

LIGHTBRIDGE INC
Form 10-K
March 31, 2003

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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)

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

For the fiscal year ended December 31, 2002

OR

**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

(State or Other Jurisdiction of Incorporation or Organization)

**67 South Bedford Street
Burlington, Massachusetts**

(Address of Principal Executive Offices)

04-3065140

(I.R.S. Employer Identification No.)

01803

(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 No

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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.

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 28, 2002 was \$233,198,605, based on a total of 27,597,468 shares held by nonaffiliates and on a closing price of \$8.45 as reported on The Nasdaq Stock Market (National Market System).

The number of shares of common stock outstanding as of March 20, 2003 was 27,136,365.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A with regard to its 2003 annual meeting of stockholders or special meeting in lieu thereof within 120 days of the end of the fiscal year ended December 31, 2002. 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 AND 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 UNDERTAKES NO OBLIGATIONS 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 a suite of products and services for communications providers that supports the customer lifecycle, including customer qualification and acquisition, risk management, prepaid billing, mobile data management and authentication services. Lightbridge's software-based solutions are delivered primarily on an outsourced or service bureau basis. These outsourced or service bureau solutions together with the Company's TeleServices offerings comprise the Company's transaction business. Lightbridge's 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. Lightbridge also derives revenues from software licensing, consulting and maintenance services, and hardware sales. While its solutions historically have been delivered primarily to wireless carriers, Lightbridge also provides solutions to wireline carriers and non-carrier clients.

Lightbridge 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. Lightbridge also offers services designed to authenticate users engaged in mobile and online transactions. Lightbridge 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 also maintains and has access to databases used to pre-screen applicants and online users for fraud and provides software used to monitor subscriber call activity for fraud. In addition, Lightbridge has a global telecommunications consulting practice that provides clients with solution development and deployment services, and business advisory consulting. Lightbridge also offers to wireless telecommunications carriers its PrePay billing system that is designed to integrate with the upcoming Wireless Intelligent Network standards and offer the capability for subscribers to replenish their prepaid accounts.

On February 22, 2002, a wholly owned subsidiary of Lightbridge acquired all of the assets and certain of the liabilities of Altawave Inc. (Altawave) in exchange for the payment of \$4.0 million in cash, plus up to an additional \$6.0 million payment contingent on the achievement of certain revenue goals. No contingent payments were required to be made in 2002 in connection with the Altawave acquisition. The technology acquired from Altawave includes solutions that offer wireless carriers a service platform for the development and management of data content and applications.

In June 2002, the Company announced that it was reducing its workforce by seven percent and consolidating its Waltham, Massachusetts call center operations into its Lynn, Massachusetts and Broomfield, Colorado facilities by the end of 2002.

In March 2003, the Company announced that it would be streamlining its existing Broomfield, Colorado call center operations into its Lynn, Massachusetts facility and a smaller facility in Broomfield, Colorado by the end of May 2003. The Company plans to record a restructuring charge of approximately \$100,000 for workforce reductions in the first quarter of 2003 and approximately \$900,000 for facilities reductions and capital equipment write-offs in the second quarter of 2003.

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.

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ALIAS, ALTALINKS, FRAUDBUSTER, FRAUD CENTURION, FRAUD SENTINEL, LIGHTBRIDGE, the Lightbridge logo, PHONEPRINT and PROFILE are registered trademarks of Lightbridge, and @RISK, ALTAWAVE, CAS, CORSAIR, CUSTOMER ACQUISITION SYSTEM, INSIGHT, LIGHTBRIDGE CITADEL, LIGHTBRIDGE MOBILE DATA MANAGER, LIGHTBRIDGE ONGUARD, PHONEFUEL, POPS, PREPAY, RETAIL MANAGEMENT SYSTEM, RMS and LIGHTBRIDGE TELESERVICES 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.

Business Segment Data

Based upon the way management and the Board of Directors monitor operations, the Company operates in four distinct segments, including the transaction business, the software license business, the consulting and service business, and the hardware business. 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 shown separately on the statement of operations included in the Company's consolidated financial statements and discussed below in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Information about costs and expenses other than costs of revenues is not reported by segment. There are no transactions between segments.

In addition, information concerning the four segments in which Lightbridge operates is set forth on page F-12 and F-13 of Notes to Consolidated Financial Statements.

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Products and Services

Lightbridge's suite of software and network-based solutions helps communications providers and online businesses deploy integrated, customized solutions in support of their operational business processes. Lightbridge offers its products and services in six broad solutions groups:

Solutions Groups

Functions

Customer Qualification and Acquisition

Online, real-time transaction processing services and call center services to help carriers qualify applicants and activate service.

Transaction processing services include applicant qualification and service activation, as well as proprietary databases and processing modules that evaluate existing subscribers and detect potential subscription fraud.

Transaction processing interfaces include interfaces that support the processing of data at a variety of distribution channels, including retail stores, voice recognition systems, call centers and Internet applications.

TeleServices include qualification and activation, analyst reviews, telemarketing to existing and new subscribers, back-up and disaster recovery for acquisition and activation services, and customer care.

Authentication Services

Services that provide the pre-screening and authentication of identity data for users engaged in mobile and online transactions.

Risk Management

A suite of services that make online, real-time inquiries into proprietary databases, industry databases and processing modules to pre-screen applicants for potential fraud. This solution group also includes software products that monitor subscriber call activity and changes in subscriber account information to identify incidents indicative of 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.

Prepaid Billing

A software billing solution that allows carriers to support the sale of prepaid wireless services to subscribers who prefer to pay in advance of service or who do not qualify for credit and might otherwise be required to pay high deposits to acquire wireless service. Subscribers managed on the Lightbridge prepaid billing system can deposit additional funds to their service account by using their wireless phone to transfer funds from a prepaid phone card or by depositing or transferring cash at a replenishment center or website designated by the carrier.

Mobile Data Management

A scalable, integrated services platform for the development and management of data content and applications.

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Customer Qualification and Acquisition

*Lightbridge® Customer Acquisition System*SM (*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 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.

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*SM) 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.

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.

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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, number of locations licensed or degree of customization required.

Lightbridge® TeleServices™

Lightbridge TeleServices encompasses a range of call center solutions for the subscriber acquisition and activation process. 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, and customer care. TeleServices solutions can be provided using CAS or a carrier'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 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 carriers and online merchants the ability to pre-screen and authenticate the identity data of users engaged in mobile and online transactions. Lightbridge offers the following authentication services on an Application Service Provider (ASP) model:

Lightbridge® Citadel™: A service that allows clients to authenticate the identities of users involved in mobile and online transactions.

Lightbridge® OnGuard™: A service that allows clients to pre-screen users involved in mobile and online transactions for potential fraud.

Authentication services are priced on a per transaction basis and 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 in two support models: an ASP or hosted model and a licensed software model.

ASP Solutions. 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 services are generally managed at Lightbridge facilities as outsourced offerings and include the following:

AirWaves: 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®, a proprietary, inter-carrier database of accounts receivable write-offs and service shut-offs, identifies applicants whose previous accounts were shut off or written off by a participating carrier and provides ongoing screening of existing subscribers.

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.

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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 the subscriber data, identifies possible data entry errors, and alerts carriers to potential subscription fraud.

@RiskTM, 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 the data from the subscriber agreement to 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.

ASP solutions are priced on a per inquiry basis and 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.

Licensed Software Solutions. The licensed software model supports ongoing post-activation monitoring of subscriber call and account activity. These services may be managed at Lightbridge or at the client's operation.

Fraud Centurion®, a suite of post-activation fraud management components offered separately and in combination. Fraud Centurion components are designed to detect the fraudulent activity of active, existing subscribers on a carrier's network. Fraud Centurion includes the following components:

FraudBuster®, a fraud management profiler, identifies most commonly known types of fraud, such as cloning, subscription, tumbling and cellular theft. FraudBuster collects subscriber account information and analyzes call usage data from telecommunication switches and other data sources to identify fraudulent activity.

Alias®, the industry's first subscription fraud profiler, detects suspect account activity. Alias, when used with @Risk in a prescreening mode, represents the industry's only integrated front-end to back-end solution for combating subscription fraud.

Lightbridge® Predictive Intelligence uses high-performance algorithms, automatic feature selection and automatic model building to improve speed and accuracy in identifying fraudulent activity.

Software solutions are priced on a licensed or hosted 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.

Consulting Services

Lightbridge Consulting Services (LCS), a global telecommunications practice, delivers full-service consulting for customer acquisition and retention, authentication, prepaid billing and risk management. It 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 in the Asia Pacific region, Africa, Europe, Latin America and North America.

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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 or, in some cases, on a fixed fee basis.

Prepaid Billing

Lightbridge® PrePay™ allows carriers to sell services to customers who prefer to pay with cash or who do not qualify for credit and would otherwise pay high deposits. PrePay's Wireless Intelligent Network (WIN) standards and architecture allow carriers to use existing switches without costly adjunct switches and voice trunk resources. The PrePay software architecture is designed to scale as the number of PrePay 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, PrePay 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 website designated by the carrier.

PhoneFuel™, a customer care extension to PrePay, allows PrePay clients' subscribers to add to their PrePay balances directly from their bank accounts or credit cards. PhoneFuel supports Internet connections for PrePay subscribers, enabling these subscribers to pay for services and products using their prepaid account balance.

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.

Mobile Data Management

Lightbridge® Mobile Data Manager™ allows carriers to provision and manage customized, segmented data services offered to subscribers and allows enterprise clients to manage data accesses. It allows:

Carriers to provision, administer and monitor subscribers, the data they access and the services to which they subscribe.

Enterprises to offer secure data access.

Subscribers to benefit from personalized mobile data services by means of a user interface.

Mobile Data Manager is 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.

PhonePrint®

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 markets this product but it does provide replacement units for hardware systems. The Company does not expect PhonePrint revenues to be significant in 2003 or thereafter.

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Lightbridge historically has provided its products and services to wireless carriers in the United States. In 1998, Lightbridge began to market its products and services to a broader range of telecommunications carriers operating around the world. In November of 2001, Lightbridge announced its mobile business strategy to meet the needs of non-carrier as well as carrier clients in the emerging mobile business market, and announced an agreement with VeriSign, Inc. (VeriSign) to authenticate the identity of consumers engaged in mobile and on-line transactions.

Revenues attributable to Lightbridge's 10 largest clients accounted for approximately 90%, 79% and 75% of Lightbridge's total revenues in the years ended December 31, 2002, 2001 and 2000, respectively. The following Lightbridge clients accounted for more than 10% of total revenues in the years indicated:

	Years Ended Dec. 31,		
	2002	2001	2000
Sprint Spectrum L.P.	30%	22%	19%
AT&T Wireless Services, Inc.	21	20	16
Ericsson AB	15	16	24
Nextel Finance Company	11	7	4
	—	—	—
Total	77%	65%	63%

The Company's PrePay billing system is sold primarily through a distribution agreement with Ericsson AB (Ericsson). Ericsson accounted for substantially all of the revenues derived from the PrePay system in the years presented. The loss of 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 products and services over periods of one to five 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 a 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 transaction business.

Lightbridge has agreements with AT&T Wireless, Inc. (AT&T), Sprint Spectrum L.P. (Sprint) and Nextel Finance Company (Nextel) for the provision of credit decision services. The agreements with AT&T and Sprint were renewed in 2001 and extended in each case through December 31, 2003. The agreement with Nextel extends through January 15, 2004. Lightbridge's distribution agreement with Ericsson was amended in 2002 and continues in effect until either party gives the other 180 days notice of cancellation.

Because Lightbridge derives almost all of its 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 transaction 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 products and services could continue to decline.

Sales and Marketing

Lightbridge's sales strategy is to establish, maintain and foster long-term relationships with its clients, and to establish third-party sales alliances. Lightbridge's sales and client services activities are led by relationship teams, many of which include a senior management team sponsor. Lightbridge employs a team approach to selling in order to develop a consultative relationship with existing and prospective clients. In addition to

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relationship teams, Lightbridge's sales approach includes direct sales staff with expertise in particular solutions and sales through channel partners and alliances, particularly internationally.

Lightbridge's software solutions typically require 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 to meet the client's particular needs.

The sales cycle for Lightbridge's software products and services 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 and internal decision-making processes, and general market and economic conditions.

PrePay is sold primarily pursuant to a nonexclusive distribution agreement with Ericsson and also through a direct sales force.

Service and technical support for Lightbridge 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. 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 distributors and clients are also offered.

Engineering, Research and Development

Lightbridge believes that its future success will depend in part on its ability to continue to enhance its existing product and service offerings and to develop new products and services to allow clients to respond to changing market requirements. Lightbridge's research and development activities consist of both long-term efforts to develop and enhance 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 spent approximately \$29.3 million, \$32.3 million and \$29.3 million on engineering, research and development in the years ended December 31, 2002, 2001 and 2000, respectively.

Competition

The market for products and services to wireless and other communications providers 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. Trends in the telecommunications industry, including greater consolidation and technological or other developments that make it simpler or more cost-effective for telecommunications carriers to provide certain services themselves, could affect demand for Lightbridge's products or services and could make it more difficult for Lightbridge to offer a cost-effective alternative to a telecommunications carrier's own capabilities. In addition, Lightbridge anticipates continued growth in the mobile and online business services industry and, consequently, the entrance of new competitors in the future.

Lightbridge believes that the principal competitive factors in the communications provider industry include the ability to identify and respond to carrier, non-carrier and subscriber needs, timeliness, quality and breadth of product and service offerings, price and technical expertise. Lightbridge believes that its ability to compete also depends in part on a number of factors outside its control, including the ability to hire and retain employees, the development by others of products and services 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 carrier, non-carrier and subscriber needs.

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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, the domestic telecommunications carriers that constitute Lightbridge s 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 services, impede Lightbridge s ability to offer competitive services to the telecommunications market, or otherwise have a material adverse effect on Lightbridge s 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 local number portability (LNP) in late 2003. Those changes could in turn subject Lightbridge to increased pricing pressures, decrease the demand for Lightbridge s products and services, increase Lightbridge s cost of doing business or otherwise have a material adverse effect on Lightbridge s 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.

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 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.

Proprietary Rights

Lightbridge s success is dependent upon proprietary technology. Lightbridge has traditionally relied on a combination of copyrights, patents, the law of trademarks, 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 provides its software either on an outsourcing basis or under license agreements that grant clients the right to use, but contain various provisions intended to protect Lightbridge s ownership of and the 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 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

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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, there can be no assurance that third parties will not assert such claims against Lightbridge in the future or that such 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, 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, 2003, Lightbridge had a total of 738 employees, of which 618 were full-time and 120 were part-time or seasonal. The number of personnel employed by Lightbridge varies seasonally. None of Lightbridge's employees is 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 Securities and Exchange Commission (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 90,000 square feet in a single building in Burlington, Massachusetts for its principal administrative, sales, consulting, marketing and product development facility. This lease expires in 2005. The Company leases approximately 10,000, 21,000 and 30,000 square feet for product development facilities in Fremont and Irvine, California and Broomfield, Colorado, respectively. The Company also leases 29,000 and 16,000 square feet for call centers in Lynn, Massachusetts and Broomfield, Colorado. The Company's Waltham, Massachusetts call center was closed in October 2002 and is under lease until September 30, 2003. In March 2003, the Company announced its plans to close its then existing Broomfield, Colorado call center which is under lease until December 31, 2004. The Company also leases approximately

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4,000 square feet in Waltham for one of its two data centers. The terms of the 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

Lightbridge is not a defendant in any material litigation.

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, 2002.

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

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:

	<u>High</u>	<u>Low</u>
2002		
First Quarter	\$ 12.81	\$ 9.75
Second Quarter	\$ 13.09	\$ 8.45
Third Quarter	\$ 8.82	\$ 6.29
Fourth Quarter	\$ 7.69	\$ 5.25
2001		
First Quarter	\$ 16.56	\$ 9.06
Second Quarter	\$ 19.40	\$ 8.50
Third Quarter	\$ 15.09	\$ 8.92
Fourth Quarter	\$ 13.95	\$ 8.61

As of March 20, 2003, there were 231 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 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.

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The following selected financial data have been derived from the Company's audited historical financial statements, certain of which are included elsewhere in this Annual Report on Form 10-K.

	Years Ended Dec. 31,				
	2002	2001	2000	1999	1998
(In thousands, except per share amounts)					
Statement of Operations Data:					
Revenues	\$ 133,438	\$ 176,616	\$ 186,644	\$ 155,923	\$ 128,569
Cost of revenues	65,943	80,811	81,732	67,190	59,669
Gross profit	67,495	95,805	104,912	88,733	68,900
Operating expenses:					
Development costs	29,269	32,259	29,256	23,971	27,885
Sales and marketing	13,270	20,460	22,159	20,903	23,632
General and administrative	18,170	19,517	17,955	17,483	16,991
Amortization of goodwill and acquired workforce			502	1,342	2,982
Purchased in-process research and development	1,618				
Intangible asset impairment					7,385
Merger related costs		5,999			4,191
Restructuring costs	3,616	4,000		856	
Total operating expenses	65,943	82,235	69,872	64,555	83,066
Income (loss) from operations	1,552	13,570	35,040	24,178	(14,166)
Other income(1)	2,439	4,233	5,446	874	3,142
Equity in loss of partnership investment	(464)				