave) and Authorize.Net, respectively and we recorded other intangible assets of $23.3 million in connection with the acquisition of Authorize.Net. We are required to test such goodwill for impairment on at least an annual basis. We have adopted January 1st and March 31st as the dates of the annual impairment tests for Altawave and Authorize.Net, respectively. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. We will assess the impairment of goodwill on an annual basis or more frequently if other indicators of impairment arise.

Overview

We develop, market and support a suite of products and services for merchants that sell products and services online and communications providers, including payment processing, customer acquisition and qualification, risk management, prepaid billing, instant teleconferencing, and authentication services.

A majority of our revenues historically have been derived from clients located in the United States. Our revenues are derived from transaction services, consulting and maintenance services, software licensing and hardware.

Our transaction service revenues are derived primarily from the processing of applications for qualification of subscribers for telecommunications services, the activation of services for those subscribers and from the processing of payment transactions for merchants. We have expanded our telecommunications transactions offerings from credit evaluation services to include screening for subscriber fraud, evaluating carriers existing accounts, interfacing with carrier and third-party systems and providing call center services. We also offer transaction services to screen and authenticate the identity of users engaged in online transactions. Our transaction-based solutions provide multiple, remote, systems access for workflow management, along with centrally managed client-specified business policies, and links to client and third-party systems. Transaction services are provided through contracts with carriers and others, which specify the services to be utilized and the markets to be served. Our clients are charged for these services on a per transaction basis. Pricing varies depending primarily on the volume and type of transactions, the number and type of other products and services selected for integration with the services and the term of the contract under which services are provided. The volume of transactions processed varies depending on seasonal and retail trends, the success of the carriers and others utilizing our services in attracting subscribers and the markets served by our clients. Transaction revenues are recognized in the period in which the services are performed.

Transaction services revenues related to payment processing are derived from our credit card processing and eCheck processing services, and other services (collectively, payment processing services) gateway fees and set-up fees. Payment processing services revenue is based on a fee per transaction and is recognized in the period in which the transaction occurs. Gateway fees are monthly subscription fees charged to our merchant customers for the use of our payment gateway. Gateway fees are recognized in the period in which the service is provided. Set-up fees represent one-time charges for initiating our payment processing services. Although these fees are generally paid to us at the commencement of the agreement, they are recognized ratably over the estimated average life of the merchant relationship, which is determined through a series of analyses of active and deactivated merchants. Commissions paid to outside sales partners are recorded in sales and marketing expense in our statements of operations.

We also offer instant voice conferencing transaction services through our GroupTalk offering. No significant revenues have been recognized from our GroupTalk offering to date and the Instant Conferencing business segment is not expected to generate significant revenues in 2005.

Our consulting revenues are derived principally from providing solution development and deployment services and business advisory consulting in the areas of customer acquisition and retention, authentication, prepay billing and risk management. The majority of consulting engagements are performed on a time and materials basis and revenues from these engagements are generally recognized as the services are performed. When we perform work under a fixed fee arrangement, revenues are generally recognized as services are performed. Revenues from software maintenance contracts are recognized ratably over the term of the maintenance agreement.

Our software licensing revenues consist of revenues attributable to the licensing of our CAS Application Modules and PrePay billing software. The PrePay billing system allows carriers to market and manage prepaid wireless services to customers. Prepay is licensed as a packaged software product and each product generally requires incidental customization or integration with other products and systems to varying degrees. Software licensing revenues are recognized when persuasive evidence of an arrangement exists, delivery of the product has been made, and a fixed fee and collectibility have been determined. Our hardware revenues historically have been derived in connection with sales of our PrePay and PhonePrint products. Revenue from hardware is recognized upon shipment, unless testing, integration or other services are required, in which case it is recognized upon commissioning and acceptance of the product. Revenue from hardware sold in conjunction with software is deferred until the software revenue is recognized.

In 2004, we determined that we would no longer actively market or sell our Retail Management System (RMS) product or our PhonePrint product. In October 2004, we completed the sale of certain assets related to our Fraud Centurion software product to Subex. As a result of these actions, we do not expect to recognize significant future revenues from these products.

In 2003 and 2004, the rate of subscriber growth in the wireless telecommunications industry declined. We believe, based in part on reports of wireless telecommunications industry analysts, that the rate of subscriber growth will continue to slow in upcoming years. We also believe we may continue to experience changes in the combination of services acquired by clients and that competitive pricing pressures will continue to negatively affect transaction revenues in 2005. We do not expect significant growth in capital spending in the telecommunications industry in 2005. In order to add to our business, we are seeking to expand our reach in the e-commerce and payment processing business markets and to target industry sectors in the TDS business we do not currently serve.

On February 22, 2002, we acquired all of the assets and certain of the liabilities of Altawave in exchange for the payment of $4.0 million in cash, plus up to an additional $6.0 million contingent on the achievement of certain revenue goals in 2002 and 2003. No contingent payments were required to be made in connection with the Altawave acquisition. The technology acquired from Altawave included solutions to offer wireless carriers a service platform for the development and management of data content and applications (Mobile Data Manager). Certain of Altawave s technology was used to develop our GroupTalk product.

In December 2003, we entered into an agreement to lease approximately 80,000 square feet in a single building in Burlington, Massachusetts for our new principal administrative, sales, consulting, operations marketing and product development facility for our TDS business. The lease was executed and delivered in January 2004. In February 2004, we announced the planned expansion of our call center operations to Liverpool, Nova Scotia, Canada. Our Nova Scotia facility became operational in the second quarter of 2004.

On March 31, 2004, we acquired all of the outstanding stock of Authorize.Net from InfoSpace Inc., for $81.6 million in cash and incurred approximately $2.0 million in acquisition related transaction costs. Authorize.Net is a provider of payment solutions for online customer transactions. The Authorize.Net payment gateway provides credit card and electronic check solutions to companies that process orders for goods and services over the Internet. Authorize.Net connects small and medium sized businesses to large credit card processors and banking organizations, allowing those businesses to accept electronic payments.

On January 28, 2005, we closed our call center facility in Broomfield, Colorado. The Broomfield, Colorado call center facility had been supporting our TDS operating segment. The work being performed at the facility was transitioned to our other call center facilities. In conjunction with the closure, we expect to record a restructuring charge of approximately $0.9 million in the first quarter of 2005, primarily relating to facility closing costs and employee severance and termination benefits.

We plan to close our Fremont, California facility, where our Instant Conferencing business is located, effective March 31, 2005. In connection with the closure, we expect to record a restructuring charge in the first quarter of 2005 of approximately $0.3 million primarily relating to employee severance and termination benefits. We expect to continue to provide the services for GroupTalk, our Instant Conferencing product, under our agreement with AOL.

Operating Segments

As a result of our corporate reorganization efforts during 2004, we changed our previously reported operating segments effective in the fourth quarter of 2004. All prior period segment financial information has been restated to conform to the current presentation. Based upon the way financial information is provided to our chief operating decision maker, the Chief Executive Officer, for use in evaluating allocation of resources and assessing performance of the business, we now report our operations in four distinct operating segments: Payment Processing Services (Payment Processing), Telecom Decisioning Services (TDS), Intelligent Network Solutions (INS) and Instant Conferencing Services (Instant Conferencing).

The Payment Processing segment offers a transaction processing system, under the Authorize.Net® brand, that allows businesses to authorize, settle and manage credit card, electronic check and other electronic payment transactions online. The TDS segment provides customer qualification, risk assessment, fraud screening, consulting services and call center services to telecommunications and other companies. The INS segment provides wireless carriers with a real-time rating engine for voice, data and IN services for prepaid subscribers as well as postpaid charging functionality and telecom calling card services. The Instant Conferencing segment provides managed instant conferencing services through our GroupTalk™ product. In 2005, we made the decision to no longer actively market or sell our GroupTalk™ product. We expect to continue to provide the services for GroupTalk under our agreement with AOL. Within these four segments, performance is measured based on revenue, gross profit and operating income (loss) realized from each segment. There are no transactions between segments.

We do not allocate certain corporate or centralized marketing and general and administrative expenses to our business unit segments, because these activities are managed separately from the business units. Also, we do not allocate restructuring expenses and other non-recurring gains or charges to our business unit segments because our Chief Executive Officer evaluates the segment results exclusive of these items. Asset information by operating segment is not reported to or reviewed by our Chief Executive Officer and therefore we have not disclosed asset information for each operating segment.

The historical operating results associated with our RMS product, which we no longer actively market or sell, are included in our TDS segment. The historical operating results associated with our PhonePrint product, which we no longer actively market or sell, and our Fraud Centurion products, which we sold to Subex in 2004, are included in our INS segment. The historical operating results associated with our Mobile Data Manager product, which we no longer actively market or sell, are included in our Instant Conferencing segment.

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Customer Concentration

During fiscal 2004, three of our clients each accounted for more than 10% of our total revenues. In 2003 and 2002, four of our clients each accounted for more than 10% of our total revenues. Revenues from these clients, as a percentage of total revenues, were as follows:

	Years Ended Dec. 31,		
	2004	**2003**	**2002**
Sprint	21%	28%	30%
AT&T	16	21	21
Ericsson	*	14	15
Nextel	11	12	11
Total	48%	75%	77%

* Represents less than 10% of total revenues in 2004.

We expect that a significant portion of our revenues will continue to come from a relatively small number of telecommunications clients in 2005, although the companies that comprise our largest clients in any given quarter may vary. Customer concentration is likely to decline if our revenues from Payment Processing Services grow. Our revenues, margins and net income may fluctuate significantly from quarter to quarter based on the actions of a single significant client. A client may take actions that significantly affect us for reasons that we cannot necessarily anticipate or control, such as reasons related to the client s financial condition, changes in the client s business strategy or operations, the introduction of alternative competing products or services, acquisitions or as the result of the perceived quality or cost-effectiveness of our products or services. In November 2004, we announced that we expected that our future revenues from AT&T will decline significantly as a result of the acquisition of AT&T by Cingular Wireless LLC. As a result of the acquisition, AT&T s customer activations will transition from our system to Cingular s internal system and we do not expect that AT&T will be a significant customer in 2005. Our services agreements with Sprint and Nextel expire on December 31, 2006. On December 15, 2004, Sprint and Nextel announced that their respective Boards of Directors had approved a definitive agreement for a merger of the two companies. We are unable to predict the effect of the merger of Nextel and Sprint on our relationship with either customer including, without limitation the timing or extent of any reductions in applications processed or other services provided under our contracts with those customers. It is possible that Sprint or Nextel could elect not to renew their agreements, to reduce the volume of products and services they purchase from the Company or to request significant changes to the pricing or other terms in any renewal agreement. Additionally, a significant portion of our revenues from our PrePay billing system is generated through distribution agreements with Ericsson and Nortel Networks. A loss of one or more of these major clients, a decrease in orders by one or more of these clients or a change in the combination of products and services they obtain from us would adversely affect our revenues, margins and net income.

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Results of Operations

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

Revenues. Revenues and certain revenues comparisons for the years ended December 31, 2004 and 2003 were as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003	$ Difference	% Difference
	(Dollars in thousands)			
Transaction services	$ 103,648	$ 80,552	$ 23,096	28.7%
Consulting and maintenance services	19,898	28,666	(8,768)	(30.6)
Software licensing and hardware	9,509	10,760	(1,251)	(11.6)
Total	$ 133,055	$ 119,978	$ 13,077	10.9%

The increase in transaction services revenues was due primarily to the acquisition of Authorize.Net on March 31, 2004, which contributed $26.8 million of revenue for the period from April 1, 2004 to December 31, 2004. Authorize.Net s revenues for the period from April 1, 2004 to December 31, 2004 have increased 25% compared to the same period in 2003, as reported by Authorize.Net s former owner, InfoSpace, Inc. The increased revenues are the result of an increase in the number of merchant customers and increased volume of transactions processed. The increased revenue related to the acquisition of Authorize.Net was partially offset by a decline in transactions services revenues in our TDS segment. The decline in TDS transaction services revenues was a result of lower transaction fees charged to certain clients as a result of competitive pricing pressures and an unfavorable change in the mix of services provided despite a 4% increase in the volume of subscriber applications processed during 2004. TDS transaction services revenues in 2004 included approximately $0.5 million related to a settlement received as a result of the WorldCom, Inc. bankruptcy proceedings, for services provided to WorldCom, Inc. in 2002. We did not recognize revenue at the time the services were performed due to concerns regarding the collectibility of our fees.

In the near term, we expect transaction services revenue from Authorize.Net to continue to increase. However, we expect transaction services revenue associated with our TDS segment to decline from the 2004 level as a result of Cingular Wireless LLC s acquisition of AT&T and its decision to process all credit applications through Cingular s internal system, and continued price pressures. We do not expect Cingular/ AT&T Wireless to contribute significant revenues in 2005. In 2004, $16.9 million in transaction services revenue was associated with AT&T. We expect TDS transaction services revenues to continue to reflect the industry s rate of growth of new subscribers as well as the rate of switching among carriers by subscribers (subscriber churn). While we experienced growth in the number of applications processed in 2004 as compared to 2003, we believe that transaction revenues in future periods will continue to be impacted by changes in the demand for our transaction offerings, changes in the combination of services purchased by clients, carrier consolidation including the proposed merger of Sprint and Nextel, and competitive pricing pressures.

The decrease in consulting and maintenance services revenues of $8.8 million for 2004 was principally due to a decline in consulting and maintenance revenues related to our decision to no longer actively market, sell or develop our RMS and PhonePrint products and the sale of our Fraud Centurion product. Consulting and maintenance services revenues associated with these products were $4.3 million lower in 2004 than in the preceding year. Additionally, maintenance revenues related to our PrePay software product suite declined $2.9 million in 2004 as compared with the prior year as a result of pricing pressures, but an increase in consulting revenues during the same period related to this product partially mitigated this impact. In our TDS segment, pricing pressures on maintenance services and a reduced level of consulting activity also contributed to the revenue decrease.

We expect consulting and maintenance services revenue associated with our PrePay software product suite in 2005 to continue at a similar level as 2004. However, we expect our total consulting and maintenance services revenue in 2005 to decrease in comparison with the 2004 level, as we do not expect significant future revenues from our RMS or Fraud Centurion products. These products contributed $4.8 million in consulting and maintenance services revenues in 2004. In addition, we recorded $3.7 million in consulting and maintenance revenues associated with AT&T in 2004, and we do not expect significant revenues from this customer in future periods.

The decline in software licensing and hardware revenues of $1.3 million in 2004 as compared to 2003 was due to our decision to no longer actively market sell or develop our RMS and PhonePrint products, which contributed $1.7 million less in revenue than in the previous year. In addition, while the total revenues associated with our PrePay product remained largely unchanged, revenue associated with new software licenses and subscriber growth license fees increased, and revenue associated with hardware sales decreased.

We expect software licensing and hardware revenues in 2005 to be lower than those in 2004, as a result of the discontinued marketing of our RMS and PhonePrint products and the sale of our Fraud Centurion product. In 2004, we recorded software licensing and hardware revenue of $1.8 million associated with these products. We expect the level of capital spending by carriers to continue to affect the sales of our PrePay product in future quarters. Our PrePay software clients growth rates for net new subscribers continue to impact the level of our growth fee license revenue, and hardware revenues are largely a function of the number of PrePay software license sales and the number of subscribers each new system sold will support.

Cost of Revenues and Gross Profit. Cost of revenues consists primarily of personnel costs, costs of resold third party hardware, software and services, costs of maintaining systems and networks used in processing qualification and activation transactions (including depreciation and amortization of systems and networks) and amortization of capitalized software and acquired technology. Cost of revenues for Authorize.Net, included in transaction services cost of revenues, consists of expenses associated with the delivery, maintenance and support of Authorize.Net s products and services, including personnel costs, communication costs, such as high-bandwidth Internet access, server equipment depreciation, transactional processing fees, as well as customer care costs. In the future, cost of revenues may vary as a percentage of total revenues as a result of a number of factors, including changes in the volume of transactions processed, changes in the mix of transaction revenues between those from automated transaction processing and those from processing transactions through our TeleServices call centers, changes in pricing to certain clients and changes in the mix of total revenues among transaction services revenues, consulting and maintenance services revenues, and software licensing and hardware revenues.

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Cost of revenues, gross profit and certain comparisons for the years ended December 31, 2004 and 2003 were as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003	$ Difference	% Difference
		(Dollars in thousands)		
Cost of revenues:				
Transaction services	$ 54,831	$ 45,667	$ 9,164	20.1%
Consulting and maintenance services	9,930	12,741	(2,811)	(22.1)
Software licensing and hardware	3,129	3,541	(412)	(11.6)
Total cost of revenues	$ 67,890	$ 61,949	$ 5,941	9.6%
Gross profit:				
Transaction services $	$ 48,817	$ 34,885	$ 13,932	39.9%
Transaction services %	47.1%	43.3%		
Consulting and maintenance services $	$ 9,968	$ 15,925	$ (5,957)	(37.4)%
Consulting and maintenance services %	50.1%	55.6%		
Software licensing and hardware $	$ 6,380	$ 7,219	$ (839)	(11.6)%
Software licensing and hardware %	67.1%	67.1%		
Total gross profit $	$ 65,165	$ 58,029	$ 7,136	12.3%
Total gross profit %	49.0%	48.4%		

Transaction services cost of revenues increased by $9.2 million in 2004 from 2003. Costs of revenues associated with our Authorize.Net business were included in our results beginning in the second quarter of 2004 because of the acquisition of Authorize.Net on March 31, 2004. This change accounted for $7.2 million of the spending increase in 2004 from 2003. In our TDS business, spending increased in our call centers as a result of the addition of a significant new client in the second half of 2003. Generally, cost of revenue from automated transaction processing tends to be lower than costs of revenue from processing transactions through our TeleServices call centers. This increase was partially offset by reduced costs of maintaining systems and networks used in processing qualification and activation transactions. In addition, included in transaction cost of revenues for 2004 was a one-time benefit of approximately $0.2 million realized by us as part of the settlement of the WorldCom, Inc. bankruptcy, related to the release from liability for certain telecommunications services which we received from WorldCom, Inc. Transaction services gross profit and gross profit percentage increased primarily as a result of the acquisition of Authorize.Net on March 31, 2004. Authorize.Net contributed $19.6 million to the 2004 transaction services gross profit amount. This was partially offset by a decrease in the 2004 transaction services gross profit related to our TDS segment. Authorize.Net generates a higher gross profit percentage than our TDS segment, resulting in increased transaction services gross profit percentage in 2004 in comparison to 2003.

Consulting and maintenance services cost of revenues decreased by $2.8 million in 2004. This decrease was attributable to a reduction in headcount associated with the June 2003, January 2004 and September 2004 restructurings, reduced use of contract labor primarily for consulting related to our RMS product, and the sale of our Fraud Centurion product to Subex. Consulting and maintenance services gross profit and gross profit percentage decreased in 2004 due to lower revenues related to our RMS, Fraud Centurion and PhonePrint products, as well as competitive pricing pressures.

Software licensing and hardware cost of revenues decreased slightly by $0.4 million in 2004 in comparison with 2003. This decrease was primarily attributable to the mix of software products licensed during 2004 as compared to the prior year. The 2004 software licensing and hardware cost of revenue is more reflective of average historical and expected future software licensing and hardware cost of revenues than the cost in 2003. Software licensing and hardware gross profit decreased in 2004 in absolute dollars as a result of lower revenues, but gross profit percentage remained consistent with 2003. The gross profit percentage earned can

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vary significantly based on discounts given on individual transactions and the mix of software and hardware revenues.

We expect that fluctuations in gross profit may occur in future periods primarily because of a change in the mix of revenue generated from our three revenue components, and also because of competitive pricing pressures.

Operating Expenses. Operating expenses and certain operating expense comparisons for the years ended December 31, 2004 and 2003 were as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003	$ Difference	% Difference
	(Dollars in thousands)			
Engineering and development	$ 29,000	$ 28,426	$ 574	2.0%
Sales and marketing	22,541	14,239	8,302	58.3
General and administrative	15,987	14,143	1,844	13.0
Restructuring	4,346	5,079	(733)	(14.4)
Impairment of goodwill	1,664		1,664	
Impairment of other intangible assets	599		599	
Purchased in-process research and development	679		679	
Gain on sale of Fraud Centurion assets	(2,673)		(2,673)	
Total	$ 72,143	$ 61,887	$ 10,256	16.6%

Engineering and Development. Engineering and development expenses include software development costs, consisting primarily of personnel and outside technical service costs related to developing new products and services, enhancing existing products and services, and implementing and maintaining new and existing products and services. The $0.6 million increase in engineering and development expenses for 2004 as compared with 2003 was primarily due to the addition of Authorize.Net, the expenses from which are included in our results beginning on April 1, 2004. Authorize.Net represented $3.2 million of engineering and development expenses in the 2004 year s results. This increase was largely offset by cost savings associated with the June 2003, September 2004 and October 2004 restructurings, our decision to cease new development and enhancement of our RMS software product, and our sale of the Fraud Centurion product to Subex. Engineering and development expenses as a percentage of total revenues decreased for 2004 as a result of increased revenues.

We expect engineering and development expenses for the quarter ending March 31, 2005 to be slightly higher than in the previous quarter as a result of an increased level of funded development activity associated with our PrePay software product.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions and travel expenses of direct sales and marketing personnel, as well as costs associated with advertising, trade shows and conferences. For Authorize.Net, sales and marketing expenses also include commissions paid to outside sales partners. The increase in sales and marketing expenses in 2004, in absolute dollars and as a percentage of revenue, was due to the addition of Authorize.Net and the related sales partner commissions included in sales and marketing expense. Authorize.Net represented $10.1 million of sales and marketing expenses in the 2004 results. This increase was partially offset by reductions in marketing costs for the other portions of our business as a result of reduced marketing headcount and program spending as compared with 2003.

We expect that sales and marketing expenses in the first quarter of 2005 will remain consistent with the fourth quarter of 2004. In future quarters, we expect sales and marketing expenses to increase with growth in Authorize.Net s revenues as a result of sales partner commissions associated with these revenues.

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General and Administrative. General and administrative expenses consist principally of salaries of executive, finance, human resources and administrative personnel and fees for certain outside professional services. The increase in general and administrative costs in 2004 was primarily due to the inclusion of Authorize.Net expenditures beginning on April 1, 2004. Authorize.Net represented approximately $2.6 million of general and administrative expenses in 2004. In addition, during 2004, we incurred approximately $0.9 million in separation costs associated with the resignation our former President and Chief Executive Officer in August 2004. We also incurred increased general and administrative expense as a result of increased regulatory and compliance requirements. These increases were offset by a one-time benefit in 2004 of approximately $1.0 million related to the release from liability of amounts that had been reserved for potential claims against us related to the WorldCom, Inc. bankruptcy proceedings, by savings associated with the January 2004 and September 2004 restructuring activity, and by reductions in program spending.

We expect general and administrative expenses in the quarter ending March 31, 2005 to continue to be greater than the corresponding quarter of 2004 primarily due to the inclusion of Authorize.Net s general and administrative expenses and increased regulatory and compliance costs.

Restructuring. A discussion of restructuring charges recorded during 2004 and 2003 is contained in the separate Restructurings section below.

Impairment of Intangible Assets. On January 1, 2005, we performed the annual impairment test for the goodwill balance of approximately $1.7 million related to our acquisition of Altawave in 2002. We used the discounted cash flow methodology to determine the fair value of the reporting unit related to these intangible assets. The discounted cash flow methodology is based upon converting expected cash flows to present value. Our assumptions and methodology in determining the fair value of the reporting unit were reviewed by an independent appraiser. A comparison of the resulting fair value of the reporting unit to its carrying amount, including goodwill, indicated that the goodwill and remaining other intangible assets of approximately $0.6 million were fully impaired. As a result, a goodwill impairment charge of approximately $1.7 million and an other intangible asset impairment charge of approximately $0.6 million were recorded in our Consolidated Statement of Operations in 2004.

Purchased In-Process Research and Development (IPR&D). In connection with the Authorize.Net acquisition, we recorded a $0.7 million charge during the first quarter of 2004 for two IPR&D projects. The Authorize.Net technology includes payment gateway solutions that enable merchants to authorize, settle and manage electronic transactions via the Internet, at retail locations and on wireless devices. The research projects in process at the date of acquisition related to the development of the Card Present Solution (CPS) and the Fraud Tool (FT). Development on the FT project and the CPS project was started at the end of 2003 and the beginning of 2004, respectively. The complexity of the CPS technology lies in its fast, flexible and redundant characteristics. The complexity of the FT technology lies in its responsiveness to changing fraud dynamics and efficiency.

The value of the projects was determined by an independent appraiser using the income method. The discounted cash flow method was utilized to estimate the present value of the expected income that could be generated through revenues from the projects over their estimated useful lives through 2009. The percentage of completion for the projects was determined based on the amount of research and development expenses incurred through the date of acquisition as a percentage of estimated total research and development expenses to bring the projects to technological feasibility. At the acquisition date, we estimated that the CPS and the FT projects were approximately 15% and 80% complete, respectively, with fair values of approximately $638,000 and $41,000, respectively. The discount rate used for the fair value calculation was 30% for the CPS project and 22% for the FT project. At the date of acquisition, development of the technology involved risks to us including the remaining development effort required to achieve technological feasibility and uncertainty with respect to the market for the technology.

We completed the development of the FT in May 2004 having spent approximately $129,000 on the project after the acquisition. Total cost to complete the CPS project after acquisition is estimated to be approximately $650,000. The CPS project is expected to be completed by September 2005. If the development of the technology is not completed on schedule, the potential consequences to us may include

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increased development costs and increased competition from other companies that have competitive products in the market.

Gain on Sale of Fraud Centurion Assets. On October 1, 2004, we closed the sale of our Fraud Centurion products pursuant to an agreement with India-based Subex. We received net cash proceeds of $2.4 million as a result of the sale. As part of this transaction, we sold equipment with a net book value of approximately $0.2 million to Subex and assigned the customer maintenance contracts to Subex. The liabilities for deferred revenue related to these contracts as of the closing date totaled $0.5 million. We recorded a gain of approximately $2.7 million in the fourth quarter of 2004 related to this transaction.

Interest Income. Interest income consists of earnings on our cash and short-term investment balances. Interest income decreased to $1.2 million in 2004 from $1.8 million in 2003. This decrease was primarily due to a decline in our cash and short-term investments balance as a result of the payment of the purchase price for the acquisition of Authorize.Net.

Equity in Loss of Partnership Investment. In June 2001, we committed to invest up to $5.0 million in a limited partnership that invested in businesses within the wireless industry. We used the equity method of accounting for this limited partnership investment. In July 2003, the partners agreed to dissolve the partnership. Accordingly, future commitments were eliminated, and the remaining $0.5 million investment was written off in the quarter ended June 30, 2003.

Provision for (Benefit from) Income Taxes. We recorded deferred tax expense of approximately $7.8 million in 2004, resulting from a full valuation allowance being recorded against our deferred tax assets. Our effective tax rate was (144)% and 42% for 2004 and 2003, respectively. The 2004 tax provision reflects current tax expense of approximately $0.6 million, consisting primarily of foreign tax expenses of $1.6 million, partially offset by current federal and state tax benefits.

In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income. In determining future taxable income, we are responsible for assumptions utilized including the amount of state, federal and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

After considering all available evidence, both positive and negative, regarding the ability to realize our deferred tax assets, we concluded that an increase to the valuation allowance for our deferred tax assets was required. In November 2004, we announced that we expected our future revenue from AT&T to decline significantly. This announcement had a considerable impact on our conclusion regarding the realizability of our deferred tax assets. Accordingly, based on our best estimate, we recorded a non-cash charge of $7.8 million in 2004 to increase the valuation allowance for our deferred tax assets. If circumstances change such that the realization of our deferred tax assets is concluded to be more likely than not, we will record future income tax benefits at the time that such determination is made.

Results by Operating Segment. Certain operating results and comparisons by operating segment for the years ended December 31, 2004 and 2003 were as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003	$ Difference	% Difference
	(Dollars in thousands)			
Revenues:				
TDS	$ 88,297	$ 99,023	$ (10,726)	(10.8)%
Payment Processing	26,836		26,836	
INS	17,540	20,955	(3,415)	(16.3)
Instant Conferencing	382		382	
Total	$ 133,055	$ 119,978	$ 13,077	10.9%
Gross Profit (Loss):				
TDS $	$ 37,020	$ 46,399	$ (9,379)	(20.2)%
TDS %	41.9%	46.9%		
Payment Processing $	$ 19,580	$	$ 19,580	%
Payment Processing %	73.0%	%		
INS $	$ 8,790	$ 11,630	$ (2,840)	(24.4)%
INS %	50.1%	55.5%		
Instant Conferencing $	$ (225)	$	$ (225)	%
Instant Conferencing %	(58.9)%	%		
Total gross profit $	$ 65,165	$ 58,029	$ 7,136	12.3%
Total gross profit %	49.0%	48.4%		
Operating Income (Loss):				
TDS	$ 16,188	$ 22,025	$ (5,837)	(26.5)%
Payment Processing	3,560		3,560	
INS	(4,014)	(2,541)	(1,473)	(58.0)
Instant Conferencing	(4,309)	(3,536)	(773)	(21.9)
Total segment operating income	$ 11,425	$ 15,948	$ (4,523)	(28.4)%
Reconciling items(1)	(18,403)	(19,806)		
Total operating loss	$ (6,978)	$ (3,858)		

(1) Reconciling items consist of certain corporate or centralized marketing and general and administrative expenses not allocated to our business unit segments, because these activities are managed separately from the business units. Also, we do not allocate restructuring expenses and other non-recurring gains or charges to our business unit segments because our Chief Executive Officer evaluates the segment results exclusive of these items.

Revenues by Operating Segment

TDS. The decline in TDS revenues was a result of lower transaction fees charged to certain clients as a result of competitive pricing pressures, a decrease in the level of consulting activity, and an unfavorable change in the mix of services provided despite a 4% increase in the volume of subscriber applications processed during 2004. TDS transaction services revenues for the quarter ended September 30, 2004 included approximately $0.5 million related to a settlement received, as a result of the WorldCom, Inc. bankruptcy proceedings, for services provided to WorldCom, Inc. in 2002. We did not recognize revenue at the time the services were performed because of concerns regarding the collectibility of our fees.

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Payment Processing. Lightbridge began recording Payment Processing revenues as of April 1, 2004 following the acquisition of Authorize.Net on March 31, 2004. Authorize.Net s revenues for the period from April 1, 2004 to December 31, 2004 have increased 25% compared to the same period in 2003, as reported by Authorize.Net s former owner, InfoSpace, Inc. The increased revenues are the result of an increase in the number of merchant customers and increased volume of transactions processed.

INS. Revenues decreased by $3.4 million in 2004 as compared with 2003 as a result of the sale of our Fraud Centurion products pursuant to an agreement with India-based Subex on October 1, 2004 and as a result of pricing pressures on maintenance fees related to our PrePay products.

Instant Conferencing. In 2004, we recorded revenues of $0.4 million related to a contract for our Mobile Data Manager product. No future revenues from the Mobile Data Manager product are expected. In 2004, we did not record any revenues from our GroupTalk product.

Gross Profit (Loss) by Operating Segment

TDS. The decline in TDS gross profit was a result of lower transaction fees charged to certain clients as a result of competitive pricing pressures, a decrease in the level of consulting activity, and an unfavorable change in the mix of services provided despite a 4% increase in the volume of subscriber applications processed during 2004, partially offset by spending reductions associated with reduced depreciation expense in our data center operations and with our September 2004 restructuring activities.

Payment Processing. Lightbridge began recording Payment Processing results as of April 1, 2004 following the acquisition of Authorize.Net on March 31, 2004. We expect gross profit generated by our Payment Processing Segment to represent a larger portion of our total gross profit in 2005 as compared with 2004.

INS. The reduction in INS gross profit is largely the result of pricing pressures on maintenance fees associated with our PrePay product line.

Instant Conferencing. The decline in Instant Conferencing gross profit reflects spending to support our relationship with AOL, which began using the product in the second quarter of 2004.

Operating Income (Loss) by Operating Segment.

TDS. The decline in TDS operating income reflects the impact of reduced revenues, partially offset by spending reductions resulting from our January 2004 and September 2004 restructuring activities. In addition, 2004 results include a one-time benefit of approximately $1.0 million related to the release from liability of amounts that had been reserved for potential claims against us related to the WorldCom, Inc. bankruptcy proceedings.

Payment Processing. We began recording Payment Processing results as of April 1, 2004 following the acquisition of Authorize.Net on March 31, 2004. We expect the operating income generated by our Payment Processing Segment to become a larger portion of our total segment operating income in 2005 as compared with 2004.

INS. The increase in INS operating loss in 2004 is largely the result of reduced revenues, partially offset by savings associated with our 2003 and 2004 restructuring initiatives.

Instant Conferencing. The increase in Instant Conferencing operating loss reflects increased spending to support our relationship with AOL, which began using the product in the second quarter of 2004. We expect the operating loss in our Instant Conferencing segment to decrease in 2005 as compared with 2004 as a result of restructuring initiatives undertaken in 2004 and the first quarter of 2005.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Revenues. Revenues and certain revenue comparisons for the years ended December 31, 2003 and 2002 were as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	$ Difference	% Difference
		(Dollars in thousands)		
Transaction services	$ 80,552	$ 88,376	$ (7,824)	(8.9)%
Consulting and maintenance services	28,666	32,491	(3,825)	(11.8)
Software licensing and hardware	10,760	12,571	(1,811)	(14.4)
Total	$ 119,978	$ 133,438	$ (13,460)	(10.1)%

The decrease in transaction services revenues of $7.8 million was due to slower subscriber growth experienced by our clients, resulting in a reduction in transaction volume, and to clients selecting fewer transaction products and services. Our transaction services revenues also declined as a result of reduced call volume and a change in the combination of services provided by our TeleServices call centers. In addition, in the first quarter of 2002, transaction revenues included approximately $2.7 million in revenues from services provided to WorldCom, Inc. (WorldCom). In the second quarter of 2002, we provided approximately $2.0 million of transaction services to WorldCom, and did not record any related revenue because of doubts about collectibility stemming from WorldCom s financial difficulties. No services were provided to WorldCom in 2003.

The decrease in consulting and maintenance services revenues of $3.8 million for the year ended December 31, 2003 was principally due to a decline in software sales that affected the integration, deployment, optimization and maintenance services associated with software sales as well as a decline in other consulting projects.

The decrease in software licensing and hardware revenues was due to fewer software contracts recorded in 2003 as a result of the capital spending decline in the telecommunications industry. This decline was partially offset by a slight increase in hardware revenues of $0.4 million.

Cost of Revenues and Gross Profit. Cost of revenues and certain cost of revenues comparisons for the years ended December 31, 2003 and 2002 were as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	$ Difference	% Difference
		(Dollars in thousands)		
Cost of revenues:				
Transaction services	$ 45,667	$ 49,194	$ (3,527)	(7.2)%
Consulting and maintenance services	12,741	13,663	(922)	(6.7)
Software licensing and hardware	3,541	3,086	455	14.7
Total cost of revenues	$ 61,949	$ 65,943	$ (3,994)	(6.1)%
Gross profit:				
Transaction services $	$ 34,885	$ 39,182	$ (4,297)	(11.0)%
Transaction services %	43.3%	44.3%		

Consulting and maintenance services $	$	15,925	$	18,828	$	(2,903)	(15.4)%
Consulting and maintenance services %		55.6%		57.9%			
Software licensing and hardware $	$	7,219	$	9,485	$	(2,266)	(23.9)%
Software licensing and hardware %		67.1%		75.5%			
Total gross profit $	$	58,029	$	67,495	$	(9,466)	(14.0)%
Total gross profit %		48.4%		50.6%			

Transaction services cost of revenues decreased in 2003 from the prior year principally because of lower transaction revenues as a result of a lower volume of transactions processed through our TeleServices call centers and a decrease in costs attributable to our staff reductions. Transaction services cost of revenues was also affected by a shift in the combination of services acquired by clients during the year ended December 31, 2003. The decrease in transaction services gross profit percentage was due to a change in the combination of services acquired by clients in the year ended December 31, 2003, as well as the level of our fixed costs which resulted in lower gross profit percentage as revenues declined. Certain of these fixed costs were eliminated or reduced as a result of our restructurings in 2002 and 2003.

Consulting and maintenance services cost of revenues decreased in 2003 from the prior year and gross profit percentage decreased slightly in 2003. The decrease in consulting and maintenance services cost of revenue was attributable to a decrease in consulting projects and revenue as well as a reduction in headcount associated with the June 2002 restructuring.

Software licensing and hardware cost of revenues increased in 2003 compared to 2002. The decrease in software licensing and hardware gross profit percentage was attributable to the type of software products licensed during 2003 and as a result of lower software licensing revenue levels.

Operating Expenses. Operating expenses and certain operating expense comparisons for the years ended December 31, 2003 and 2002 were as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	$ Difference	% Difference
		(Dollars in thousands)		
Engineering and development	$ 28,426	$ 29,269	$ (843)	(2.9)%
Sales and marketing	14,239	13,270	969	7.3
General and administrative	14,143	18,170	(4,027)	(22.2)
Restructuring	5,079	3,616	1,463	40.5
Purchased in-process research and development		1,618	(1,618)	(100.0)
Total	$ 61,887	$ 65,943	$ (4,056)	(6.2)%

Engineering and Development. The decrease in engineering and development expenses in 2003 was primarily due to cost savings associated with the June 2002 and 2003 restructurings. Development expenses as a percentage of total revenues increased in 2003 as a result of lower revenue levels.

Sales and Marketing. The increase in sales and marketing expenses in 2003 was primarily due to the expansion of our business development organization and costs associated with our strategic partnerships and key initiatives.

General and Administrative. The decrease in general and administrative costs in 2003 was primarily due to a decrease in headcount associated with the June 2002 and June 2003 restructurings and our efforts to limit spending.

Restructuring. A discussion of restructuring charges recorded during 2003 and 2002 is set forth in the separate Restructurings section below.

In-Process Research and Development (IPR&D). In connection with the Altawave acquisition, we recorded a $1.6 million charge during the first quarter of 2002 for several IPR&D projects. The technology acquired from Altawave includes solutions that offer wireless carriers and enterprises a service platform for the development and management of data content and applications. The complexity of the technology lies in its comprehensive, secure and scalable characteristics. The research projects in process at the date of acquisition related to the development of the Lightbridge Mobile Data Manager (MDM) suite of products consisting of MDM Server, MDM Administration, MDM

Altalinks and MDM Provisioner, as well as the Consumer Group Applications (CGA). Development of the technology was started in 2000.

The value of the projects was determined by an independent appraiser using the income approach. The discounted cash flow method was utilized to estimate the present value of the expected income that could be generated through revenues from the projects over their estimated useful lives through 2009. The percentage of completion for the projects was determined based on the amount of research and development expenses incurred through the date of acquisition as a percentage of estimated total research and development expenses to bring the projects to technological feasibility. At the acquisition date, we estimated that the MDM suite and CGA were approximately 70% and 32% complete, respectively, with fair values of approximately $1.0 million and $0.6 million, respectively. The discount rate used for the fair value calculation was 37% for the MDM suite and 40% for CGA. At the date of acquisition, development of the technology involved risks to us including the remaining development effort required to achieve technological feasibility and uncertainty with respect to the market for the technology. We completed the development of the MDM suite in the quarter ended September 30, 2002 and the CGA project in the quarter ended September 30, 2003 having spent approximately $150,000 and $300,000, respectively, on the projects after the acquisition.

Interest Income. Interest income decreased by 27.1% to $1.8 million in the year ended December 31, 2003 from $2.4 million in the prior year. This decrease was primarily due to a decline in interest rates.

Equity in Loss of Partnership Investment. In June 2001, we committed to invest up to $5.0 million in a limited partnership that invested in businesses within the wireless industry. We used the equity method of accounting for this limited partnership investment. For the year ended December 31, 2002, our proportionate share of the loss of the limited partnership was $0.5 million. In July 2003, the partners agreed to dissolve the partnership. Accordingly, future commitments were eliminated, and the remaining $0.5 million investment was written off in the quarter ended June 30, 2003.

Provision for (Benefit from) Income Taxes. Our effective tax rate was 43.2% and (2.9)% for the years ended December 31, 2003 and 2002, respectively. The 2003 tax provision reflects a benefit of $1.1 million, which was based upon the annual effective tax rate of 33.0%, as well as a $0.3 million tax benefit from prior years research and development tax credits. As of December 31, 2003, we had approximately $11.7 million in loss carryforwards, principally the result of various acquisitions, and $8.3 million of other deferred tax assets, against which a valuation reserve of approximately $12.1 million had been provided. Net deferred tax assets were approximately $7.8 million at December 31, 2003. We recorded a net benefit from income taxes in 2003 due primarily to the net loss before income taxes and the impact of a refund of prior years research and development tax credits.

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Results by Operating Segment. Certain operating results and comparisons by operating segment for the years ended December 31, 2003 and 2002 are as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	$ Difference	% Difference
		(Dollars in thousands)		
Revenues:				
TDS	$ 99,023	$ 107,121	$ (8,098)	(7.6)%
INS	20,955	26,045	(5,090)	(19.5)
Instant Conferencing		272	(272)	(100.0)
Total	$ 119,978	$ 133,438	$ (13,460)	(10.1)%
Gross Profit (Loss):				
TDS $	$ 46,399	$ 51,251	$ (4,852)	(9.5)%
TDS %	46.9%	&nbs		