EPRESENCE INC
Form 10-K
March 30, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003

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 No. 000-20364

ePresence, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Massachusetts	**04-2798394**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

120 Flanders Road, Westboro, Massachusetts 01581

(Address and Zip Code of Principal Executive Offices)

508-898-1000

(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

(Title of Class)

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 x No ¨

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 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. x

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, based on the last sale price on the NASDAQ National Market on June 30, 2003 was approximately $47,235,500. For this purpose, any officer, director or known 10% stockholder of the Company is deemed to be an affiliate. The Registrant has no shares of non-voting Common Stock authorized or outstanding.

On March 5, 2004, there were 22,816,470 shares of Common Stock outstanding.

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ePresence, Inc.

Index to Annual Report on

Form 10-K filed with the

Securities and Exchange Commission

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are subject to a number of risks and uncertainties, including, without limitation, information with respect to our plans and strategy for our business, statements relating to the sufficiency of cash and cash equivalent balances, anticipated expenditures, the anticipated effects of our cost reduction measures including the discontinuation of our operations in Europe and Australia, and our sales and marketing and product development efforts. We cannot guarantee future results, levels of activity, performance or achievements and you should not place undo reliance on our forward-looking statements. For this purpose, 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 will , believe , anticipate , plan , expect and similar expressions are intended to identify forward-looking statements. Ther are a number of important factors that could cause actual events or our actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, the factors set forth under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Future Results which is in Part II of this Annual Report on Form 10-K. From time to time, we may also provide oral or written forward-looking statements in other materials we release to the public. We do not assume any obligation to update any of the forward-looking statements we make.

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WEBSITE ADDRESS

The Company s Internet website address is www.epresence.com. The Company makes available free of charge on its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

SERVICE MARKS

ePresence is a servicemark of the Company. Other trademarks, tradenames and servicemarks used in this Annual Report on Form 10-K are the property of their respective companies or organizations.

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PART I

ITEM 1. BUSINESS

General

ePresence, Inc., (ePresence, the Company , the Registrant , we or us), has two reportable segments: services and Switchboard. The Company reportable segments are managed separately as they are separately traded public companies, and market and distribute distinct products and services. See Note 21, Segment Information, in the Company s Notes to Consolidated Financial Statements for the year ended December 31, 2003 which is incorporated from Item 8 herein.

On March 2, 2000, Switchboard Incorporated (Switchboard) consummated an initial public offering. Prior to the offering we owned approximately 54% of Switchboard s outstanding common stock. Subsequent to the IPO and through December 31, 2000 we continued to consolidate Switchboard s results as part of our financial results as, notwithstanding our 38% ownership of Switchboard s outstanding common stock during this period, the Company maintained control over Switchboard s board of directors under a Voting Rights Agreement by and among the Company, Switchboard and Viacom Inc. (Viacom). However, in January 2001, as a result of the termination of this Voting Rights Agreement and our ownership then being 38%, we ceased to consolidate Switchboard s results with our financial results, for the first three quarters of 2001. In connection with the Viacom transaction discussed in Note 23 in Company s Notes to Consolidated Financial Statements, we became owner of approximately 54% of Switchboard s outstanding stock in October 2001. This change in ownership percentage resulted in us retroactively consolidating Switchboard s revenues, expenses and other income and expense in our consolidated statement of operations, while the minority interest in Switchboard was eliminated through consolidated other income and expense, as of January 1, 2001. Accordingly, the results of operations and Switchboard s assets and liabilities for all periods included herein are consistently presented on a consolidated basis. At December 31, 2003, we owned 9,802,421 shares or an approximate 51% equity interest of Switchboard s outstanding common stock.

In 2003, as a result of the performance of our services business which had experienced declining revenues and operating losses due to unfavorable economic conditions combined with decreased technology spending and faced increasing competition in our industry from companies with greater resources, the Board of Directors decided to pursue strategic initiatives to enhance stockholder value. In August 2003, we announced the engagement of SG Cowen to assist in the pursuit of these strategic initiatives.

On October 23, 2003 we announced that we had signed a definitive agreement to sell the assets of our services business to Unisys Corporation (NYSE:UIS) for approximately $11.5 million in cash. These assets include our customer relationships and industry partnerships, and a majority of our employees are expected to become employees of Unisys. The transaction is subject to the approval of our stockholders and other closing conditions, and is expected to be completed by the second quarter of 2004. We also announced that our Board of Directors has approved a plan of liquidation of ePresence. On March 26, 2004, we announced that Switchboard agreed to be acquired by InfoSpace, subject to stockholder approval. We have filed a preliminary proxy statement, dated November 6, 2003, and amended on December 18, 2003 and January 14, 2004 regarding these matters, and will file an amendment to the proxy statement to reflect the Switchboard merger proposal.

Upon the sale of assets to Unisys, the sale of Switchboard shares and the liquidation and dissolution, we will cease all operations and activities other than the winding-up of our affairs.

Services

ePresence is a consulting and systems integration company delivering Security and Identity Management (SIM) solutions that help companies reduce cost, enhance security, improve service and increase revenues. Identity management promotes effective management of users and access to the right information across IT environments, creating context and common infrastructure across distributed constituencies, business processes and applications. Our primary service offerings blend the

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elements of security and identity management, which include enterprise directory and security services, meta-directory services, access and password management services, single sign-on services, electronic provisioning services, information technology platform services, and managed operational services.

Enterprise directory and security services and meta-directory services consist of directory and security solutions that allow customers to manage and protect user identity, access, and security information across an enterprise. ePresence provides a business-focused, collaborative approach to the planning, design, deployment and management of these services including:

- structured strategy workshops to explore the specific values, benefits and business and technical considerations for deploying directory and meta-directory services in an enterprise;
- a directory or meta-directory discovery service which is an investigation that identifies and defines the technical and functional specifications for a directory or meta-directory services engagement;
- directory or meta-directory concept prototype development, where we build a limited, yet functional, model of a directory or meta-directory solution;
- directory or meta-directory architecture, planning and design which is a design process that creates the directory or meta-directory architecture and detailed design and develops a comprehensive implementation plan;
- directory or meta-directory implementation which is the deployment of the directory services or meta-directory services implementation plan; and
- directory or meta-directory optimization which is an ongoing service to provide administrative support of directory or meta-directory services, performance monitoring, software and systems upgrades, new application integration and ongoing maintenance.

Access and password management services and single sign-on services help organizations protect information assets, enforce security policies, boost IT management efficiency and accelerate application development cycles. Rather than developing and managing access services and processes for each system and application, organizations utilize our services to unify the authentication and authorization services across the enterprise, eliminating user frustration from the need to separately log in to each system and application, and avoiding the costs of supporting multiple passwords and repetitive application development. These services include:

- strategy services to help define the business benefits and justify value;
- a discovery service which is an investigation that identifies and defines the technical and functional specifications necessary for the access management, password management or single sign-on solution;
- concept prototype development which is the build phase where we create a limited, yet functional, model of an access management, password management or single sign-on solution;

architecture, planning and design which is a design process that creates the detailed access management, password management or single sign-on architecture and develops a comprehensive implementation plan; and

implementation which is the deployment of the access management, password management or single sign-on solution. This includes installation and configuration of software, specification of operational policies and procedures, development of standards for performance and reliability, integration with existing applications, testing, training and rollout.

Electronic provisioning services allow customers to empower their employees, partners and customers with fast, convenient electronic access to appropriate company resources and applications. It can be difficult for businesses today to manage the provisioning process because of the growing variety of systems within an organization and the high cost of managing user identities and permissions across organizations. Electronic provisioning streamlines the provisioning process while making it more secure, and it also facilitates de-provisioning (the rapid removal of access rights when a user leaves a company) which is especially critical to managing enterprise security and identity risks. ePresence provides a full range of services around the strategy, planning, design, deployment and management of an electronic provisioning solution including:

structured strategy workshops that use interactive, client-focused sessions to explore the specific values, impacts and business and technical considerations for deploying an electronic provisioning system;

a provisioning discovery service which is an investigation that identifies and defines the technical and functional specifications necessary for an electronic provisioning solution;

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- a provisioning concept prototype development, where we build a limited, yet functional, model of a provisioning solution;
- a provisioning architecture, planning and design which is a design process that creates a detailed provisioning architecture and develops a comprehensive implementation plan;
- a provisioning implementation which is the deployment of the provisioning implementation plan; and
- provisioning optimization which is an ongoing service to provide administrative support of the provisioning system, performance monitoring, software and systems upgrades, new application integration and ongoing maintenance.

Information technology platform services involve migration to and deployment of the latest operating system or infrastructure platform to allow customers to form a solid base for integrating identity platforms and high-value business applications. ePresence consultants provide platform-specific expertise and project management support to help organizations move to next generation platforms, while providing a wide range of services and capabilities designed to help organizations maximize new platform benefits. These include packaged services such as structured strategy workshops that use interactive, client-focused sessions to explore the specific values, impacts and business and technical considerations for deploying a new platform. ePresence also provides custom platform services ranging from planning and design to migration and deployment to operations and optimization.

Managed operational services allow customers to operate and optimize enterprise solutions on an outsourced, managed or transitional basis. Our services include a managed service offering for enterprise-level Broadband Virtual Private Network (bVPN) services, permitting organizations with remote workforces to leverage high-speed broadband connectivity to improve user productivity and control costs. Our one-stop solution combines equipment and broadband services while delivering specialized end user support in the context of the user s application environment. Other managed operational services consist of systems operations management, where we work with our customers to identify the infrastructure components that need managed support and create a support solution; operations transition management, which takes an organization through a seamless transition from one environment to another; and optimization services to tune existing environments. ePresence also provides custom operations management services to satisfy a variety of needs that a large IT organization might face.

Services Customers

Our services customers, which include many Fortune 1000 companies, typically are medium to large-size businesses, financial institutions, manufacturers, professional organizations and government entities, each with multiple sites dispersed over wide geographic areas. In 2003 we initiated a number of new consulting engagements with leading organizations such as Covance, Johnson Controls, the Securities Industry Automation Corporation (SIAC), Pearson Technology Group and Weightwatchers.com. In addition, we won additional business from many of our existing customers including the Turner Corporation, the Commonwealth of Massachusetts, Automatic Data Processing (ADP), Stop & Shop Supermarket Company and the State of Michigan.

For the year ended December 31, 2003 Johnson and Johnson and Microsoft Corporation accounted for 25% and 11% of services revenues, respectively. For the year ended December 31, 2002 ChevronTexaco accounted for 23% of services revenues. For the year ended December 31, 2001, ChevronTexaco and Turner Corporation accounted for 15% and 12% of services revenues respectively.

Services Sales and Marketing

We market our services primarily through sales professionals located in the United States. Our principal U.S. locations are based in or near Boston, Detroit, Los Angeles, New York, San Francisco and Washington, D.C. This regional focus, combined with our local service approach, is designed to help us to develop strong market presence and recognition in each of our local markets. Our sales professionals operate through a coordinated process to evaluate prospective customers and secure new engagements.

The sales efforts of our services business are supplemented by marketing and communications activities that are pursued to generate leads and build brand recognition in the marketplace. These activities include focused regional customer facing activities, attendance at industry conferences and business events, development of sales and marketing materials, general branding activities and public relations initiatives.

We have established alliances with the following companies to support our solutions selling model: Business Layers, IBM, M-Tech, Microsoft, Netegrity, OpenNetwork and Sun. We continue to seek to grow our services business partnerships and alliances with leading product and technology vendors, as well as with other systems integrators and consultants. Our partners directly complement our security and identity management solutions and help us bring our depth and expertise to market and deliver client-driven solutions in the marketplace.

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Services Competition

The consulting and systems integration services business is highly fragmented and competitive with no dominant set of consulting or systems integration companies that we directly compete against. We believe that our services business currently competes principally with consulting and systems integration firms, systems and application vendors and internal information systems groups. Competitive conditions and cautious buying patterns are forcing industry consolidation within the vendor, systems integration and consulting groups. Many of these companies have greater financial, technical and marketing resources than we have, generate greater revenues and have greater name recognition than us. We will continue to face competition as a result of consolidations in the market. We believe the primary factors upon which competition in our industry are based are contribution to business performance and delivery capability, including technical and business knowledge, strong project methodology, partnerships and successful cost-effective client implementations.

Services Employees

At December 31, 2003, we employed 113 persons, including 87 in sales, marketing, professional services delivery and related activities, and 26 in finance, legal, IT and human resources. We have no collective bargaining agreement with respect to our employees. We believe that relations with our employees are good.

Switchboard

Switchboard, our majority-owned subsidiary (NASDAQ: SWBD), is a leading provider of local online advertising products, enabled by its innovative, consumer-oriented online yellow and white pages directory technology. Switchboard generates revenue primarily from merchant and national advertisers that pay to advertise in the Switchboard-powered directories of its licensees and/or in Switchboard s directory. Licensees of its yellow pages directory technology include Internet portals, traditional yellow pages publishers and newspaper publishers.

Through its website, and Switchboard s licensee network of Switchboard-powered yellow pages directory websites, Switchboard provides merchant and national advertisers with a way to connect with local consumers, thus helping these businesses establish and grow their online presence. As with the traditional paper-based yellow pages, merchants that advertise directly with Switchboard or through one of its licensees are able to get their message in front of consumers at the time they are looking for that merchant s products or services on the Internet.

Merchant and national advertisers pay to advertise in the Switchboard-powered directory websites of its licensees and/or in its own directory website. Consumers access Switchboard s directory technology through one of the Internet brands of its licensees or through its website, *www.switchboard.com*, to locate business and residential information locally and nationally. The sales forces of Switchboard s licensees, its own direct sales force and third party sales channels sell the advertising placed in Switchboard-powered directories. Switchboard s directory technology creates powerful advertising opportunities for merchant and national advertisers, and the merchant information creates a useful experience for consumers that drives more user traffic to its own website, and to the websites of its licensees. By increasing their consumer audience, Switchboard, in turn, increases the value and reach of its advertising products.

Switchboard Advertising Products

Switchboard offers a variety of advertising products tailored to the needs of small local businesses, large national advertisers, online retailers and other advertisers seeking increased online exposure.

Subscriptions for Prominent Placement Switchboard offers merchants prominent placement in its directory and the directories of its licensees. Prominent placement advertisements enable merchants to have their listing data presented ahead of non-paying merchant listings included in Switchboard s database, and/or enhance their listing with additional information that may include links to their website. It also allows advertisers to expand the geographic and category reach of their business information. Merchants typically pay a monthly subscription fee for prominent listings.

Local Performance Based Advertising (LocalClicks) Switchboard continues to evolve the concept of a traditional print directory into an interactive and dynamic medium interconnecting consumers with merchant and national advertisers. In August 2003, Switchboard announced the launch of Switchboard s new LocalClicks advertising product. The LocalClicks product introduces performance-based advertising within the Switchboard.com yellow pages. The LocalClicks product integrates paid links into yellow pages results, connecting consumers directly from yellow pages business listings to extended business information, business services, and products available for online purchase. LocalClicks permits national businesses that have a local business presence to embed links into each of their affiliated local business listings. For example, an auto manufacturer can place links to a newly introduced car website into the business listings of all of its dealerships nationwide. With a single ad

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purchase, they create thousands of click-able opportunities for consumers searching for dealerships locally. Merchants typically pay a fixed fee for each time a consumer clicks on the LocalClicks links.

Content-Targeted Advertising Advertisers pay for clicks to their websites from links that are delivered in conjunction with a consumer s search query. The consumer s search query contains terms that indicate what the consumer appears to be searching for, including the type of product or services and location. Switchboard calls this contextual relevance. In addition to delivering the online yellow page listings that the consumer is searching for, using its proprietary enhanced merchant information (rich data that Switchboard has gathered about a merchant s product and service offerings), Switchboard is able to serve relevant advertisements on yellow pages results and a variety of other pages throughout the Switchboard.com website. Through its agreement with Google Inc. announced in July 2003, Switchboard offers contextually relevant advertisements on Switchboard s website through the Google AdSense™ program. Google AdSense uses proprietary technology to deliver dynamically generated ads targeted to the content of Switchboard s online yellow page listing. For example, when a consumer performs a yellow pages search and a results page is displayed to the consumer, Google analyzes extensive information about the category, the location, and the content associated with merchant listings that satisfy the search. Google matches keywords from Switchboard s local merchant data with advertisers in their database, and returns the appropriate advertisements for presentation alongside the yellow pages search results. Switchboard s extensive local content enables Google s advertisers to reach a very targeted audience through Switchboard s relevant yellow pages search results. Google pays Switchboard a share of the revenue generated whenever a user clicks on one of these ads.

National Banner and Site Sponsorship Advertising Switchboard sells traditional site-wide banner and category-specific banner programs on the Switchboard.com website, and the directories of some of Switchboard s licensees, primarily in the white pages area of Switchboard s online directory. Switchboard also sells sponsorship programs on a site-wide basis or for various categories. Sponsorships are advertisements that do not rotate with other advertisers and are prominently displayed on Switchboard s website. Customers typically pay Switchboard based on the number of page visits it delivers to consumers or the number of times consumers click on their advertisements.

As a service to some of its licensees and local merchant customers, Switchboard has historically provided complementary services such as small business website hosting. However, Switchboard does not emphasize such services today. In addition, Switchboard also customizes its MapsOnUs maps and driving directions content for licensing to a number of online destinations but such licensing is not a primary product offering and is not a material revenue source.

Switchboard Sales and Marketing

Sales channels for Switchboard s online advertising products include the sales forces of its directory technology licensees, its own direct sales force, and third party sales channels.

Directory Technology Licensees Switchboard provides a complete online yellow pages solution, which it refers to as its directory technology, for companies strategically focused on developing a successful online directory business under their own brands. Switchboard licenses its directory technology to Internet portals, traditional yellow pages publishers and newspaper publishers. Its suite of advertising products are built around a proprietary merchant database and search technology, as well as full-featured advertising and merchant management tools. The full suite of advertising products included in Switchboard s directory products enables its licensees to offer merchants local online advertising products and yellow and white pages services. Switchboard s directory technology is fully integrated to meet the needs of its licensees, their merchant customers and the millions of consumers that utilize the Switchboard-powered directory embedded in their websites.

Switchboard s licensees typically pay it a setup fee for the creation and modification of a web-hosted online yellow and white pages directory. In addition to a setup fee, its licensees typically pay it a royalty in the form of a fixed fee-per-merchant based on the number of merchant advertisements promoted in their platform, or a percentage of revenue generated from those merchant advertisements. Further, Switchboard licensees can offer their advertisers placement in its *www.switchboard.com* website for an incremental fee. Licensing its technology in this way enables Switchboard to accelerate and share in the growth of local online advertising as traditional yellow pages advertisers spend more online.

Switchboard s largest and most significant licensee is AOL. It maintains and manages a customized online directory in a separate and distinct web-hosted environment for AOL. Prior to October 1, 2003, AOL paid Switchboard a percentage of revenue for advertisements placed in their online directory and engineering service fees on a time and materials basis for customized modifications they requested to their directory technology. Beginning October 1, 2003, AOL pays Switchboard $4.8 million annually in monthly installments to provide, maintain and customize their directory platform through December 2005. In addition, AOL and Switchboard are able to sell and share revenue on advertising products offering merchant and national advertisers access to the combined consumer audience of both the AOL and Switchboard yellow pages directories. AOL constituted approximately 41.2% of Switchboard s net revenue in 2003 and approximately 41.8% of Switchboard s net revenue in 2002. AOL beneficially owned approximately 7.8% of Switchboard s common stock as of March 5, 2004. Switchboard

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anticipates that AOL will continue to represent a significant percentage of Switchboard s revenue in 2004 and will be a material component of its overall business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Significant Relationship for more information.

Direct and Third Party Sales - Switchboard also sells directory advertisements into the Switchboard.com website through direct and third party sales forces. Switchboard has a small, dedicated direct sales force that focuses on selling Switchboard s advertising products primarily to national and e-commerce advertisers. It currently intends to spend an additional $2.5 million during 2004 as compared to 2003, to support direct sales. However, Switchboard s level of spending in this area may increase or decrease depending on the success of this initiative, and as it becomes more experienced in managing a significant direct sales effort. Switchboard also utilizes third party sales channels, including yellow pages publishers, telemarketing companies, and Certified Marketing Representatives (advertising agencies that specialize in placing yellow pages advertisements). For example, Switchboard has an agreement with Monstermoving Inc. that provides them with the ability to sell directory advertising services on the Switchboard.com website. Under the agreement, each Monstermoving customer that renews its online subscription will have an advertisement included on the Switchboard.com site, and Monstermoving will pay Switchboard a fee for each of those customers.

Switchboard Advertising Products Audience

Switchboard s licensees each have their own respective online audiences, or consumer reach, and the advertisements they sell into their Switchboard-powered directories are made visible to those audiences.

Furthermore, Switchboard s own website, *www.switchboard.com,* is one of the leading destinations on the Internet where consumers search for local merchants. Switchboard.com has grown significantly since its inception. As a result, many advertisers looking for effective and efficient forms of local online advertising desire placement in the *www.switchboard.com* directory. According to Nielsen//NetRatings, Switchboard s websites served more than 6.1 million unique visitors from home and work during January 2004.

Directory advertisements sold into Switchboard.com are typically made visible to the combined audience of the Switchboard.com directory, and the directories of a subset of Switchboard s licensees who agree to display, in their Switchboard-powered directories, advertisements sold by Switchboard and other sales forces. By participating in this network, these licensees can offer their users a broader base of merchant information, which, in turn, makes their directories more useful to their users. The combined audience of *www.switchboard.com* and these licensees adds overall value for Switchboard s advertisers.

Switchboard Competition

Switchboard competes against numerous companies primarily in three categories of businesses for local and national advertising dollars and market share, namely:

- Internet-based yellow and white pages directories that do not utilize its directory website, such as Yahoo! Yellow Pages and Verizon SuperPages;

- Printed yellow and white pages directories that compete with online offerings for advertiser dollars; and

- Internet-based pay-for-placement and pay-for-performance search engines and services, such as Google, LookSmart, FindWhat, Yahoo! and Citysearch, particularly as they begin to expand their offerings to local markets.

Switchboard competes with these organizations primarily on the basis of directory technology, as well as the price and consumer reach of directory advertisements.

Switchboard s website is one of the most utilized directory platforms on the Internet, according to Nielsen/NetRatings claiming a top five spot among category leaders. Switchboard believes that its directory technology has allowed it to secure its key alliance with AOL as well as alliances with other important customers and, along with the popularity of *www.switchboard.com*, has enabled it to capture the attention of millions of potential consumers. However, Switchboard continues to face competition from many sources both traditional and untraditional, including companies which have substantially greater resources and name recognition than it does. Beyond Yahoo! and Verizon, there are numerous national and regional publishers of online and print yellow pages advertising who compete with Switchboard and its licensees for merchant advertising. It may also face competition from internal development groups within its existing and prospective customers, some of which may decide to develop their own proprietary online directory solutions. Additionally, the increased popularity of paid search, and the interest of the companies that are leading the segment in expanding their offerings to more effectively address localized searching and advertising, could begin to blur the lines between search engines and online directories and add additional complexities to the market.

As directory references increase online, Switchboard believes advertising in an online directory (versus print) will become increasingly important for businesses both large and small. As more yellow pages print advertising dollars are spent on online advertising, it believes that the competition in the online directory market will intensify. Switchboard believes publishers of local online advertising solutions will seek best-in-class technology and tools to improve the efficiency of their online operations and to differentiate their online offerings to merchant and national advertisers. Switchboard believes factors that will enable online directory providers to compete effectively in this environment include the ability to offer highly functional and scalable technology solutions, incremental consumer page visits for their merchant and national advertisers, and tools to ease the management and administration of online advertising purchases. Switchboard further believes that it is well positioned to fulfill publishers needs in these areas.

As online usage grows, companies offering local directories will compete to bring greater value to online advertisers by further increasing consumer usage of their directories in these ways:

- speed of results;
- relevance of search results to intent; and
- content breadth and depth.

Switchboard believes that structured and highly specialized user interfaces and database designs tailored to the needs of local advertisers will be an advantage to easily guide consumers to local service and business information. It believes that its depth of experience and focus on these areas will play an important role in making Switchboard s offerings attractive to users and thus to the merchants that populate its directories.

Switchboard believes its ability to compete successfully over the long-term depends on many factors. In addition to those discussed above, these factors include maintaining the quality of content and functionality it provides relative to its competitors, the cost-effectiveness and reliability of its services relative to its competitors, and its ability to generate value for local and national merchants. The market in which Switchboard competes is rapidly evolving. To remain competitive, it believes it is important to continually work towards the development of new technologies to improve the products and services it offers to its licensees and merchant customers, as well as to improve the functionality and utility of its web-hosted directory technology. There can be no assurance that Switchboard will maintain its current competitive advantages or that it will compete successfully in the market for online directory advertising services in the future.

Switchboard Intellectual Property

Patents, copyrights, service marks, trademarks, trade dress, trade secrets, and other intellectual property are critical to Switchboard s success. It relies on a combination of patent, trademark and copyright law, trade secret protection and confidentiality, and license agreements with its employees, consultants, customers, licensees, and others to protect its proprietary rights. All of its employees have executed confidentiality and assignment of invention agreements. Prior to disclosing confidential information to third parties, Switchboard generally requires them to sign confidentiality or other agreements restricting the use and disclosure of its confidential information.

As of December 31, 2003, Switchboard had seven patents issued by the U.S. Patent and Trademark Office, three patents issued by the Canadian Intellectual Property Office, three patent applications pending before the U.S. Patent and Trademark Office, and two patent applications pending before the Canadian Intellectual Property Office, all of which relate to the operation, features or performance of its website. Switchboard pursues registration of its key service marks in the United States and, in some cases, internationally. It currently has registered the following service marks with the U.S. Patent and Trademark Office: Switchboard, Envenue, Nearbuy, Think Outside The Book, What s Nearby, My Studio, My Corner, Sideclick, Ad Studio, Maps On Us, the Man with Building design mark and the Men with Building design mark. The following are service marks of Switchboard: Its the Yellow Pages. Electrified.; LocalClicks; Deals Nearbuy; and, Switchboard Matrix. Applications are pending for its registration of the following service marks: LocalClicks and Deals Nearby. However, effective patent, trademark, service mark, copyright and trade secret protection may not be available or sought by Switchboard in every country in which its services are made available online. Switchboard s patents, trademarks, or other intellectual property rights may be successfully challenged by others or invalidated through administrative process or litigation. Further, the validity, enforceability and scope of protection of proprietary rights in Internet-related industries is uncertain and still evolving.

Switchboard licenses its proprietary rights, such as patents, trademarks and copyrighted material, to third parties. Despite its efforts to protect its proprietary rights, third parties may infringe or misappropriate its rights or diminish the quality or

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reputation associated with its brand, which could have a long-term material adverse affect on its business, results of operations, or financial condition.

In addition, Switchboard licenses software, content and other intellectual property, including trademarks, trade secrets, patents, and copyrighted material, from third parties. In particular, it licenses residential and business listing data from Acxiom Corporation under an agreement that expires in December 2005, and maps and driving directions data and related software from Tele Atlas North America, Inc. under an agreement that expires in February 2005. Further, some of the software code underlying Switchboard.com contains software code that is licensed to it by third parties. If any of these licenses are terminated or expire, it could have a material adverse effect on Switchboard s business, results of operations, or financial condition.

Switchboard currently owns a number of Internet domain names, including *www.switchboard.com,* and *www.MapsOnUs.com* and *www.walking-fingers.com*. Internet regulatory bodies generally regulate domain names. The relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. Therefore, Switchboard could be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of its trademarks and other proprietary rights.

Switchboard Research and Development

Switchboard employs an engineering staff to develop, test and document the enhancement of existing, and creation of new, products and services it offers to its merchant network customers as well as new services and features on its web-hosted directory platform. The market in which Switchboard competes is rapidly evolving. To remain competitive, Switchboard believes it is critical to continually work towards the development of new technologies to improve the products and services it offers to its merchant network customers, as well as to improve the functionality and utility of its web-hosted directory platform. In 2003, Switchboard directed the efforts of its engineering staff primarily on the enhancement of its Matrix directory platform, the compilation and management of merchant attribute information and the creation of new technology that offers users more meaningful results when they search for local businesses using common words and phrases. As of December 31, 2003, Switchboard employed a staff of 33 full-time permanent employees dedicated to research and development activities. Its research and development expenses have constituted, and Switchboard expects they will continue to constitute for the foreseeable future, a material use of its cash resources. Research and development expenses were $6.7 million, or 72.2% of net revenue, $5.4 million, or 46.4% of net revenue and $4.3 million, or 28.1% of net revenue, in 2001, 2002, and 2003, respectively.

Switchboard Employees

As of March 5, 2004, Switchboard had 67 full-time employees. Of these employees, 33 are in research and development, 22 in sales and marketing, 3 in site operations, and 9 in general and administrative. None of Switchboard s employees are represented by a labor union. Switchboard believes its relations with their employees are good.

For a further discussion of our relationship with Switchboard, see Note 25, Related Parties, in the Company s Notes to Consolidated Financial Statements for the year ended December 31, 2003, which are incorporated from Item 8 herein.

ITEM 2. PROPERTIES

Our principal administrative and sales and marketing facilities are located in Westboro, Massachusetts and consist of approximately 79,203 square feet under a lease that expires on September 30, 2005, with an aggregate annual base rent of approximately $0.4 million. We sublease an aggregate of approximately 27,200 square feet of this space to Switchboard and another company combined. Under the Switchboard sublease that expires on September 30, 2005, the aggregate annual base rental income is approximately $0.2 million. Under the sublease with the other tenant that expires on September 30, 2005, the aggregate annual base rental income is approximately $0.1 million.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our services business, to which we are a party or of which any of our property is the subject.

On November 21, 2001, a putative class action lawsuit was filed in the United States District Court for the Southern District of New York on behalf of all persons and entities who purchased or otherwise acquired common stock of Switchboard from March 2, 2000 through December 6, 2000. The complaint named as defendants Switchboard, the managing underwriters of our initial public offering, Douglas J. Greenlaw, Dean Polnerow, and John P. Jewett. Mr. Polnerow is our President and CEO, and Mr. Greenlaw and Mr. Jewett are former officers of Switchboard.

An amended complaint was filed on April 20, 2002. The amended complaint alleges violations of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, primarily based on the assertion that the defendants

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made material false and misleading statements in in connection with Switchboard s initial public offering because of the failure to disclose (a) the alleged solicitation and receipt of excessive and undisclosed commissions by the underwriters in connection with the allocation of shares of common stock to certain investors in Switchboard s public offering and (b) that certain of the underwriters allegedly had entered into agreements with investors whereby underwriters agreed to allocate the public offering shares in exchange for which the investors agreed to make additional purchases of stock in the aftermarket at pre-determined prices. The amended complaint alleges claims under Sections 11 and 15 of the Securities Act, and Sections 10(b) and 20(a) of the Securities Exchange Act. The amended complaint seeks damages in an unspecified amount.

In July 2002, Switchboard, Douglas J. Greenlaw, Dean Polnerow and John P. Jewett joined in an omnibus motion to dismiss challenging the legal sufficiency of plaintiffs claims. The motion was filed on behalf of hundreds of issuer and individual defendants named in similar lawsuits. The plaintiffs opposed the motion, and the Court heard oral argument on the motion in November 2002. On February 19, 2003, the court issued its decision on the defendants motion to dismiss, granting in part and denying in part the motion as to Switchboard. In addition, in October 2002, Messrs. Greenlaw, Polnerow and Jewett were dismissed from this case without prejudice.

In June 2003, the plaintiffs, the issuer defendants and their insurers agreed on the terms and conditions of a proposed settlement of this case. The terms and conditions of the proposed settlement have been widely reported in the press. Switchboard s special committee of the board of directors met twice during June 2003 to evaluate the proposed settlement. The committee was advised by outside counsel on the merits of the proposed settlement. The committee determined that the settlement was in the best interests of Switchboard and that Switchboard should accept the proposed settlement. There is no guarantee that the settlement will become final, as it is subject to a number of conditions, including court approval. Switchboard has been informed by outside counsel that all of the non-bankrupt issuers decided to accept the terms and conditions of the proposed settlement of this case. Switchboard does not believe we will suffer material future losses related to this lawsuit.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Company s executive officers as of March 5, 2004 were as follows:

Name	Age	Position
William P. Ferry	51	Chairman of the Board, President and Chief Executive Officer
Anthony J. Bellantuoni	52	Senior Vice President, Human Resources
Scott E. Kitlinski	39	Vice President and Chief Information Officer
Scott G. Silk	46	Senior Vice President and General Manager, Services
Richard M. Spaulding	44	Senior Vice President and Chief Financial Officer, Treasurer and Clerk

Mr. Ferry, Chairman of the Board, President and Chief Executive Officer, joined the Company in February 1997. Mr. Ferry has been Chairman of the Board since October 1997 and has been a director of the Company and served as President and Chief Executive Officer since joining the Company. Mr. Ferry has served as a Director of Switchboard since March 1997 and has been Switchboard s Chairman of the Board since February 1998. From August 1990 to February 1997, he served in various management capacities at Wang Laboratories, Inc., a global network and desktop integrating and services company, including President, Services Division from July 1994 to February 1997 and Senior Vice President and General Manager, North American Operations from January 1993 to July 1994.

Mr. Bellantuoni, Senior Vice President of Human Resources, joined the Company in July 1997. Prior to joining the Company, Mr. Bellantuoni was Vice President of Human Resources at Wang Laboratories, Inc., a global network and desktop integrating and services company, from 1993 to 1997. Mr. Bellantuoni also held various senior management positions at Wang Laboratories, Inc. from 1979 to his appointment as Vice President in 1993.

Mr. Kitlinski, Vice President and Chief Information Officer, joined the Company in September 1999. Prior to joining the Company, Mr. Kitlinski was a Gartner Group analyst from September 1998 to September 1999. Mr. Kitlinski served as vice president and chief information officer for Bronner Slosberg Humphrey from June 1995 to September 1998. Prior to joining Bronner Slosberg Humphrey, Mr. Kitlinski served as group manager of consulting services and strategic support services for Stream International.

Mr. Silk, Senior Vice President and General Manager, Services, joined the Company in January 1999. Prior to joining the Company, Mr. Silk was President of North American Operations and Vice President of Worldwide Marketing at Gentia Software, a software company specializing in data warehousing and analytical applications, from January 1997 to January 1999. In 1996, Mr. Silk was Vice President of Sales and Marketing at Actium Corporation, a systems integration firm. From 1980 to 1995, he held a variety of senior level sales, marketing and general management positions at Unisys Corporation.

Mr. Spaulding, Senior Vice President and Chief Financial Officer, Treasurer and Clerk, joined the Company in September 1990. Mr. Spaulding has served as a Director of Switchboard since April, 1996. Prior to joining the Company, he served in a number of senior financial management positions with C. R. Bard, Inc., a medical products provider, from June 1985 to September 1990. From June 1983 to June 1985, Mr. Spaulding was a Certified Public Accountant with Arthur Andersen & Company.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information with respect to this item may be found under Item 6, Selected Financial Data of this Annual Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read together with our audited consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results of operations to be expected in the future.

	Years Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in thousands, except per share amounts)				
Statement of operations data:					
Revenues:					
Services	$ 16,547	$ 32,077	$ 51,711	$ 61,300	$ 37,494
Switchboard[1]	15,192	11,747	9,278	19,898	8,304
Total revenues	31,739	43,824	60,989	81,198	45,798
Loss from continuing operations[2,3,5]	(14,924)	(36,779)	(105,743)	(30,256)	(16,740)
Net (loss)/income[4]	(14,097)	(31,708)	(40,331)	15,055	28,149
Net (loss)/income per share:					
Basic	$ (0.63)	$ (1.42)	$ (1.76)	$ 0.64	$ 1.33
Diluted	$ (0.63)	$ (1.42)	$ (1.76)	$ 0.56	$ 1.11
Balance sheet data:					
Working capital	$ 85,930	$ 82,911	$ 72,577	$ 130,973	$ 112,443
Total assets	100,779	116,419	162,951	231,165	174,450
Total shareholders equity	63,392	75,569	109,186	149,679	115,367

QUARTERLY STOCK PRICE INFORMATION

	2003 Quarters Ended			
	Dec. 31	**Sept. 30**	**June 30**	**March 31**
Stock price (close):				
High	$ 6.06	$ 5.95	$ 2.71	$ 2.04
Low	$ 3.50	$ 2.57	$ 1.89	$ 1.61

	2002 Quarters Ended			
	Dec. 31	Sept. 30	June 30	March 31
Stock price (close):				
High	$ 2.37	$ 3.80	$ 4.40	$ 4.65
Low	$ 1.40	$ 1.16	$ 3.55	$ 3.25

1. Switchboard revenue includes, as an offset to revenue, amortization of consideration given to a customer of $2.0 million, $4.0 million and $0.4 million for the years ended December 31, 2002, 2001 and 2000, respectively, in accordance with Emerging Issues Task Force Issue 01-9 Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products) , which became effective for fiscal years beginning after December 15, 2001.

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[2.] Includes approximately $9.7 million and $11.8 million in non-cash CBS advertising expense in 2001 and 2000 respectively. Includes a $22.2 million non-cash loss on Switchboard s exchange of remaining advertising credits with Viacom for Switchboard stock for 2001.

[3.] Includes charges of $6.5 million related to a vendor settlement during 2003. Includes an impairment of goodwill of approximately $14.8 million for our services segment for 2002. Includes special charges of $17.3 million for Switchboard related to the impairment of the AOL Directory Agreement and other charges for 2001.

[4.] Includes a net realized gain of approximately $33.4 million $44.6 million and $16.6 million in 2001, 2000 and 1999, respectively, for the sale of shares in Openwave.

[5.] In 1999, we announced a decision to exit our software business and began to account for the software business as discontinued operations. Included in the 1999 results of operations is an estimated loss from disposal of discontinued operations of $3.0 million, net of tax.

The Company s common stock trades on the NASDAQ National Market under the symbol EPRE. The Company has not paid cash dividends on its common stock and has historically retained earnings for use in its business. Upon stockholders approval of the plan of liquidation, and our dissolution, the Company intends to make liquidating distributions to stockholders of net assets available for distribution.

On March 5, 2004, the Company had 5,559 shareholders of record.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

ePresence has two reportable segments: services and Switchboard. Our reportable segments are managed separately as they are separately traded public companies, and market and distribute distinct products and services. See Note 21 Segment Information in the Company s Notes to Consolidated Financial Statements for the year ended December 31, 2003 which is incorporated from Item 8 herein.

ePresence is a consulting and systems integration company delivering Security and Identity Management (SIM) solutions that help companies reduce cost, enhance security, improve service and increase revenues. Identity management promotes effective management of users and access to the right information across IT environments, creating context and common infrastructure across distributed constituencies, business processes and applications. Our primary service offerings blend the elements of security and identity management, which include enterprise directory and security services, meta-directory services, access and password management services, single sign-on services, electronic provisioning services, information technology platform services, and managed operational services.

As of December 31, 2003, we owned approximately 51% of Switchboard s outstanding common stock and, therefore, consolidate Switchboard s results with our financial results. Switchboard is a leading provider of web hosted directory technologies and customized yellow pages platforms to yellow pages publishers, newspaper publishers and Internet portals that offer online local directory advertising solutions to national retailers and brick and mortar merchants across a full range of Internet and wireless platforms.

In 2003, as a result of the performance of our services business which had experienced declining revenues and operating losses due to unfavorable economic conditions combined with decreased technology spending and increasing competition in our industry from companies with greater resources, the Board of Directors decided to pursue strategic initiatives to enhance stockholder value.

On October 23, 2003 we announced that we had signed a definitive agreement to sell the assets of our services business to Unisys Corporation (NYSE:UIS) for approximately $11.5 million in cash. These assets include ePresence s customer relationships and industry partnerships, and a majority of the Company s employees are expected to become employees of Unisys. The transaction is subject to the approval of ePresence stockholders and other closing conditions, and is expected to be completed by the second quarter of 2004. We also announced that our Board of Directors has approved a plan of liquidation of ePresence. On March 26, 2004, we announced that Swithboard agreed to be acquired by InfoSpace, Inc., subject to stockholder approval. We have filed a preliminary proxy statement, dated November 6, 2003 and amended on December 18, 2003 and January 14, 2004, regarding these matters, and will file an amendment to the proxy statement to reflect the Switchboard merger proposal.

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In connection with ePresence s plans to liquidate and dissolve, we have incurred approximately $7.4 million as of December 31, 2003, related to the termination of a vendor relationship, subsidiary dissolution costs, the settlement of certain customer arrangements, severance costs, legal, accounting, investment banking and other professional fees and expenses.

Upon sale of assets to Unisys, the sale of Switchboard shares and the liquidation and dissolution, the Company will cease all operations and activities other than the winding-up of our affairs.

In the event of stockholder approval of the plan of liquidation, we would be required to adopt a liquidation basis of accounting (See Note 3 to Consolidated Financial Statements Pro Forma Consolidated Statement of Net Assets Available in Liquidation . Accordingly, we would no longer report a balance sheet but would instead report a consolidated statement of net assets available in liquidation, which would not include a stockholders equity section. In the consolidated statement of net assets available in liquidation, our assets would be valued at their estimated net realizable value and liabilities would include the estimated costs associated with carrying out the plan of liquidation. In addition, we would no longer report a consolidated statement of operations but instead would report a consolidated statement of loss and changes in net assets.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. On October 23, 2003, we announced our intention to liquidate, satisfy our remaining obligations and make one or more distributions to our stockholders of cash available for distribution. The plan of liquidation is subject to stockholder approval. As more fully described in Note 3 to the financial statements included in this annual report, if the plan of liquidation is approved, the financial statements will then be prepared on a liquidation basis of accounting.

SERVICES RESULTS OF OPERATIONS

The following table presents ePresence s services statement of operations information, as well as ePresence s services statement of operations information stated as a percentage of total net ePresence revenue:

(in thousands)

	Years Ended December 31,							
	2003			2002			2001	
Services:	**Amount**	**As a % of Net Revenue**	**% Change 2002 to 2003**	**Amount**	**As a % of Net Revenue**	**% Change 2001 to 2002**	**Amount**	**As a % of Net Revenue**
Revenues	$ 16,547		(48)%	$ 32,077		(38)%	$ 51,711	
Cost of revenues	11,718	71%	(46)%	21,649	67%	(39)%	35,777	69%
Gross profit	4,829	29%	(54)%	10,428	33%	(35)%	15,934	31%

Operating expenses:								
Sales and marketing	6,035	36%	(42)%	10,329	32%	(42)%	17,706	34%
General and administrative	8,658	52%	(22)%	11,078	35%	(26)%	15,011	29%
Amortization of goodwill and intangibles		0%			0%	(100)%	2,668	5%
Termination of a vendor relationship	6,500	39%			0%			0%
Impairment of goodwill		0%	(100)%	14,779	46%	20%	12,364	24%
Restructuring and other charges		0%	(100)%	5,100	16%	29%	3,953	8%
Total operating expenses	21,193	128%	(49)%	41,286	129%	(20)%	51,702	100%
Operating loss	(16,364)	(99)%	(47)%	(30,858)	(96)%	(14)%	(35,768)	(69)%
Other income/(expense), net	(159)	(1)%	(105)%	3,204	10%	(95)%	69,771	135%
Services net loss from operations before income taxes and cumulative effect of accounting change	(16,523)	(100)%	(40)%	(27,654)	(86)%	(181)%	34,003	66%
Services (benefit)/provision for income taxes	(352)	(2)%	(471)%	95	0%	(99)%	11,025	21%
Services net loss before cumulative effect of accounting change	(16,171)	(98)%	(42)%	(27,749)	(87)%	(221)%	22,978	44%
Cumulative effect of accounting change, net of tax of $1,855						(100)%	3,445	7%
Services net loss	$ (16,171)	(98)%	(42)%	$ (27,749)	(87)%	(205)%	$ 26,423	51%

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Services Revenues

The decrease in services revenues in 2003 was due to lower revenues from our consulting services and managed operational services which declined $8.3 million and $4.6 million, respectively in 2003 due to decreased and deferred technology spending, increased competition and declines in our legacy support services revenues. Also contributing to the decline in revenues during 2003 was a reduction in third party products revenue from 2002 of $2.6 million The decrease in 2002 from 2001 was principally due to lower revenues from our consulting business which declined $7.1 million in 2002 due to unfavorable economic conditions leading to decreased and deferred technology spending, and from significant declines in revenues from our portal solutions business of $5.6 million. The decrease was also due to declines in revenues from our legacy support services of $4.8 million, as well as a reduction of $2.6 million in revenues from our operations in Germany and the United Kingdom, which we exited in 2002.

As a result of the closure of our remaining international operations in the United Kingdom and Germany, there were no international revenues for 2003 which compared with $0.2 million in 2002 and $4.8 million in 2001.

Services Gross Profit

The decrease in gross profit dollars and percentage in 2003 were primarily due to decreases in revenues noted above, mitigated in part by reductions in cost of services as a result of a reduction of personnel, which decreased at a slower pace than revenues. The increase in gross profit dollars and percentage for 2002 was primarily due to cost reduction initiatives in our consulting services delivery which resulted in increased utilization of our consulting resources. Cost of revenues consists primarily of direct costs (i.e. compensation) of consulting delivery personnel and third party product costs.

Services Operating Expenses

The decrease in sales and marketing expenses in 2003 was primarily due to the effects of our previous restructurings that resulted in cost reductions in our domestic sales operations, principally in the form of staff reductions and office closures including the elimination of our portal solutions operations. As a result, salaries and related costs for sales and marketing decreased $2.7 million. Additionally, promotional expenses declined $0.5 million in 2003. The decrease in 2002 was principally due to cost reductions in our portal solutions operations of $3.1 million, staff reductions and office closures in our other domestic services operations of $1.4 million and the closing of our operations in the United Kingdom and Germany resulting in cost reductions of $1.7 million. Sales and marketing expenses consist primarily of salaries, associated employee benefits and travel expenses of sales and marketing personnel and promotional expenses.

The decrease in general and administrative expenses in 2003 was primarily attributable to staff reductions and related costs of $1.9 million and lower bad debt expense of $ 0.5 million. This decrease was offset partially by professional services expenses of $0.7 million incurred in 2003 as a result of the Company s strategic initiatives. The decrease in 2002 was primarily attributable to a reduction in facility costs of $1.4 million, lower depreciation expense of $0.9 million, staff reductions and related costs of $0.9 million and lower bad debt expense of $0.4 million. This decrease was offset partially by professional services expenses incurred in 2002 as a result of amendments to our Annual Report on Form 10-K for the year ended December 31, 2001 and the restatement of the financial statements included therein, and amendments to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002. General and administrative expenses consist primarily of compensation, benefits and travel costs

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for employees in our management, finance, human resources, information services, and legal groups; recruiting and training costs for delivery personnel; costs for facilities; and depreciation expenses not allocated to sales or cost of revenues.

Services Termination of Vendor Agreement

On January 11, 1999, we established a strategic alliance with Microsoft Corporation to deliver integrated messaging, networking and Internet solutions and the collaboration on the design and implementation of packaged services, solutions and support offerings based on Microsoft s enterprise platform. Under the agreement, Microsoft contributed $8.4 million to fund these initiatives and for certain marketing and product development efforts and the purchase of 1,750,000 common stock warrants. In October 2003, we terminated the alliance agreement by paying Microsoft $6.5 million in settlement of any further obligations under the agreement and cancellation of the common stock warrants.

Services Amortization of Goodwill and Intangibles

There was no amortization of goodwill expenses for our services business in 2003 or 2002 compared with $2.7 million in 2001. The decrease in 2002 was due to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . Upon the adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life, but instead goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Amortization expense as a percentage of services revenues was 5% for 2001. During 2002 we determined that the carrying value of goodwill recorded in connection with these prior acquisitions was impaired. Impairment charges totaling $14.8 million and $12.4 million respectively were recorded in 2002 and 2001, respectively, reflecting the amount by which the carrying amount of the assets exceeded their respective fair values. As of December 31, 2002 our goodwill was fully written off.

Services Restructuring Charges

During 2002, as part of our plan to focus on cost reductions while transitioning to a sales model that aims to lower our cost of sales and capitalize on the strength of our relationships with industry leaders, we recorded total pre-tax charges of $5.1 million. The restructurings were focused principally on the closure of our offices in Germany and the United Kingdom, reductions in our marketing and general and administrative functions and the elimination of several senior management positions. These charges included workforce reductions of approximately 75 positions, office closures and asset write-offs. At December 31, 2003, we had utilized approximately $3.7 million in total of the liability of which $1.5 million was severance related costs, and the remainder related to office closures and asset write-offs. The remaining liability at December 31, 2003 was approximately $1.5 million. We anticipate that we will utilize a substantial portion of the remaining liability by the end of fiscal year 2004. We expect to use $1.5 million of cash related to these activities of which a substantial portion is expected to be expended by the end of fiscal year 2004. See Note 11, Restructuring Charges, in the Company s Notes to Consolidated Financial Statements for the year ended December 31, 2003, which is incorporated from Item 8 herein.

During 2001, as part of our plan to implement cost-cutting measures in the services business, we recorded in total net pre-tax charges of $4.0 million related to workforce reductions, office closures and asset write-offs. At December 31, 2003, we had utilized approximately $3.5 million in total of the liability of which approximately $2.0 million was severance related costs, and the remainder related to office closures and asset write-offs. The remaining liability at December 31, 2003 was approximately $0.4 million of cash related expenditures. See Note 11, Restructuring Charges, in our Notes to Consolidated Financial Statements for the year ended December 31, 2003, which is incorporated from Item 8 herein.

Services Other Income/(Expense) and Income Taxes

The decrease in services other income in 2003 is primarily due to the change in the minority interest share of income in Switchboard of $2.9 million as well as a reduction in interest income and realized gains as a result of lower interest rates and less funds available for investment. The decrease in 2002 was primarily due to the liquidation of our Openwave position in 2001 resulting in a net gain of $33.4 million as well as the change in the minority interest share of decreased losses in Switchboard of $33.1 million and a reduction in interest income of $1.4 million.

While we incurred significant pretax losses in 2003, 2002 and 2001, we recorded a provision for income taxes in each of those years. The provision for income taxes in 2003 and 2002 is primarily for state income taxes and in 2003 was offset by a federal income tax refund of $0.4 million. We recorded no tax benefit on our operating losses for the years ended December 31, 2003 and 2002, due to the uncertainty of its realization. The provision for income taxes in 2001 is primarily the result of the significant gain on the sale of Openwave stock and due to the fact that Switchboard s results (and net operating losses) are not consolidated with ours for income tax purposes.

We periodically evaluate the realizability of our deferred tax assets. Because we believe it is more likely than not that all of the deferred tax assets will not be realized, we have provided a full valuation allowances against our net deferred tax assets.

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Services Other Matters

On January 1, 2001 we were party to two separate hedging contracts related to our investment in Openwave. Since we did not designate these hedges, the fair market value of these hedges ($5.3 million at January 1, 2001) was recorded as an asset and, accordingly, we recorded a cumulative effect in accounting change, net of taxes, of $3.5 million (an earnings per share impact of $0.15). Upon liquidation of the Openwave investment, these hedges were terminated and were offset against the gain from the sale of Openwave. These changes had no effect our consolidated net income for the period ending December 31, 2001. Aside from these hedges, at January 1, 2001 and through December 31, 2001, we were not party to any other derivative instruments.

For a further discussion of the our relationship with Switchboard, see Note 25, Related Parties, in our Notes to Consolidated Financial Statements for the year ended December 31, 2003 which is incorporated from Item 8 herein. For a further discussion of Switchboard s relationship with AOL, see Note 24, AOL Alliance in our Notes to Consolidated Financial Statements for the year ended December 31, 2003 which is incorporated from Item 8 herein.

Switchboard Results of Operations

The following table presents Switchboard s consolidated statement of operations information, as well as Switchboard s consolidated statement of operations information stated as a percentage of total net Switchboard revenue:

	2001		2002		2003		Change 2001 to 2002		Change 2002 to 2003	
	Amount	As a % of net revenue	Amount	As a % of net revenue	Amount	As a % of net revenue	Amount	%	Amount	%
Net Switchboard revenue:										
Merchant network	$ 6,209	66.9%	$ 10,327	87.9%	$ 13,428	88.4%	$ 4,118	66.3%	$ 3,101	30.0%
National banner and site sponsorship	3,069	33.1%	1,420	12.1%	1,764	11.6%	(1,649)	(53.7)%	344	24.2%
Total net Switchboard revenue	9,278	100.0%	11,747	100.0%	15,192	100.0%	2,469	26.6%	3,445	29.3%
Cost of revenue	3,518	37.9%	3,744	31.9%	2,925	19.3%	226	6.4%	(819)	(21.9)%
Gross profit	5,760	62.1%	8,003	68.1%	12,267	80.7%	2,243	38.9%	4,264	53.3%
Sales and marketing	24,606	265.2%	4,683	39.9%	3,264	21.5%	(19,923)	(81.0)%	(1,419)	(30.3)%
Research and development	6,702	72.2%	5,446	46.4%	4,263	28.1%	(1,256)	(18.7)%	(1,183)	(21.7)%
General and administrative	4,181	45.1%	4,057	34.5%	3,335	22.0%	(124)	(3.0)%	(722)	(17.8)%
Amortization of goodwill, Intangibles	719	7.7%					(719)	(100.0)%		

and other Assets										
Loss on Viacom transaction	22,203	239.3%					(22,203)	(100.0)%		
Special charges (credits)	17,324	186.7%	(262)	(2.2)%	(35)	(0.2)%	(17,586)	(101.5)%	227	(86.6)%
Total Operating expenses	75,735	816.3%	13,924	118.5%	10,827	71.3%	(61,811)	(81.6)%	(3,097)	(22.2)%
Switchboard Operating (loss) income	(69,975)	(754.2)%	(5,921)	(50.4)%	1,440	9.5%	64,054	91.5%	7,361	124.3%
Other income, net	3,221	34.7%	1,962	16.7%	676	4.4%	(1,259)	(39.1)%	(1,286)	(65.5)%
(Loss) income before income taxes	(66,754)	(719.5)%	(3,959)	(33.7)%	2,116	13.9%	62,795	(94.1)%	6,075	153.4%
Provision for income Taxes					42	0.3%			42	n/a
Switchboard net income (loss)	$ (66,754)	(719.5)%	$ (3,959)	(33.7)%	$ 2,074	13.7%	$ 62,795	(94.1)%	$ 6,033	152.4%

Switchboard Revenue

The increase in net merchant network revenue in both 2003 and 2002 was due primarily to a reduction in amortization of consideration given to AOL as a result of the elimination of such amortization in August 2002 upon the amendment to the Directory Agreement with AOL. There was no amortization of consideration provided to AOL in 2003. Amortization of

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consideration given to AOL totaled $2.0 million and $4.0 million in 2002 and 2001, respectively. Switchboard does not expect to incur amortization of consideration given to AOL in the future during the remainder of the term of its current agreement. The increase in net merchant network revenue in 2003 was also attributable to an increase in of $2.1 million in licensing revenue from new and existing directory technology licensees exclusive of AOL. Offsetting these increases in 2003 was a decrease in gross revenue from AOL of $0.6 million. The decrease in revenue from AOL was due primarily to a decrease of $1.2 million in AOL licensing revenue which resulted primarily from a decrease in the rate by which Switchboard shared in directory advertisement revenue from AOL as a result of the achievement of pre-determined cumulative revenue milestone, as well as the effects of the October 2003 amendment to the Directory Agreement. The increase in 2002 as compared to 2001 was also attributable to increases in merchant licensing and other services revenues of $2.5 million from AOL as well as Switchboard s other existing directory technology licensees, offset in part by a decrease of $0.5 million in local merchant website hosting services.

The increase in national banner advertising and site sponsorship revenue in 2003 resulted primarily from the addition of new customers and an increase in revenue from existing customers. The increase in revenue from existing customers was due primarily to an increase in the rate charged to those existing customers and additional advertising placements on Switchboard s site, as well as an increase in traffic to Switchboard s website. Switchboard believes that they increased rates were possible in part due to the improvement in general demand for national banner and site sponsorship advertising during 2003. The decreases in national banner advertising and site sponsorship revenue in 2002 resulted from a decrease in both the number of advertisers on the site, as well as the per impression fee charged to those customers. Switchboard attributes the 2002 decrease to a decline in general demand for national banner advertising and site sponsorship on the Internet during 2002, as well as the overall state of the U.S. economy.

In 2003, 2002 and 2001, AOL accounted for 41.2%, 41.8% and 0.3% of net Switchboard revenue, respectively. In the year ended December 31, 2001, one customer accounted for 11.6% of net Switchboard revenue. There was no revenue in 2003 or 2002 generated from barter transactions, in which Switchboard received promotion in exchange for promotion on Switchboard s website. Revenue from barter transactions was 9.0% of net Switchboard revenue in 2001.

Switchboard Cost of Revenues

The decrease in cost of revenue in 2003 was primarily attributable to a decrease of $0.3 million in the cost of third-party data, a decrease of $0.3 million in website creation and hosting fees in connection with Switchboard s merchant services programs and a decrease of $0.2 million in data communications expense. These decreases in 2003 were offset in part by an increase of $0.2 million in search engine database inclusion expense.

In 2002, Switchboard incurred an increase of $0.4 million in depreciation associated with additional equipment necessary to support Switchboard s website and those of Switchboard s directory technology licensees; an increase of $0.2 million in the cost of third-party data; and an increase in revenue from lower margin merchant network services as compared to 2001. These increases were offset in part by a decrease of $0.3 million in third-party website creation and hosting expenses associated with Switchboard s merchant programs and a decrease of $0.2 million in equipment related expenses incurred to support Switchboard s directory and the directories of Switchboard s licensees.

Switchboard Gross Profit

The increase in gross profit dollars and percentage in 2003 was due primarily to an increase in net revenue being spread over lower costs of revenue. In 2003, Switchboard reduced its fixed costs of revenue by lowering its data communication expenditures and the cost of obtaining third party data. The increase in gross profit dollars and percentage in 2002 was primarily due to an increase in net revenue being spread over relatively fixed costs of revenue, offset in part by an increase in lower margin merchant network services revenue.

Switchboard Operating Expenses

The decrease in sales and marketing expense in 2003 was primarily due to a decrease of $0.6 million in merchant program expenses and a $0.2 million reduction of expense as a result of a payment from AOL for the final settlement of Switchboard s prior agreement with AOL, which was terminated in March 1999. The decrease in 2003 was also due, to a lesser extent, to decreases of $0.2 million in public relations expense and $0.2 million in facilities expenses.

The decrease in sales and marketing expense in 2002 as compared to 2001 was primarily related to the elimination of the non-cash advertising expense related to Switchboard s former agreement with Viacom, which accounted for $9.7 million of Switchboard s sales and marketing expense during 2001. The decrease in 2002 was also attributable to decreases of $6.1 million in other corporate marketing program expenses, $2.0 million in employee salaries and benefits resulting primarily from actions

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taken during Switchboard s corporate restructuring activities in the three months ended December 31, 2001, $0.9 million in provisions for doubtful accounts and $0.8 million in merchant program expenses.

The decrease in research and development expense in 2003 was due primarily to decreases of $0.5 million in salaries and benefits, $0.3 million in costs associated with leased facilities as a result of more favorable lease terms under Switchboard s agreements with ePresence and $0.2 million in consulting expense. The decrease in 2002 was due primarily to decreases of $0.6 million in outside consulting, $0.3 million in employee salaries and benefits, $0.2 million in costs associated with leased facilities primarily as a result of the elimination of a leased facility in 2002 associated with Switchboard s Envenue acquisition and $0.1 million in recruiting expenses. These decreases in employee salaries and benefits in both 2003 and 2002 were primarily the result of decreases in the number of employees performing research and development activities.

The decrease in general and administrative expense for 2003 was primarily due to the $0.7 million Switchboard incurred in the 2002 period for professional services related to the amending of Switchboard s Annual Report on Form 10-K for the year ended December 31, 2001 and Switchboard s Quarterly Report on Form 10-Q for the three months ended March 31, 2002 and the restatement of the financial statements included therein. The decrease in general and administrative expense in 2003 was also due, to a lesser extent, to a decrease of $0.1 million in insurance expense and the reduction of expense of $0.1 million due to Switchboard s revised estimate of the liability required for potential damages resulting from a class action lawsuit filed against Switchboard and certain of Switchboard s current and former officers. These decreases were offset in part by separation benefit expenses of $0.2 million resulting the resignation of Switchboard s Chief Executive Officer.

The decrease in general and administrative expense in 2002 in comparison to 2001 was primarily due to a decrease of $0.8 million in salaries and benefits resulting primarily from actions taken during Switchboard s corporate restructuring activities in the three months ended December 31, 2001 and a decrease of $0.3 million in costs associated with leased facilities, offset in part by an increase of $0.8 million in expenses for professional services incurred primarily as a result of amendments to Switchboard s Annual Report on Form 10-K for the year ended December 31, 2001 and Switchboard s Quarterly Report on Form 10-Q for the three months ended March 31, 2002 and the restatement of the financial statements included therein.

On October 23, 2003, Switchboard filed a Registration Statement on Form S-1 in connection with a proposed underwritten offering of its common stock. The offering was initiated by ePresence in order to facilitate an orderly disposition of its Switchboard holdings in conjunction with its announced plan of liquidation. As of December 31, 2003, Switchboard had incurred $511,000 of costs associated with the offering. Switchboard recorded these deferred offering costs as a long-term asset on its balance sheet as of December 31, 2003. Switchboard expects to abandon this offering and record expense for these deferred offering costs in full, as well as any other costs associated with this offering subsequent to December 31, 2003, as a component of operating expenses in the three months ended March 31, 2004.

Switchboard Amortization of Goodwill, Intangibles and Other Assets

Amortization of goodwill, intangibles and other assets in 2001 consisted primarily of amortization of goodwill resulting from Switchboard s acquisition of Envenue, which was written down to zero as of December 2001 as a result of an impairment analysis, and amortization expense associated with a software license, which was fully amortized as of December 2001.

Switchboard Loss on Viacom Transaction

As a result of Switchboard s October 2001 restructuring of Switchboard s relationship with Viacom, Switchboard reported a one-time, non-cash accounting loss of $22.2 million in 2001 related to the termination of Switchboard s advertising and promotion agreement with Viacom. Switchboard agreed to terminate its right to the placement of advertising on Viacom s CBS properties with an expected net present value of approximately $44.5 million in exchange for, primarily, the reconveyance by Viacom to us of approximately 7.5 million shares of Switchboard s common stock, the cancellation of warrants held by Viacom to purchase 533,469 shares of Switchboard s common stock and the reconveyance to us of the one outstanding share of Switchboard s series E special voting preferred stock. The non-cash accounting loss of $22.2 million results from the difference between the net present value of Switchboard s remaining advertising rights with Viacom, which were terminated, and the value of the shares of Switchboard s common and preferred stock that were reconveyed and the warrants that were cancelled.

Switchboard Special (Credits)/Charges

In 2003, Switchboard recorded the reversal of $35,000 in excess restructuring reserves. This reversal resulted from a revision of an estimate of termination benefits for which Switchboard had reserved as part of its 2001 special charges. It was determined in 2003 that the reserve for such benefits was no longer required. In 2002, Switchboard recorded the reversal of $0.3 million in excess restructuring reserves as a special credit. This reversal resulted primarily from better than expected experience in the subleasing of idle office space for which Switchboard had reserved as part of its 2001 special charges.

In December 2001, Switchboard recorded net pre-tax special charges of approximately $17.3 million, comprised primarily of $15.6 million for the impairment of certain assets, $1.0 million for costs related to facility closures and $0.7 million in severance costs related to the reduction of approximately 21% of Switchboard s workforce. The restructuring resulted in 21 employee separations. These facility closures and employee separation activities were substantially completed during 2002.

Included in the $15.6 million charge for the impairment of certain assets is an amount recorded for the impairment of the unamortized portion of the value of the common stock issued and amounts prepaid to AOL. Switchboard assessed the value of its

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assets related to Switchboard s AOL Directory Agreement for impairment as revenues were lower at the end of the first year of the Directory Agreement than originally anticipated. Based upon an impairment analysis that indicated that the carrying amount of these assets would not be fully recovered through estimated undiscounted future operating cash flows, a charge of $11.7 million was recorded as an additional component of special charges during 2001. This impairment analysis was performed in September 2002 as part of Switchboard s restatement of Switchboard s Annual Report on Form 10-K for the year ended December 31, 2001. The impairment was measured as the amount by which the carrying amount of these assets exceeded the present value of the estimated discounted future cash flows attributable to these assets.

In December 2001, Switchboard exercised its rights under the Envenue acquisition agreement to substantially reduce the funding of Envenue. Switchboard evaluated the carrying value of Switchboard s goodwill in Envenue, and determined it would not be fully recovered through estimated undiscounted future operating cash flows. As a result during the three months ending December 31, 2001, Switchboard recorded as a component of the $15.6 million impairment charge for certain assets an impairment charge of $1.9 million related to the Envenue goodwill. The impairment was measured as the amount by which the carrying amount of these assets exceeded the present value of the estimated discounted future cash flows attributable to these assets.

Also included in the impairment charge for certain assets are amounts related to prepaid advertising expenses. As a result of Switchboard s change in overall strategy from a destination site to a technology provider, Switchboard no longer considered this prepaid advertising to be complementary to Switchboard s corporate strategy. Accordingly, Switchboard recorded $1.4 million for the impairment of these prepaid advertising assets.

Of the total $1.3 million facilities and severance charge, which is net of the $35,000 and $0.3 million special credits recorded in 2003 and 2002, respectively, $1.1 million is cash-related. Switchboard has a remaining liability of $10,000 on its balance sheet as of December 31, 2003 for the 2001 special charges related primarily to our remaining net lease obligations for a closed facility.

Switchboard Other Income and Income Taxes

The decrease in Switchboard s other income in 2003 was due primarily to a decrease of $1.1 million in interest income earned as a result of a decline in interest rates, as well as a decrease of $0.4 million in realized gains on investments. These decreases in 2003 were offset in part by a decrease of $0.1 million in interest expense primarily due to the repayment of all amounts due under Switchboard s equipment financing in June 2003. The decrease in 2002 was due primarily to a decrease in interest income earned as a result of reduced funds available for investment and a decline in interest rates, and an increase of $0.1 million in interest expense incurred primarily as a result of Switchboard s financing of equipment purchases made during 2001 and 2002, offset in part by a loss on disposal of fixed assets in 2001.

Switchboard did not have a significant tax provision in 2003. Switchboard is subject to minimum state alternative minimum taxes. Switchboard recorded income tax expense of $42,000 in 2003. A portion of Switchboard s net operating losses were created by excess tax benefits associated with stock options and will be realized through increases to shareholders equity when utilized.

Switchboard did not provide for income taxes in 2002 and 2001 due to significant pre-tax losses. Switchboard did not record a benefit for income taxes as it believes it is more likely than not that net operating losses and tax credits will not be fully utilized. In assessing the realizability of deferred tax assets, Switchboard considered whether it is more likely than not that it will not fully use some or all of the deferred tax assets. Switchboard believes that sufficient uncertainty exists regarding the realizability of the deferred tax assets such that a valuation of $39.9 million and $40.3 million for December 31, 2003 and 2002, respectively, has been established for deferred tax assets.

As of December 31, 2003, Switchboard had net operating loss carry-forwards for federal and state tax purposes of approximately $87.8 million and $87.8 million, respectively. The federal and state net operating loss carry-forwards will begin to expire in 2012 and 2003, respectively. Ownership changes resulting from Switchboard s issuance or sales of capital stock may limit the amount of net operating loss carry-forwards that can be utilized by Switchboard annually to offset future taxable income. In general, the annual usage of net operating loss carry-forwards is limited to a company s market value on the date of the change in control, multiplied by the federal long-term tax exempt rate. Switchboard believes that as a result of its secondary offering, such a limitation may occur. Switchboard s net operating loss carry-forwards for federal and state tax purposes may be limited as a result of our secondary offering, which could increase Switchboard income tax expense and reduce our net income.

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LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2003, consolidated cash, cash equivalents and marketable securities were $92.0 million, of which $36.1 million was held by ePresence and $55.9 million was held by Switchboard. At December 31, 2002, consolidated cash, cash equivalents, marketable securities and restricted cash were $105.3 million, of which $51.4 million was held by ePresence and $53.9 million was held by Switchboard. Consolidated working capital increased from $82.9 million at December 31, 2002 to $85.9 million at December 31, 2003. Consolidated working capital increased from $72.6 million at December 31, 2001 to $82.9 million at December 31, 2002. Cash and cash equivalents increased $3.3 million resulting in a consolidated cash balance of $ 76.5 million at December 31, 2003. This increase was primarily due to net cash used in operating activities of $12.4 million and cash used in financing activities of $0.4 million offset in part by cash provided by investing activities of $16.0 million as follows.

Net cash used in operating activities in 2003 of $12.4 million was primarily due to a consolidated net loss of $14.1 million, a decrease in accounts payable and accrued expenses of $2.9 million and a decrease in deferred revenues of $0.2 million. These uses were offset in part by a decrease in accounts receivable of $1.1 million, amortization of loan forgiveness and unearned compensation of $1.1 million, an increase in minority interest of $1.0 million and depreciation and amortization of $1.9 million.

Net cash used in financing activities in 2003 of $0.4 million was primarily due to payments on capital leases by Switchboard of $2.2 million and payment by Switchboard to settle Envenue litigation of $1.7 million, offset, in part, by proceeds from issuance of common stock in Switchboard of $3.1 million as a result of stock option exercises and payment of a note receivable.

Net cash provided by investing activities in 2003 of $16.0 million was primarily related to the proceeds from sale of marketable securities of $14.7 million and a decrease in restricted cash of $1.6 million, offset, in part, by capital expenditures of $0.3 million.

On December 18, 2000, the Board of Directors of ePresence authorized the repurchase of up to $10.0 million of our common stock on the open market. Repurchases of stock are at management s discretion, depending upon acceptable prices and availability. Funds used in the repurchase of shares come from our existing cash and investment balances along with cash generated from operations. As of December 31, 2003, we had expended $7.4 million toward stock repurchases pursuant to this repurchase program of which $7.4 million was expended prior to December 31, 2003. ePresence does not anticipate purchasing any additional shares, pending the outcome of our proposed Asset Sale, sale of Switchboard shares and liquidation.

For a discussion of our lease commitments, see Note 12, Commitments and Contingencies, in the Company s Notes to Consolidated Financial Statements for the year ended December 31, 2003 which are incorporated from Item 8 herein.

The following table summarizes our consolidated long-term contractual obligations as of December 31, 2003:

	Less than 1 year	1-3 years	Total

		(in thousands)	
Operating lease obligations	$ 1,637	$ 1,431	$ 3,068
Other long-term obligations[a]	425	364	789
Total	$ 2,062	$ 1,795	$ 3,857

[a] Consists of scheduled payments under various Switchboard third-party data licensing agreements.

On November 7, 2002, we entered into a $10.0 million revolving line of credit with Silicon Valley Bank, that provides for borrowings at SVB s prime rate. This credit agreement had a one-year term and was not renewed.

We believe that existing cash and marketable securities will be sufficient to fund our operations through at least the next 12 months notwithstanding our plans to liquidate and dissolve.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

SERVICES:

We consider certain accounting policies related to revenue recognition, accounts receivable, impairment of long-lived assets and valuation of deferred tax assets to be critical policies due to the estimation processes involved in each.

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Services Revenue Recognition

We recognize services revenues pursuant to time-and-material contracts generally as services are provided. Services revenues pursuant to fixed-fee contracts are generally recognized as services are rendered on the percentage-of-completion method of accounting (based on the ratio of costs incurred to total estimated costs) with revisions to estimates reflected in the period which changes become known. Service revenues include customer reimbursements for out-of-pocket expenses.

Our services business derives a significant portion of its revenue from fixed-price, fixed-time contracts, which require the accurate estimation of the cost, scope and duration of each engagement. If we do not accurately estimate the resources required or the scope of time to satisfy our obligations under the contracts, then future consulting margins may be significantly and negatively affected or losses on existing contracts may need to be recognized. Any such resulting reductions in margins or contract losses could be material to our results of operations.

Services Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer s current credit worthiness, as determined by our review of their current credit information. We monitor collections and payments from our customers on an ongoing basis and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our accounts receivable at December 31, 2003 are concentrated in a relatively few number of customers (two customers accounts for 22% of consolidated accounts receivable at December 31, 2003), a significant change in the liquidity or financial position of any one of our significant customers could have a material adverse impact on the collectibility of our accounts receivable and our future operating results.

Services Restructuring Charges

We established exit plans for each of the restructuring activities which took place in 2001 and 2002 and accounted for these plans in accordance with EITF Issue No. 94-3, Liability Recognition for Certain Employee Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring) and SEC Staff Accounting Bulletin No. 100 (SAB 100), Restructuring and Impairment. In accordance with EITF Issue No. 94-3 and SAB 100, management makes certain judgmental estimates related to these restructuring charges. We specifically identified all positions which were to be eliminated and notified the affected employees prior to the end of the quarter in which the related restructuring charge was recorded. The consolidation of facilities required us to make estimates including with respect to contractual rental commitments or lease buy-outs for office space being vacated and related costs, and leasehold improvement write-downs, offset by estimated sub-lease income. We review on at least a quarterly basis our sub-lease assumptions. These estimates include anticipated rates to be charged to a sub-tenant and the timing of the sub-lease arrangement. If the rental markets change, our sub-lease assumptions may not be accurate and changes in these estimates might be necessary but would not materially affect our financial condition and results of operations. For a further discussion of our restructuring activities, see Note 11, Restructuring Charges, in the Company s Notes to Consolidated Financial Statements for the year ended December 31, 2003, which are incorporated from Item 8 herein.

Services Impairment of Long-lived Assets

Our long-lived assets included goodwill and acquired intangible assets pursuant to our acquisition of ePresence, Inc. (currently named ePresence Web Consulting, Inc.) in January 2000 and our acquisition of Strategic Network Designs, Inc. (currently named ePresence CRM, Inc.) in May 2000. At December 31, 2001, we had $14.8 million of goodwill and other intangible assets, accounting for approximately 9.1% of our total assets. We evaluate the net realizable value of our goodwill and intangibles on an ongoing basis, relying on a number of factors including operating results, business plans, budgets, economic projections and undiscounted cash flows. In addition, our evaluation considers non-financial data such as market trends, project development cycles and changes in management s market emphasis. During 2001, based on economic conditions and each business units actual and forecasted operating results, it became apparent that the carrying value of the acquired intangible assets and goodwill had been impaired. In September 2001, a charge of $12.4 million was recorded related to the impairment of goodwill measured as the amount by which the carrying amount exceeded the present value of the estimated discounted future cash flows for goodwill.

In 2002, Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets became effective and as a result, we ceased to amortize approximately $14.8 million of goodwill. We had recorded approximately $2.7 million of amortization during 2001 and would have recorded approximately $1.8 million of amortization during 2002. In lieu of amortization, we were required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We adopted SFAS No. 142 during the first quarter of 2002 and ceased amortizing goodwill with a net book value of $14.8 million as of the beginning of fiscal 2002. We completed an assessment of fair value of goodwill in the second quarter of 2002 and updated the assessment in the third quarter of 2002 due to a continued decline in economic conditions. Neither of these assessments indicated an impairment of goodwill. However, in the fourth quarter of 2002, we completed our yearly assessment of fair value of goodwill, and based upon this impairment analysis, the results indicated that the carrying amount of the goodwill would not be fully recovered through estimated undiscounted future operating cash flows and an impairment charge of $14.8 million was recorded during the year ended December 31, 2002. The impairment of goodwill was measured as the amount by which the carrying amount exceeded the present value of the estimated discounted future cash flows attributable to such goodwill.

Services Valuation of Deferred Tax Assets

As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. The process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our Consolidated Balance Sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of $67.7 million as of December 31, 2003, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating losses carryforwards and tax credits, before they expire. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could materially impact our financial position and results of operations.

The net deferred tax asset as of December 31, 2003 was zero, net of a valuation allowance of $67.7 million.

SWITCHBOARD:

Switchboard has identified the policies below as critical to the understanding of Switchboard s results of operations. Note that Switchboard s preparation of its 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 Switchboard s financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, bad debts, investments, intangible assets, compensation expenses, third-party commissions, restructuring costs, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors 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 apparent from other sources. Actual results may differ from those estimates.

Critical accounting polices are those policies that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. Switchboard believes its most critical accounting policies are as follows:

Switchboard Revenue Recognition

Switchboard generates its revenue primarily from merchant advertisement placements promoted in the Switchboard-powered directories of our licensees, as well as those placed in our own online yellow pages directory. Generally, Switchboard recognizes revenue as services are provided, so long as no significant obligations remain and collection of the resulting receivable is probable. Switchboard believes that it is able to make reliable judgments regarding the creditworthiness of its customers based upon historical and current information available to it. Switchboard s payment experience with its customers may not be consistent with past experience. In addition, the financial condition of these customers may decline in future periods, the result of which could be its failure to collect invoiced amounts. Some of these amounts could be material, resulting in an increase in Switchboard s provision for bad debts.

Switchboard earns revenue from AOL through the provision of platform licensing services and engineering and other services to AOL. Switchboard considers the delivery of platform licensing services to be a separate earnings process from engineering and other services and recognize revenue from engineering and other services in the period during which these services are delivered. Beginning in October 2003, Switchboard receives an annual license fee from AOL. Switchboard bifurcates this annual fee between a platform licensing fee of $2.4 million and an engineering services fee of $2.4 million. Switchboard recognizes these platform licensing fees and engineering services fees as revenue as they are earned. Bifurcating the annual fee between engineering services and platform licensing required Switchboard to make judgments with respect to the value attributable to each unit. Switchboard valued the amount attributable to engineering services using its standard hourly rates for providing such

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engineering services. Switchboard attributed the residual value of the annual license fee to platform licensing fees. Because Switchboard bifurcated the annual fee, Switchboard anticipates that during the term of our current agreement with AOL revenue from platform licensing fees under the agreement will be $0.6 million per quarter and revenue from engineering services under the agreement will be between $0.4 million and $0.8 million per quarter depending upon the amount of engineering services delivered to AOL each quarter. Therefore, Switchboard expects total quarterly revenue from the agreement will vary between $1.0 million and $1.4 million per quarter. Had Switchboard determined that it was unable to bifurcate the annual license fee between platform licensing and engineering services, all of the revenue Switchboard derived from the license fee would have varied in future quarters based upon their delivery of engineering services to AOL, varying between $0.8 million and $1.6 million per quarter.

Switchboard Concentration of Credit Risk

Switchboard invests its cash and cash equivalents primarily in deposits, money market funds and investment grade securities with financial institutions. Switchboard has not experienced any material realized losses to date on its invested cash. A potential exposure is a concentration of credit risk in accounts receivable. Switchboard maintains reserves for credit losses and, to date, such losses have been within our expectations. These expectations are based on historical experience, analysis of information currently available to it with respect to its customer s financial position, as well as various other factors. While Switchboard believes it can make reliable estimates of these matters, it is possible that these estimates may change in the near future due, for example, to changes in market conditions, other economic factors or issues specific to individual customers. A change in estimates could negatively affect its results of operations.

Switchboard Impairment of Long Lived Assets

Switchboard evaluates the recoverability of its long-lived assets, including that attributable to its AOL arrangement, annually, or more frequently if events or changes in circumstances, such as a decline in sales, earnings or cash flows or material adverse changes in the business climate, indicate the carrying value of an asset might be impaired.

Should an indicator of impairment exist, Switchboard performs a recoverability assessment based on an undiscounted expected cash flow analysis utilizing management s best estimate of the future cash flows expected to result from the use of the asset. Switchboard s assumptions related to estimates of future cash flows are based on historical results of cash flows adjusted for management projections for future periods taking into account all available evidence at the date of review. Switchboard continually applies its best judgment when applying the impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairment, and the fair value of an impaired long-lived asset group. Switchboard includes the future issuance of stock in its cash flow analysis, as they did in their evaluation of the asset attributable to Switchboard s AOL arrangement, because it represents an economic resource that Switchboard is contractually required to give to enjoy the benefits of a long-lived asset. The dynamic economic environment in which Switchboard operates and the resulting assumptions used to estimate future cash flows impact the outcome of all impairment tests.

If the asset being evaluated for impairment is a contractually based asset, as is the case in the asset attributable to Switchboard s AOL arrangement, Switchboard utilizes the contractual terms in existence at the time of the impairment analysis to provide the framework for estimating the future expected cash flows. Accordingly, any modifications made to the long-lived asset s underlying contract terms that occur subsequent to the original filing of its financial statements are not considered in its impairment analysis.

If the sum of these expected future cash flows is less than the carrying amount of the asset, the asset is considered impaired and the impairment loss is calculated. The impairment loss is determined as the difference between the asset s estimated fair value and its carrying value. The fair value is determined by applying a discount rate to the expected future cash flows unless there is an observable market for such asset. The discount rate utilized in the analysis is commensurate with the risks involved.

Considerable management judgment is necessary to estimate future cash flows and appropriate assumptions; and accordingly, actual results could vary significantly from such estimates. The use of different assumptions and judgments could result in a determination that an asset is not impaired. In that case, an impairment charge would not be recorded in Switchboard s results of operations during the relevant period and future results of operations would continue to be reduced as a result of amortization of the long lived asset.

Switchboard Accounting For Stock Based Compensation

Switchboard accounts for stock-based compensation for employees under APB Opinion No. 25, Accounting for Stock Issued to Employees, and elects the disclosure-only alternative under SFAS No. 123, Accounting for Stock-Based Compensation and provides the enhanced disclosures as required by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS 148 provides alternative methods of transition for a voluntary change to a fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Had Switchboard chosen to voluntarily change to a fair value based method of accounting for stock-based employee compensation, Switchboard would have recorded additional expense in its results of operations of $1.3 million in 2003, $1.1 million in 2002 and $5.5 million in 2001.

The Financial Accounting Standards Board is currently considering a proposal that would require companies to change to a fair value based method of accounting for stock-based employee compensation. If the FASB requires such a change in

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accounting for stock-based employee compensation, Switchboard may be required to record the expense associated with the fair value of stock-based employee compensation in its results of operations in future periods.

Switchboard is required in the preparation of the disclosures required under SFAS 148 to make estimates when ascribing a value to stock options granted during the year. These estimates include, but are not limited to, an estimate of the average time option grants will be outstanding before they are ultimately exercised and converted into common stock and an estimate of the future volatility in the market value of Switchboard s common stock over that period in which the option grants are outstanding. These estimates are integral to the valuing of these option grants. Any changes in these estimates may have a material effect on the value we ascribe to these option grants. This would in turn affect the amortization used in the disclosures Switchboard makes under SFAS 148, which could be material. Further, the rules governing accounting for option grants continue to evolve. Should Switchboard be required in future periods to include amortization of stock options, such amortization would have a material adverse effect on its results of operations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an interpretation of ARB 51. The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities) and how to determine when and which business enterprise (the primary beneficiary) should consolidate the variable interest entity. This new model for consolidation applies to an entity in which either (i) the equity investors (if any) do not have a controlling financial interest; or (ii) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant variable interest in a variable interest entity, make additional disclosures. Certain disclosure requirements of FIN 46 were effective for financial statements issued after January 31, 2003.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46-R) to address certain FIN 46 implementation issues. The effective dates and impact of FIN 46 and FIN 46-R are as follows:

1. Special purpose entities (SPEs) created prior to February 1, 2003. We must apply either the provisions of FIN 46 or early adopt the provisions of FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003.

2. Non-SPEs created prior to February 1, 2003. We are required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

3. All entities, regardless of whether a SPE, that were created subsequent to January 31, 2003. The provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. The company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

The adoption of the provisions applicable to SPEs and all other variable interests obtained after January 31, 2003 did not have a material impact our financial statements. We are currently evaluating the impact of adopting FIN 46-R applicable to Non-SPEs created prior to February 1, 2003 but do not expect a material impact.

FACTORS AFFECTING FUTURE RESULTS

Certain of the information contained in this Annual Report on Form 10-K, including, without limitation, information with respect to our plans and strategy for our business, statements relating to the sufficiency of cash and cash equivalent balances, anticipated expenditures, the anticipated effects of our cost reduction measures including the discontinuation of our remaining operations in Europe, and our sales and marketing and product development efforts, consists of forward-looking statements. 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, expects, anticipates, plans, and similar expressions are intended to identify forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include the following factors:

Factors Relating To Our Proposed Asset Sale

If the Asset Sale is not completed as expected, our business could be materially disrupted.

If we are unable to close the proposed sale of our services business to Unisys (the Asset Sale), including as a result of our failure to obtain the approval of our stockholders or termination of the Asset Purchase Agreement between us and Unisys (the Purchase Agreement) by Unisys in the event the closing of the Asset Sale does not occur by the second quarter of 2004, or

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failure to satisfy any other closing condition, our services business could be materially disrupted. This disruption could be caused by confusion among our customers, industry partners and employees as to our future plans with respect to our services business. The public announcement of the Asset Sale and any subsequent failure to consummate the Asset Sale could have a material adverse effect on our sales and operating results and our ability to attract and retain customers, industry partners and key personnel. In addition, we will have to pay for our costs related to the Asset Sale, such as legal, accounting and financial advisory fees, even if the Asset Sale is not completed.

Because our stockholders will not receive stock of Unisys in the Asset Sale, our stockholders will not participate in the potential future growth of our services business.

The purchase price in the Asset Sale consists entirely of cash. As a result, our stockholders will not participate in the expected synergies between our services business and Unisys. Our stockholders will lose the opportunity to capitalize on the potential future growth of our services business and on the potential future success and profits.

The termination fee, expense reimbursement and restrictions on solicitation contained in the Purchase Agreement and the voting agreements may discourage other potential purchasers from trying to acquire us or our services business.

The Purchase Agreement obligates us to pay Unisys a termination fee of up to $800,000 and reimburse up to $200,000 of Unisys expenses under certain circumstances, including where our board of directors withdraws it recommendation in favor of the Asset Sale or where we terminate the Purchase Agreement to pursue a superior offer. These obligations would make it more costly for another potential purchaser to acquire us or our services business. The Purchase Agreement also generally prohibits us from soliciting, initiating, encouraging or facilitating any proposals that may lead to a proposal or offer for a merger or other business combination with any person other than Unisys. In addition, stockholders owning approximately 15.2% of our outstanding common stock, including our executive officers, directors and an affiliate of one of our directors, have signed voting agreements pursuant to which they have agreed to vote their shares in favor of the Asset Sale. These agreements could discourage other companies from trying to acquire us or our services business, even though those other companies might be willing to offer greater value than Unisys has offered in the Purchase Agreement.

Our stockholders will not be entitled to receive an immediate cash payment from Unisys in the acquisition.

The sale of our services business to Unisys is structured as an Asset Sale, meaning that we will sell the assets to Unisys in exchange for a cash payment to us rather than directly to our stockholders. Any cash that we receive from Unisys will be subject to claims of our creditors, and any distribution of this cash by us to our stockholders could be delayed and will be subject to the other risks and uncertainties associated with a liquidation, as described below under Factors Relating to our Proposed Plan of Liquidation. Also, unless the stockholders approve our plan of liquidation and dissolution (the Plan of Liquidation), we do not currently anticipate that we will distribute to our stockholders any cash proceeds from the Asset Sale.

Our directors and executive officers may have interests that are different from, or in addition to, those of our stockholders generally.

Our directors and executive officers have interests in the Asset Sale and Plan of Liquidation that are in addition to, or different from, their interests as stockholders. In connection with the Asset Sale and Plan of Liquidation, or upon termination of employment following the Asset Sale or approval of the Plan of Liquidation, our officers will be entitled to receive option vesting, severance benefits, loan forgiveness and other payments. In addition, following our dissolution, our directors and executive officers may receive liquidating distributions in respect of their options and will be entitled to continuing indemnification and liability insurance.

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Factors Relating to Switchboard s Announced Merger with Infospace

If Switchboard s announced acquisition by InfoSpace is not completed, Switchboard s business, reputation and stock price may suffer.

On March 26, 2004 Switchboard announced a definitive agreement to be acquired by InfoSpace. The agreement contains customary conditions to closing, including the absence of material adverse changes to Switchboard s business and the receipt of Switchboard and ePresence, Inc. shareholder, as well as regulatory, approvals. If the transaction is not consummated as a result of a failure of one of these conditions to be met, Switchboard s customers, prospective customers and investors in general may view this failure as a poor reflection on Switchboard s business or prospects. As a result, if the transaction is not consummated as anticipated, Switchboard may experience adverse results in Switchboard s business and the market price for Switchboard s common stock may fall. Switchboard intends to file a proxy statement in connection with the proposed acquisition of Switchboard by InfoSpace. Investors and security holders are urged to read these filings when they become available because they will contain important information and additional risk factors in connection with the proposed acquisition.

Factors Relating to our Proposed Plan of Liquidation

Our future plans would be uncertain if our stockholders failed to approve the Plan of Liquidation and our dissolution.

The Plan of Liquidation and our dissolution are dependent upon approval by our stockholders holding at least two-thirds of our outstanding shares. If our stockholders fail to approve the Plan of Liquidation and our dissolution, we may be required to either continue to operate our business or otherwise sell our business, assets or company. However, if the stockholders approve the Asset Sale but not the Plan of Liquidation and our dissolution, we will not have any business and will consider other alternatives, such as using our available cash to acquire other companies or businesses. Pursuant to the terms of the Asset Sale, we would generally be prohibited from competing with the business, so any acquisition would require us to enter a new business in which we may have little or no experience and, accordingly, which may be highly speculative.

Our anticipated timing of the liquidation and dissolution may not be achieved.

Immediately after our proposed special meeting of stockholders, if our stockholders approve the Plan of Liquidation and our dissolution, we intend to file articles of dissolution with the Secretary of State of the Commonwealth of Massachusetts and sell our remaining assets. Although we anticipate that we will make an initial distribution to stockholders within approximately 30 days following the special meeting, there are a number of factors that could delay our anticipated timetable, including the following:

- lawsuits or other claims asserted against us;
- legal regulatory or administrative delays; and

delays in settling our remaining obligations.

We cannot determine with certainty the amount of the distributions to stockholders.

We cannot determine at this time the amount of distributions to our stockholders pursuant to the Plan of Liquidation. This determination depends on a variety of factors, including, but not limited to, the consummation of the Asset Sale, the sale of Switchboard shares, the amount required to settle known and unknown debts and liabilities, and other contingent liabilities, the net proceeds, if any, from the sale of our remaining assets, and other factors. Examples of uncertainties that could reduce the value of or eliminate distributions to our stockholders include unanticipated costs relating to:

the defense, satisfaction or settlement of lawsuits or other claims that may be made or threatened against us in the future; and

delays in our liquidation and dissolution, including due to our inability to settle claims.

As a result, we cannot determine with certainty the amount of distributions to our stockholders.

We may not be able to settle all of our obligations to creditors.

We have current and future obligations to creditors. Our estimated distribution to stockholders takes into account all of our known obligations and our best estimate of the amount reasonably required to satisfy such obligations. As part of the wind-down process, we will attempt to settle those obligations with our creditors. We cannot provide assurance that we will be able to settle all of these obligations or that they can be settled for the amount we have estimated for purposes of calculating the likely distribution to stockholders. If we are unable to reach an agreement with a creditor relating to an obligation, that creditor may bring a lawsuit against us. Amounts required to settle obligations or defend lawsuits in excess of the amounts estimated by us will reduce the amount of remaining capital available for distribution to stockholders.

Our board of directors may abandon or delay implementation of the Plan of Liquidation and our dissolution even if approved by our stockholders.

Even if the Plan of Liquidation and our dissolution are approved and adopted by our stockholders, our board of directors has reserved the right, in its discretion, to abandon or delay implementation of the Plan of Liquidation and our dissolution, in order, for example, to permit us to pursue new strategic opportunities.

Our stockholders may be liable to our creditors for an amount up to the amount distributed by us if our reserves for payments to creditors are inadequate.

If our stockholders approve the Plan of Liquidation and our dissolution and our board of directors determines to proceed with our liquidation and dissolution, the articles of dissolution will be filed with the Commonwealth of Massachusetts dissolving ePresence. Pursuant to Massachusetts law, we will continue to exist for three years after the dissolution becomes effective for the purpose of prosecuting and defending suits against us and enabling us to close our business, to dispose of our property, to discharge our liabilities and to distribute to our stockholders any remaining assets. Under applicable Massachusetts law, stockholders could be held liable for payment to our creditors up to the amount distributed to such stockholder in the liquidation. Accordingly, in such event, a stockholder could be required to return all distributions previously made to such stockholder pursuant to the Plan of Liquidation and could receive nothing from us under the Plan of Liquidation. Moreover, in the event a stockholder has paid taxes on amounts previously received by the stockholder, a repayment of all or a portion of such amount could result in a stockholder incurring a net tax cost if the stockholder s repayment of an amount previously distributed does not cause a commensurate reduction in taxes payable. We cannot assure you that the contingency reserve established by us will be adequate to cover all expenses and liabilities.

Stockholders may not be able to recognize a loss for federal income tax purposes until they receive a final distribution from us, which is likely to be three years after our dissolution and could be longer.

As a result of our liquidation, for federal income tax purposes stockholders will recognize gain or loss equal to the difference between (1) the sum of the amount of cash distributed to them and the aggregate fair market value of any property distributed to them, and (2) their tax basis for their shares of our capital stock. A stockholder s tax basis in our shares will depend upon various factors, including the stockholder s cost and the amount and nature of any distributions received with respect thereto. Any loss generally will be recognized only when the final distribution from us has been received, which is likely to be more than three years after our dissolution.

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We may be the potential target of a reverse acquisition or other acquisition.

Until we dissolve, we will continue to exist as a public, non-operating shell company. Public companies that exist as non-operating shell entities have from time to time been the target of reverse acquisitions, meaning acquisitions of public companies by private companies in order to bypass the costly and time-intensive registration process to become publicly traded companies. In addition, we could become an acquisition target, through a hostile tender offer or other means, as a result of our cash holdings or for other reasons. If we become the target of a successful acquisition, the new board of directors could potentially decide to either delay or completely abandon the liquidation and dissolution, and our stockholders may not receive any proceeds that would have otherwise been distributed in connection with the liquidation and may receive less than they would have received in the liquidation.

Our directors and executive officers may have interests that are different from, or in addition to, those of our stockholders generally.

Our directors and executive officers have interests in the Plan of Liquidation and the Asset Sale that are in addition to, or different from, their interests as stockholders. In connection with the Asset Sale and Plan of Liquidation, or upon termination of employment following the Asset Sale or approval of the Plan of Liquidation, our executive officers will be entitled to receive option vesting, severance benefits, loan forgiveness and other payments. In addition, following our dissolution our directors and executive officers may receive liquidating distributions in respect of their options and will be entitled to continuing indemnification and liability insurance.

Risks and Factors Relating to the Continued Operation of our Business

The continuing broad economic slowdown and global political uncertainty has affected the demand for IT services, lengthened the sales cycles and caused decreased technology spending for many of our customers and potential customers. If companies continue to cancel or delay their business and technology consulting initiatives because of the current economic and political climate, or for other reasons, our business, financial condition and results of operations could be materially adversely affected.

During 2002 we restructured our operations through workforce reductions and office closures. Such restructurings could have an adverse effect on our business, including on our ability to attract and retain customers and employees, and there can be no assurance that we will achieve the anticipated financial benefits of these restructurings. In addition, there can be no assurance that our workforce reductions will not have a material adverse effect on our business and operating results in the future.

The future success of the continued operation of our business will depend in part upon our ability to continue to grow our services business, enter into new strategic alliances, acquire additional services customers and adapt to changing technologies and customer requirements. Any failure to do so could have a material adverse effect on us. We have a limited operating history as a services company. In addition, the market for our consulting services and the technologies used in our solutions have been changing rapidly and we expect this level of change to continue. If we cannot keep pace with these changes in our marketplace, our business, financial condition and results of operations will suffer. There can be no assurance we will be successful in our strategic focus on services, including SIM services.

We sell our services principally through a direct sales force to customers in a broad range of industries. We do not require collateral or other security to support customer receivables. Conditions affecting any of our clients could cause them to become unable or unwilling to pay us in a timely manner, or at all, for services we have already performed. Our financial results and condition could be adversely affected by credit losses.

We have a number of partnerships and alliances with software vendors under which we provide services around such vendors products. Any failure of these alliances to generate the anticipated level of sales, the loss of one or more of these alliances, or the failure to enter into additional strategic alliances, could have a material adverse effect on us.

We are dependent upon the continued services of our key management and technical personnel. In addition, as a services company, our business is particularly dependent on our employees. Competition for qualified personnel is strong, and there can be no assurance we will be able to attract and retain qualified management and other employees.

We were not profitable during 2003, and there can be no assurance we will return to profitability in any future period. Continued losses could have a material adverse effect on our liquidity and capital resources.

Our operating expenses are largely based on anticipated revenue trends, and a high percentage of our expenses, such as personnel and rent, are and will continue to be fixed in the short-term. We may not be able to quickly reduce spending if our revenues are lower than we had projected. As a result, an unanticipated decrease in the number, or an unanticipated slowdown in the scheduling, of our projects may cause significant variations in operating results in any particular quarter and could have a material adverse effect on operations for that quarter. If we do not achieve our expected revenues, our operating results will be below our expectations and the expectations of investors and market analysts, which could cause the price of our common stock to decline. Our quarterly operating results have varied significantly in the past and will likely vary significantly in the future, making it

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difficult to predict future performance. These variations result from a number of factors, many of which are outside of our control. Because of this difficulty in predicting future performance, our operating results will likely fall below the expectations of securities analysts or investors in some future quarter or quarters. Our failure to meet these expectations would likely adversely affect the market price of our common stock.

The market for our services is highly fragmented and characterized by continuing technological developments, evolving and competing industry standards, and changing customer requirements. We expect competition to persist and intensify in the future. Some of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do. Many of these companies can also leverage extensive customer bases, have broad customer relationships and have broad industry alliances, including relationships with certain of our current and potential customers. In addition, certain competitors may adopt aggressive pricing policies or may introduce new services. Competitive pressures may make it difficult for us to acquire and retain customers and could require us to reduce the price of our services. We cannot be certain that we will be able to compete successfully with existing or new competitors. Our failure to maintain and enhance our competitive position would limit our ability to retain and increase our market share, resulting in serious harm to our business and operating results.

The future success of our services business depends on the increased acceptance and use of advanced technologies as a means for conducting commerce and operations. If use of these advanced technologies does not continue to grow, or grows more slowly than expected, our revenue growth could slow or decline and our business, financial condition and results of operations could be materially adversely affected. Businesses may delay adoption of advanced technologies for a number of reasons, including inability to implement and sustain profitable business models using advanced technologies; inadequate network infrastructure or bandwidth; delays in the development or adoption of new technical standards and protocols required to handle increased levels of usage; delays in the development of security and authentication technology necessary to effect secure transmission of confidential information; and failure of companies to meet their customers expectations in delivering goods and services using advanced technologies.

Our services rely upon third-party technologies. Our business could be harmed if providers of software and technology utilized in connection with our services ceased to deliver and support reliable products, enhance their current products in a timely fashion or respond to emerging industry standards. In addition, if we or our customers cannot maintain licenses to key third-party software, provision of our services could be delayed until equivalent software could be licensed and integrated into our services, or we might be forced to limit our service offerings. Either alternative could materially adversely affect our business, operating results and financial condition.

Some of our contracts can be canceled by the customer with limited advance notice and without significant penalty. Termination by any customer of a contract for our services could result in a loss of expected revenues and additional expenses for staff which were allocated to that customer s project. We could be required to maintain underutilized employees who were assigned to the terminated contract. The unexpected cancellation or significant reduction in the scope of any of our large projects could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our projects are based on fixed-price, fixed-timeframe contracts, rather than contracts in which payment to us is determined on a time and materials basis. Our failure to accurately estimate the resources required for a project, or our failure to complete our contractual obligations in a manner consistent with the project plan upon which our fixed-price, fixed-timeframe contract was based, could adversely affect our overall profitability and could have a material adverse effect on our business, financial condition and results of operations. We have been required to commit unanticipated additional resources to complete projects in the past, which has resulted in losses on those contracts. We will likely experience similar situations in the future and the consequences could be more severe than in the past, due to the increased size and complexity of our engagements. In addition, we may fix the price for some projects at an early stage of the process, which could result in a fixed price that turns out to be too low and, therefore, would adversely affect our business, financial condition and results of operations.

We own 9,802,421 shares of Switchboard s common stock, which is traded on the NASDAQ National Market. The trading price of Switchboard s common stock is likely to be volatile and may be influenced by many factors, including, without limitation, variations in financial results, changes in earnings estimates by industry research analysts, the failure or success of branding and strategic initiatives and investors perceptions. Volatility in the trading price of Switchboard s common stock could have a material adverse effect on our financial condition. In addition, due to our level of ownership of Switchboard, the trading price of our common stock is likely to be influenced by the trading price of Switchboard s common stock. If Switchboard s trading price declines, the trading price of our common stock will likely decline as well.

Switchboard s results of operations are consolidated as part of our results of operations. Switchboard, which has a history of incurring net losses prior to the quarter ended March 31, 2003, may experience losses in future periods. In addition, Switchboard s quarterly results of operations have fluctuated significantly in the past and are likely to fluctuate significantly from quarter to quarter in the future. Factors that may cause Switchboard s results of operations to fluctuate include: the success of Switchboard s relationship with AOL; the addition or loss of relationships with third parties that are Switchboard s source of new merchants for its local merchant network or that license Switchboard s services for use on their own web sites; Switchboard s ability to attract and retain consumers, local merchants and national advertisers to its web site; the amount and timing of expenditures for expansion of Switchboard s operations, including the hiring of new employees, capital expenditures and related costs; the amount of Switchboard s expenses, which are largely fixed in the short-term and are partially based on expectations regarding future revenue; Cable & Wireless recent announcement that it intends to exit its U.S. operations; Switchboard s reliance on a small number of customers for a large portion of its revenues; intense competition; undetected software errors; risks associated with the conduct of business on the Internet; costs and risks associated with any acquisition; Switchboard s ability to attract and retain the services of key executives and other highly skilled managerial and technical personnel; and other factors that may be announced by Switchboard from time to time.

William P. Ferry, our Chairman of the Board, President and Chief Executive Officer, is Switchboard s Chairman of the Board, and Richard M. Spaulding, our Senior Vice President and Chief Financial Officer, and Robert M. Wadsworth, one of our directors, are directors of Switchboard. Serving as a director of Switchboard and as either a director or an officer of ePresence could create, or appear to create, potential conflicts of interest when those directors and officers are faced with decisions that could have different implications for us than for Switchboard. Such conflicts, or potential conflicts, of interest could hinder or delay our management s ability to make timely decisions regarding significant matters relating to our business.

Because of the foregoing factors and the other factors we have disclosed from time to time, we believe that period-to-period comparisons of our financial results are not necessarily meaningful and should not rely upon these comparisons as indicators of our future performance. We expect that our results of operations may fluctuate from period-to-period in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Marketable Securities and Interest Rates

We are exposed to financial market risks, including changes in interest rates. Our marketable securities as of December 31, 2003, are invested in US agencies bonds and notes and repurchase agreements. The majority of our investments have maturities between one and three years. A significant portion of our cash is invested in short-term interest-bearing securities. While we have in the past used hedging contracts to manage exposure to changes in the value of marketable securities, we are not currently a party to any such contract. The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of our investment portfolio. These potential changes are based on sensitivity analysis performed on our balances as of December 31, 2003.

Foreign Currency

Prior to January 1, 2002, our subsidiaries generally used the local currency as the functional currency. Assets and liabilities were translated into U.S. dollars at the period ended exchange rate and income and expense amounts were translated using the average rate prevailing for the period. Adjustments resulting from translation were included in accumulated other comprehensive income.

As of January 1, 2002, our remaining subsidiaries began using the U.S. dollar as the functional currency as we had substantially liquidated our remaining foreign subsidiaries. As a result, the translation gains/losses are included in net loss for 2002. Prior cumulative translation gains/losses within accumulated comprehensive income have been reversed and included in the net loss in 2002. To date, foreign currency exchange rate fluctuations have not had a material effect on our operating results or financial condition.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

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REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Stockholders of ePresence, Inc.:

We have audited the accompanying consolidated balance sheets of ePresence, Inc. as of December 31, 2003 and 2002 and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ePresence, Inc. at December 31, 2003 and 2002 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying financial statements have been prepared assuming that ePresence, Inc. will continue as a going concern. As more fully described in Note 1, the Company s board of directors has approved a plan of liquidation, which, if approved by ePresence s shareholders, will result in the cessation of all operations and activities of ePresence, Inc., other than the winding-up of its affairs. These conditions raise substantial doubt about whether the Company will continue as a going concern. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

As discussed in Notes 2 and 6 to the consolidated financial statements, in 2001 the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and in 2002 the Company changed its method of accounting for goodwill.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 3, 2004

except for Note 1, Note 3 and Note 26, as to which the date is

March 26, 2004

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ePRESENCE, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

(in thousands, except share and par amounts)

	December 31,	
	2003	**2002**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 76,446	$ 73,195
Restricted cash	36	1,640
Marketable securities	13,510	16,533
Accounts receivable, less allowances of $635 and $1,330, respectively	3,804	4,872
Other current assets	1,981	1,875
Total current assets	95,777	98,115
Marketable securities	1,960	13,902
Property and equipment, net	1,663	3,271
Other assets	1,379	1,131
TOTAL ASSETS	$ 100,779	$ 116,419
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,770	$ 1,927
Accrued expenses	6,261	8,522
Other current liabilities	421	448
Deferred revenue	1,395	1,608
Current portion of long-term debt		2,699
Total current liabilities	9,847	15,204
Long-term debt, net of current portion		1,124
Minority interests in Switchboard	27,540	24,522
Commitments and contingencies (Note 12)		
SHAREHOLDERS EQUITY		
Convertible preferred stock, $.01 par value; authorized - 1,000,000 shares; none issued		
Common stock, $.01 par value; authorized - 100,000,000 shares; issued 26,465,836 and 26,332,027 shares, respectively	265	263
Additional paid-in capital	173,610	172,014
Unearned compensation	(32)	(592)

Accumulated deficit	(74,517)	(60,420)
Accumulated other comprehensive income	45	283
Treasury stock at cost; 3,677,800 shares	(35,979)	(35,979)
Total shareholders equity	63,392	75,569
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 100,779	$ 116,419

The accompanying notes are an integral part of the consolidated financial statements.

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ePRESENCE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2003, 2002 and 2001

(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2003	**2002**	**2001**
Net revenues:			
Services	$ 16,547	$ 32,077	$ 51,711
Switchboard	15,192	11,747	9,278
Total revenues	31,739	43,824	60,989
Cost of revenues:			
Services	11,718	21,649	35,777
Switchboard	2,925	3,744	3,518
Total cost of revenues	14,643	25,393	39,295
Gross profit	17,096	18,431	21,694
Operating expenses:			
Sales and marketing	9,299	15,012	42,312
Product development	4,264	5,446	6,702
General and administrative	11,992	15,135	19,192
Amortization of goodwill, intangibles and other assets			3,387
Termination of vendor relationship	6,500		
Impairment of goodwill		14,779	12,364
Restructuring and special charges	(35)	4,838	21,277
Loss on Viacom transaction			22,203
Total operating expenses	32,020	55,210	127,437
Loss from operations	(14,924)	(36,779)	(105,743)
Other income/(expense):			
Interest income	1,402	3,776	6,513
Minority interest in (income)/losses of Switchboard	(1,006)	1,875	35,048
Interest expense		(164)	(90)
Gain on sale of Openwave, net			33,378
Other income/(expenses), net	121	(321)	(1,857)

Total other income	517	5,166	72,992
Net loss from operations before income taxes and cumulative effect of accounting change	(14,407)	(31,613)	(32,751)
(Benefit) from/provision for income taxes	(310)	95	11,025
Net loss before cumulative effect of accounting change	(14,097)	(31,708)	(43,776)
Cumulative effect of accounting change			3,445
Net loss	$ (14,097)	$ (31,708)	$ (40,331)
Basic and dilute net loss per share:			
Net loss before cumulative effect of accounting change	$ (0.63)	$ (1.42)	$ (1.91)
Cumulative effect of accounting change, net of tax of $1,855	$	$	$ 0.15
Net loss	$ (0.63)	$ (1.42)	$ (1.76)
Basic and diluted weighted average number of common shares	22,330	22,306	22,976

The accompanying notes are an integral part of the consolidated financial statements.

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ePRESENCE, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

For the Years Ended December 31, 2003, 2002 and 2001

(in thousands, except share amounts)

	Common Stock		Additional		Accumulated	Other	Treasury Stock		Total
			Paid-in	Unearned	Earnings/	Comprehensive			Shareholders
	Shares	Par	Capital	Compensation	(Deficit)	Income	Shares	Cost	Equity
Balance, December 31, 2000	26,063,646	$ 261	$ 144,725	$ (2,743)	$ 11,619	$ 24,547	(1,893,000)	$ (28,730)	$ 149,679
Net loss					(40,331)				(40,331)
Foreign currency translation adjustment						(151)			(151)
Change in net unrealized loss on investments						(23,377)			(23,377)
Comprehensive loss									(63,859)
Common stock issued under stock and option plans	156,223	1	557						558
Issuance of Common Stock as contingent consideration under the Redbank purchase agreement	96,170	1	576						577
Repurchase of shares							(1,500,300)	(6,140)	(6,140)
Unearned compensation			25	(25)					
Amortization on unearned compensation				1,448					1,448
Net change in subsidiary capital, net of minority interest			27,257	(334)					26,923
Balance, December 31, 2001	26,316,039	$ 263	$ 173,140	$ (1,654)	$ (28,712)	$ 1,019	(3,393,300)	$ (34,870)	$ 109,186
Net loss					(31,708)				(31,708)
Foreign currency translation adjustment						274			274
Change in net unrealized loss on investments						(1,010)			(1,010)
Comprehensive loss									(32,444)
	15,988		45						45

Common stock issued under stock and option plans									
Repurchase of shares							(284,500)	(1,109)	(1,109)
Amortization on unearned compensation				906					906
Net change in subsidiary capital, net of minority interest			(1,171)	156					(1,015)
Balance, December 31, 2002	26,332,027	$ 263	$ 172,014	$ (592)	$ (60,420)	$ 283	(3,677,800)	$ (35,979)	$ 75,569
Net loss					(14,097)				(14,097)
Change in net unrealized loss on investments						(238)			(238)
Comprehensive loss									(14,335)
Common stock issued under stock and option plans	133,809	2	468						470
Amortization on unearned compensation				414					414
Net change in subsidiary capital, net of minority interest			1,128	146					1,274
Balance, December 31, 2003	26,465,836	$ 265	$ 173,610	$ (32)	$ (74,517)	$ 45	(3,677,800)	$ (35,979)	$ 63,392

The accompanying notes are an integral part of the consolidated financial statements.

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ePRESENCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2003, 2002 and 2001

(in thousands)

	Year Ended December 31,		
	2003	2002	2001
Cash Flows from Operating Activities:			
Net loss	$ (14,097)	$ (31,708)	$ (40,331)
Adjustments to reconcile net loss to net cash (used in)/provided by operating activities:			
Loss/(gain) on sale of investments	1	(414)	(33,378)
Cumulative effect of accounting change			(5,300)
Other-than-temporary unrealized loss on available for sale investments		6	55
Depreciation and amortization	1,874	2,527	7,410
Minority interest	1,006	(1,875)	(35,048)
Loss on disposal of assets	21	16	1,407
Loss on sale of subsidiary			784
Restructuring and other charges, non-cash portion	(35)	2,985	19,388
Impairment of goodwill and other assets		14,779	12,364
Amortization of unearned compensation	560	1,062	1,550
Amortization of loan forgiveness	537	537	129
Amortization of AOL assets		2,000	4,048
Non-cash advertising and promotion			9,680
Loss on Viacom transaction			22,203
Expenses resulting from issuance of common stock and warrants related to third party agreements			(110)
Deferred income taxes			(682)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	1,074	6,359	6,689
Income tax receivable		1,228	(1,228)
Net discontinued liabilities		4	(599)
Other current assets	(34)	3,485	(2,199)
Other non-current assets	(248)	952	61
Directory services agreement		(2,000)	
Accounts payable and accrued compensation and expenses	(2,856)	(10,131)	(2,354)
Accrued costs for restructuring and other charges	(7)	(922)	1,410
Deferred revenue	(214)	(3,387)	314
Net cash used in operating activities	(12,418)	(14,497)	(33,737)
Cash Flows from Investing Activities:			
Capital expenditures	(287)	(935)	(4,810)
Proceeds from sales of investment			39,266
Acquisitions			(2,144)
Decrease/(increase) in restricted cash	1,604	(766)	(874)

Proceeds from marketable securities, net	14,727	57,142	257
Net cash provided by investing activities	16,044	55,441	31,695
Cash Flows from Financing Activities:			
Sale of equity in subsidiary, net	2,345	316	260
Proceeds from receipts on note receivable for issuance of Switchboard common stock	724		
Net (payments on)/proceeds from sales lease-back	(2,223)	(1,799)	875
Proceeds from issuance of note payable		2,747	
Settlement of Envenue litigation	(1,700)		
Purchase of treasury stock		(2,364)	(6,140)
Proceeds from stock plan purchases, stock options and warrants	470	45	557
Net cash used in financing activities	(384)	(1,055)	(4,448)
Effect of exchange rate changes on cash and cash equivalents	9	284	(214)
Net increase/(decrease) in cash and cash equivalents	3,251	40,173	(6,704)
Cash and cash equivalents at beginning of the year	73,195	33,022	39,726
Cash and cash equivalents at end of the year	$ 76,446	$ 73,195	$ 33,022
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 74	$ 165	$ 90
Income taxes	$ 13	$ 152	$ 2,059
Non-cash investing and financing activity:			
Issuance of common stock related to Red bank acquisition	$	$	$ 576
Repurchase and retirement of restricted stock and reduction of note receivable	$ 725	$	$
Note receivable from officer for issuance of common stock	$	$ 1,449	$
Asset and liability related to AOL Directory Agreement	$	$ 12,000	$
Unrealized loss on investments	$ 238	$ 1,010	$ 23,377

The accompanying notes are an integral part of the consolidated financial statements.

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ePRESENCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS

ePresence, Inc., (the Company or ePresence), has two reportable segments: services and Switchboard. The Company s reportable segments are managed separately as they are separately traded public companies and market and distribute distinct products and services. ePresence is a consulting and systems integration company delivering Security and Identity Management (SIM) solutions that help companies reduce cost, enhance security, improve service and increase revenues. Identity management promotes effective management of users and access to the right information across IT environments, creating context and common infrastructure across distributed constituencies, business processes and applications. ePresence s primary service offerings blend the elements of security and identity management, which include enterprise directory and security services, meta-directory services, access and password management services, single sign-on services, electronic provisioning services, information technology platform services, and managed operational services. The Company s Switchboard segment is organized as a subsidiary, Switchboard Incorporated (Switchboard). Switchboard is a provider of web-hosted directory technologies and customized yellow pages platforms to yellow pages publishers, newspaper publishers and Internet portals that offer online local directory advertising solutions to national retailers and brick and mortar merchants across a full range of Internet and wireless platforms. Switchboard offers a broad range of functions, content and services, including yellow and white pages, product searching, location-based searching and interactive maps and driving directions. At December 31, 2003, the Company owned 9,802,421 shares or an approximate 51% equity interest of Switchboard s outstanding common stock.

On October 23, 2003 the Company announced that it had signed a definitive agreement to sell the assets of its services business to Unisys Corporation (NYSE:UIS) for approximately $11,500,000 in cash. These assets include ePresence s customer relationships and industry partnerships, and a majority of the Company s employees are expected to become employees of Unisys. The transaction is subject to the approval of ePresence stockholders and other closing conditions, and is expected to be completed by the second quarter of 2004. The Company also announced that its Board of Directors has approved a plan of liquidation of the Company. On March 26, 2004, the Company announced that Switchboard agreed to be acquired by InfoSpace, Inc., subject to stockholder approval. ePresence has filed a preliminary proxy statement, dated November 6, 2003 and amended on December 18, 2003 and January 14, 2004, regarding these matters and will file an amendment to the proxy statement to reflect the merger proposal.

In connection with ePresence s plans to liquidate and dissolve, the Company has incurred approximately $6,500,000 as of December 31, 2003, related to the termination of a vendor relationship, approximately $886,000 for subsidiary dissolution costs, the settlement of certain customer arrangements, severance costs, legal, accounting, investment banking and other professional fees and expenses.

Upon sale of assets to Unisys, the sale of Switchboard shares and the liquidation and dissolution, the Company will cease all operations and activities other than the winding-up of its affairs. The accompanying financial statements have been prepared assuming that ePresence Inc. will continue as a going concern because liquidation is not deemed imminent as it is subject to shareholder approval. The proposed liquidation raises substantial doubt about whether the Company will continue as a going concern. The financial statements do not include any adjustments that may result from the outcome of this uncertainty. Should the sale of assets to Unisys, the sale of Switchboard shares and the liquidation and dissolution not occur, management would seek other strategic alternatives relating to the operation and/or sale of the Company.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements comprise those of the Company and its wholly-owned and majority owned subsidiaries. Intercompany accounts and transactions have been eliminated. Certain previously reported amounts have been reclassified to conform to the current method of presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents and Marketable Securities

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Those instruments with original maturities between three and twelve months are considered to be short-term marketable securities, and investments with maturities of greater than one year are classified as long-term marketable securities. Cash equivalents and marketable securities are carried at market and consist primarily of U.S. government securities, corporate and municipal issues, and interest bearing deposits with major banks.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), the Company classifies all of its marketable debt and equity securities as available for sale securities. These securities are valued at their fair value. Unrealized holding gains and losses are reported as a net amount in accumulated other comprehensive income, a separate component of shareholders equity.

In 2003, 2002 and 2001, purchases of marketable securities were $ 28,832,000, $44,024,000 and $117,340,000 respectively. In 2003, 2002 and 2001, proceeds from sales and maturities of marketable securities, excluding sales of Openwave, were $43,559,000, $101,166,000 and $117,597,000 respectively.

In 2003, 2002 and 2001, the Company recorded realized losses on marketable securities of $4,000, $57,000 and $4,000, respectively. In 2003, 2002 and 2001, the Company recorded a realized gain on marketable securities, excluding sales of Openwave, of $47,000, $735,000 and $269,000, respectively.

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Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the following estimated asset lives:

Computers and peripherals	3 years
Office equipment and software	3-5 years
Furniture and fixtures	5 years

Maintenance and repairs are charged to expense when incurred, while betterments are capitalized. Leasehold improvements are amortized over the lesser of the lease term or the life of the asset. When property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective amounts and any gain or loss is reflected in operations.

Revenue Recognition

ePresence recognizes services revenues pursuant to time and material contracts generally as services are provided. Services revenues pursuant to fixed-fee contracts are generally recognized as services are rendered using the proportionate performance method of accounting (based on the ratio of costs incurred to total estimated costs) with revisions to estimates reflected in the period in which changes become known. Service revenues include customer reimbursements for out-of-pocket expenses.

Switchboard generates its revenue primarily from merchant advertising placements promoted in the Switchboard-powered directories of its licensees, as well as in its directory website. Generally, revenue is recognized as services are provided, so long as no significant obligations remain and collection of the resulting receivable is probable. Switchboard believes that it is able to make reliable judgments regarding the creditworthiness of its customers based upon historical and current information available to Switchboard. There can be no assurances that Switchboard s payment experience with its customers will be consistent with past experience or that the financial condition of these customers will not decline in future periods, the result of which could be the failure to collect invoiced amounts. Some of these amounts could be material, resulting in an increase in Switchboard s provision for bad debts.

Switchboard licenses its directory technology to its licensees. Licensees can enter into a development and licensing arrangement with Switchboard whereby Switchboard creates and/or modifies a private labeled web-hosted directory. Switchboard recognizes revenue under these agreements when evidence of an arrangement exists, the related fee is fixed or determinable, and collection of the fee is reasonably assured, in accordance with Staff Accounting Bulletin No. 101 (SAB) and No. 104, Revenue Recognition in Financial Statements (SAB Nos. 101 and 104). Revenue received by Switchboard for such development and licensing arrangements is deferred until such time as the customer accepts the directory. Switchboard considers customer acceptance to occur at the time the directory is made accessible to the licensee for general use. After acceptance by the customer, revenue from such development and licensing agreements is recognized on a straight-line basis over the remaining life of the agreement. Once the web-hosted directory is operational, Switchboard may earn additional fees based on the number of merchants promoted within the directory. Per merchant license fees or additional engineering and other services fees are recognized as earned. Per merchant fees are considered earned in the period during which the merchant advertisement is displayed in Switchboard s website and/or the website of Switchboard licensees. Additional engineering and other services fees are considered earned in the period during which the services were provided.

Switchboard s most significant licensee is America Online, Inc. (AOL). Revenues recognized under Switchboard s agreement with AOL are recognized in accordance with SAB Nos. 101 and 104. Prior to October 2003, Switchboard received a share of directory advertisement revenue earned by AOL from the sales of advertisements on the yellow pages directory it provides to AOL, less an estimate for amounts deemed uncollectable by AOL. Switchboard recorded as merchant licensing revenue the net amount received from AOL in accordance with Emerging Issues Task Force (EITF) Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (EITF No. 99-19), as it is earned. Switchboard considers this merchant licensing revenue earned during the period that AOL displays the advertisements sold to its customers in its yellow page directory. Switchboard also earns revenue from AOL through the provision of engineering and other services to AOL. Switchboard considers the delivery of engineering and other services to be a separate earnings process and recognizes revenue from engineering and other services in the period during which these services are delivered. Subsequent to October 2003, Switchboard receives an annual license fee. Switchboard bifurcates this amount between merchant and platform licensing fees and engineering services fees. Switchboard recognizes revenue from merchant and platform licensing fees as earned. Switchboard considers revenue from merchant and platform licensing earned as it provides AOL the yellow pages directory and displays AOL s advertisers in the Switchboard.com yellow pages. In addition, included as an offset to revenue is consideration given to AOL, for which the benefits of such consideration are not separately identifiable from the revenue obtained from AOL.

Switchboard sells national and local advertisements in Switchboard.com through its direct sales force, as well as through third-parties. For these advertisements, Switchboard is generally paid a monthly fee based on the number of advertisements

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placed into *www.switchboard.com*. Switchboard recognizes this monthly fee as revenue as it is earned. Switchboard considers this fee earned during the period that they provide the advertising on www.switchboard.com.

Deferred revenue is principally comprised of billings relating to consulting engagements, advertising agreements and licensing fees received in advance of revenue recognition.

Cost of Revenue

ePresence s cost of revenues consists primarily of direct costs (i.e. compensation) of consulting delivery personnel and third party product and labor costs. Direct costs associated with its delivery personnel are recorded as expenses are incurred. Third party costs associated with the delivery of ePresence services are recorded as a cost of revenue in the period during which the services are performed.

Switchboard s cost of revenue consists primarily of expenses paid to third parties under data licensing and website creation and hosting agreements, search engine database inclusion expenses and employee compensation expense associated with the delivery of additional engineering, as well as other direct expenses incurred to maintain the operations of Switchboard s website and the web-hosted platforms of its licensees. Expenses associated with data licensing are largely fixed in nature and are recorded as expense on a straight-line basis. Direct expenses incurred to maintain the operations of Switchboard s website and those of its licensees are recorded as expense as incurred. Website creation and hosting expenses and search engine database inclusion expenses are variable based upon the number of merchants receiving website services and the amount of search engine database inclusion purchased. Switchboard recognizes these expenses as the website creation and hosting expense and search engine database inclusion expenses are incurred. Employee compensation expense associated with the delivery of additional engineering is recorded as a cost of revenue in the period during which the additional engineering was performed.

Foreign Currency Translation

Prior to January 1, 2002, the Company s foreign subsidiaries generally used the local currency as the functional currency. Assets and liabilities were translated into U.S. dollars at the period ended exchange rate and income and expense amounts were translated using the average rate prevailing for the period. Adjustments resulting from translation were included in accumulated other comprehensive income.

As of January 1, 2002, the Company s remaining foreign subsidiaries began using the U.S. dollar as the functional currency as the Company substantially liquidated its remaining foreign subsidiaries. As a result, the translation gains/losses in 2002 are included in net loss for 2002. Prior cumulative translation gains/losses within accumulated comprehensive income have been reversed and included in the net loss in 2002.

Minority Interest

Minority interest in Switchboard represents minority shareholders proportionate share of the equity in the Company s subsidiary, Switchboard. At December 31, 2003, the Company owned approximately 51% of Switchboard s outstanding common stock.

Fair Value of Financial Instruments

The carrying amounts of the Company s financial instruments, which include cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses and a note payable, approximate their fair values.

Stock-Based Compensation

The Company and Switchboard account for stock-based awards to employees using the intrinsic value method as prescribed by Accounting Principles Board (APB) No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations. Accordingly, no compensation expense is recorded for options issued to employees in fixed amounts and with fixed exercise prices at least equal to the fair market value of ePresence s and Switchboard s common stock, respectively, at the date of grant. ePresence has adopted the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) through disclosure only (Note 14). All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS 123.

At December 31, 2003, ePresence has four stock-based employee compensation plans, which are more fully described in Note 14. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25 and related interpretations. ePresence has issued restricted stock at a price determined by the Compensation Committee of the Board of Directors subject to the Company s right to repurchase such stock in specified circumstances prior to

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the expiration of a restricted period within these plans. The following table illustrates the compensation expense related to these transactions:

	2003	2002	2001
	(in thousands)		
1992 Stock Incentive Plan	$	$ 724	$ 1,197
2000 Non-Executive Stock Plan	414	182	252
Total compensation expense	$ 414	$ 906	$ 1,449

In addition, Switchboard has three stock-based employee compensation plans as defined by SFAS 148. Switchboard accounts for those plans under the recognition and measurement principles of APB 25 and related interpretations. Because options vest over several years and additional option grants are expected to be made in future years, the below pro-forma effects are not necessarily indicative of the pro-forma effects on future years.

Had compensation cost for the Company s and Switchboard s stock-based compensation plans been recorded based on the fair value of awards at the grant dates as calculated in accordance with SFAS No. 123, the Company s consolidated net loss and loss per share for the years ended December 31, 2003, 2002, and 2001 would have been increased/(decreased) to the pro forma amounts indicated below:

	2003	2002	2001
	(in thousands except per share amounts)		
Net loss as reported	$ (14,097)	$ (31,708)	$ (40,331)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	489	987	1,491
Add: Adjustment for previously amortized expense associated with the unvested portion of options canceled in the period	391	2,020	1,288
Less: Total stock-based compensation expense determined under fair value based method for all awards	(4,626)	(9,367)	(12,053)
Pro forma net loss	$ (17,843)	$ (38,068)	$ (49,605)
Basic and diluted loss per share as reported	$ (0.63)	$ (1.42)	$ (1.76)
Pro forma basic and diluted loss per share	$ (0.80)	$ (1.71)	$ (2.16)

The effects of applying SFAS No. 123 in this pro forma disclosure are not likely to be representative of the effects on reported net income for future years. Additional awards in future years are anticipated. SFAS No. 123 does not apply to awards granted prior to 1995.

The fair value of each of the Company s option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2003, 2002 and 2001 as follows:

	2003	2002	2001
Risk-free interest rates	2.9%	4.3%	5.0%
Expected dividend yield	0%	0%	0%
Expected life	5 years	5 years	5 years
Expected volatility	55%	101%	80%
Weighted average fair value of options granted	$1.11	$2.49	$2.69
Weighted average remaining contractual life of options outstanding	6.52 years	7.25 years	7.97 years

The fair value of each of Switchboard s option grants is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in each of the following periods:

	Year Ended December 31,		
	2003	2002	2001
Dividend yield	0%	0%	0%
Expected volatility	122%	130%	130%
Risk free interest rate	2.9%	3.9%	4.3%
Expected lives	4 years	4 years	4 years

Switchboard s weighted average grant date fair values using the Black-Scholes option pricing model were $5.19, $3.28 and $3.99 during the years ended December 31, 2003, 2002 and 2001, respectively.

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Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an interpretation of ARB 51. The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities) and how to determine when and which business enterprise (the primary beneficiary) should consolidate the variable interest entity. This new model for consolidation applies to an entity in which either (i) the equity investors (if any) do not have a controlling financial interest; or (ii) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant variable interest in a variable interest entity, make additional disclosures. Certain disclosure requirements of FIN 46 were effective for financial statements issued after January 31, 2003.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46-R) to address certain FIN 46 implementation issues. The effective dates and impact of FIN 46 and FIN 46-R are as follows:

1. Special purpose entities (SPEs) created prior to February 1, 2003. We must apply either the provisions of FIN 46 or early adopt the provisions of FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003.

2. Non-SPEs created prior to February 1, 2003. We are required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

3. All entities, regardless of whether a SPE, that were created subsequent to January 31, 2003. The provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. The company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.

The adoption of the provisions applicable to SPEs and all other variable interests obtained after January 31, 2003 did not have a material impact our financial statements. We are currently evaluating the impact of adopting FIN 46-R applicable to Non-SPEs created prior to February 1, 2003 but do not expect a material impact.

Concentration of Credit Risk and Significant Customers

SFAS No. 105, Disclosure of Information About Financial Instruments with Off Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk, requires disclosure of any significant off balance sheet and credit risk concentrations. Financial instruments that subject the Company to the potential for credit risk consist primarily of trade accounts receivable. The Company sells its services principally through a direct sales force to customers in a broad range of industries. The Company performs ongoing credit evaluations of its customers financial condition but does not require collateral or other security to support customer receivables. The Company maintains reserves for credit losses, and to date, such losses have been within management s expectations.

Historically, the Company has not experienced significant losses related to its accounts receivable. One customer accounted for 20% of revenues in 2003, one customer accounted for 17% of revenues in 2002 and two customers accounted for 22% of revenue in 2001. In 2001, the majority of the Company s European revenue was concentrated in Germany and the United Kingdom. At December 31, 2003, two customers accounted for 22% of consolidated net accounts receivable. At December 31, 2002, two customers accounted for 23% of consolidated net accounts receivable. At December 31, 2001, two customers accounted for 42% of consolidated net accounts receivable. At December 31, 2003 and 2002, approximately 0% and 1% of consolidated net accounts receivable represent accounts denominated in foreign currencies that are translated at year-end exchange rates. For the years ended December 31, 2003, 2002 and 2001, foreign sales accounted for 0%, 2% and 10% of total revenues, respectively.

The Company invests its cash and cash equivalents primarily in deposits and money market funds with two commercial banks. The Company has not experienced any losses to date on its invested cash.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates in effect for the year in which those temporary differences are expected to be recovered or settled. A deferred tax

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asset is established for the expected future benefit of net operating loss and credit carryforwards. A valuation reserve against net deferred tax assets is required if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Derivative Instruments and Hedging

In June 1998, FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Effective January 1, 2001, the Company adopted SFAS No. 133, as amended. SFAS No. 133 establishes the accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. All derivatives are required to be measured at fair value and recognized as either assets or liabilities in the financial statements. If derivatives do not meet the criteria for hedge accounting, any gain or loss resulting from changes in value must be recognized in earnings immediately.

As discussed in Note 17, on January 1, 2001 the Company was party to two separate hedging contracts related to its investment in Openwave. Since the Company did not designate these hedges, the fair market value of these hedges, $5,300,000 at January 1, 2001, was recorded as an asset and, accordingly, the Company recorded a cumulative effect in accounting change, net of taxes, of $3,445,000 (an earnings per share impact of $0.15). Upon liquidation of the Openwave investment these hedges were terminated and were offset against the gain from the sale of Openwave. These changes had no effect on the consolidated net income of the Company for the period ending December 31, 2001. Aside from these hedges, at January 1, 2001 and through December 31, 2003, the Company was not party to any other derivative instruments.

Upon liquidation of the Company s Openwave position in January 2001, these hedges were terminated. The gain on sale of Openwave reported by the Company in its statement of operations includes the effect of writing off the previously recorded asset related to these hedges.

Comprehensive Income

The Company applies the provisions of SFAS No. 130, Reporting Comprehensive Income , which establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company has disclosed comprehensive income/(loss) for all periods presented in the accompanying statements of shareholders equity.

Advertising Expense

Advertising costs are expensed as incurred and totaled $34,000 and $15,430,000 in the years ended December 31, 2002 and 2001, respectively. In 2001, the costs included $9,680,000 of non-cash advertising received from Viacom Inc. (formerly CBS Corporation) (Note 23).

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NOTE 3. PRO FORMA CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE IN LIQUIDATION (UNAUDITED)

In the event of stockholder approval of the plan of liquidation discussed in Note 1, the Company would be required to adopt a liquidation basis of accounting. Accordingly, the Company would no longer report a balance sheet but would instead report a consolidated statement of net assets available in liquidation, which would not include a stockholders equity section. In the consolidated statement of net assets available in liquidation, the Company s assets would be valued at their estimated net realizable value and liabilities would include the estimated costs associated with carrying out the plan of liquidation. In addition, the Company would no longer report a consolidated statement of operations but instead would report a consolidated statement of loss and changes in net assets.

The following table presents a pro forma reconciliation of a statement of net assets available for liquidation assuming the plan of liquidation is approved and the sales of the services business assets and Switchboard common stock are consummated. The Company has estimated, as of December 31, 2003, the following potentially realizable values of its assets, estimated liabilities and estimated costs of liquidation after the Company ceases its operations, including the Company s shares of Switchboard common stock. There can be no assurance, however, that the plan of liquidation and the sales of the services business assets and Switchboard common stock will be approved or that the Company will incur costs or be able to settle its liabilities or dispose of its assets within the indicated ranges, or at all.

	Historical	Pro forma adjustments			Pro forma
	December 31, 2003	Switchboard (1)	Sale to Unisys (2)	Other Adjustments (3)	December 31, 2003
			(Unaudited, in thousands)		
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 76,446	$ (47,265)	$ 11,500	$	$ 40,681
Restricted cash equivalents	36	(36)			
Marketable Securities	13,510	(6,591)			6,919
Accounts receivable, net	3,804	(1,503)	(2,301)		
Prepaid expenses and other current assets	1,981	(863)	(507)	(516)	95
Investment in Switchboard (4)		12,966		61,694	74,660
Total current assets	95,777	(43,292)	8,692	61,178	122,355
Property and equipment, net	1,663	(794)	(164)	(705)	
Non-current investments	1,960	(1,960)			
Other assets	1,379	(511)		(518)	350
Total assets	$ 100,779	$ (46,557)	$ 8,528	$ 59,955	$ 122,705
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$ 1,770	$ (1,398)	$ (147)	$	$ 225
Accrued expenses	6,261	(1,180)	2,500	(7,581)	
Other current liabilities	421			(421)	
Reserve for estimated costs during liquidation				25,534	25,534
Deferred revenue	1,395	(603)	(792)		
Total current liabilities	9,847	(3,181)	1,561	17,532	25,759

MINORITY INTEREST	27,540	(27,540)

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	Historical	Pro forma adjustments			Pro forma
	December 31, 2003	Switchboard [1]	Sale to Unisys [2]	Other Adjustments [3]	December 31, 2003
STOCKHOLDERS EQUITY[5]:					
Common stock	265	(98)		(167)	
Additional paid-in capital	173,608	(85,025)		(88,583)	
Unearned Compensation	(32)	32			
Accumulated deficit	(74,515)	56,340	6,967	34,970	
Accumulated other comprehensive income	45	(51)		6	
Treasury Stock	(35,979)			35,979	
Total stockholders equity	63,392	(28,802)	6,967	(17,795)	$
Total liabilities and stockholders equity	$ 100,779	$ (59,523)	$ 8,528	$ (263)	$ 25,759
Net assets available to common stockholders					$ 96,946

Notes to Pro Forma Consolidated Statement of Net Assets Available in Liquidation

(1) These pro forma adjustments de-consolidate Switchboard, as Switchboard will continue as a stand-alone publicly-held entity.

(2) These adjustments reflect the sale of the services business to Unisys for the estimated purchase price of $11.5 million.

(3) The pro forma adjustments do not include any estimates for pending or threatened litigation or claims. Estimates associated with the liquidation of the Company, include:

(i) Estimated proceeds from the return of security deposits, the sale and disposition of long-lived assets and federal income tax refunds.

(ii) Includes an estimated settlement of accrued liabilities, including real estate lease obligations, employee compensation costs, estimated costs and other operating costs. Also includes a reserve for unknown contingencies.

(iii) (a) Ongoing operating costs, including estimated costs related to dissolution transaction, payroll costs and overhead operating costs such as rent, legal fees, accounting fees, taxes, insurance and other operating costs of $4.1 million, (b) employee severance and related costs of $6.6 million, certain of which are based upon the amounts distributed to our stockholders and (c) other costs, including cost of the director and officer six-year tail insurance policy, certain foreign entity dissolution costs and benefits plans termination costs of $1.1 million.

(4) Value expected to be distributed to stockholders with respect to the sale of Switchboard shares to Infospace for $7.75 per Switchboard share net of estimated tax liability.

(5) In accordance with a liquidation basis of accounting, the consolidated statement of net assets available in liquidation would not include a stockholders equity section.

NOTE 4. MARKETABLE SECURITIES

Marketable securities consisted of the following at December 31, 2003 and 2002:

Security Type	2003 Aggregate Fair Value	2003 Amortized Cost	2002 Aggregate Fair Value	2002 Amortized Cost
	(in thousands)			
Maturing within one year:				
Common Stock				
U.S. Treasury Notes	$ 7,577	$ 7,537	$ 5,138	$ 5,066
Commercial Paper/Agencies	5,420	5,433	9,848	9,780
U.S. Corporate Debt Securities	513	506	1,547	1,540
	$ 13,510	$ 13,476	$ 16,533	$ 16,386
Maturing after one year through five years:				
Commercial Paper/Agencies	$	$	$ 7,775	$ 7,579
U.S. Treasury Notes			2,037	2,017
U.S. Corporate Debt Securities	560	555	2,590	2,547
Municipal Obligations	1,400	1,400	1,500	1,500
	$ 1,960	$ 1,955	$ 13,902	$ 13,643
Totals	$ 15,470	$ 15,431	$ 30,435	$ 30,029

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Unrealized gains/(losses) are included in shareholders equity and accumulated other comprehensive income, net of tax.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	December 31,	
	2003	2002
	(in thousands)	
Computer and peripherals	$ 4,729	$ 6,668
Office equipment and software	4,791	5,170
Furniture and fixture	450	1,163
Leasehold improvements	1,087	1,079
Total cost	11,057	14,080
Accumulated depreciation and amortization	(9,394)	(10,809)
Net property and equipment	1,663	3,271

Depreciation expense during 2003, 2002 and 2001 was $1,874,000, $2,490,000 and $3,120,000, respectively.

NOTE 6. GOODWILL, OTHER LONG LIVED ASSETS

In September 2001, due to the decline in business conditions, the Company initiated a cost savings program and realigned resources to focus on profit contribution and core opportunities. Based upon impairment analyses which indicated that the carrying amount of the goodwill and purchased intangible assets would not be fully recovered through estimated undiscounted future operating cash flows, a charge of $12,364,000 was recorded during the quarter ended September 30, 2001. The impairment of goodwill was measured as the amount by which the carrying amount exceeded the present value of the estimated discounted future cash flows attributable to such goodwill.

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets which requires the Company to discontinue amortization of goodwill as of December 31, 2001. The Company adopted SFAS 142 during the first quarter of 2002 and ceased amortizing goodwill with a net book value of $14,780,000 as of the beginning of fiscal 2002. The Company completed an assessment of fair value of goodwill in the second quarter of 2002 and updated the assessment in the third quarter of 2002 due to the continued decline in economic conditions. Neither of these assessments indicated an impairment of goodwill. However, in the fourth quarter of 2002, the Company completed its yearly assessment of fair value of goodwill and based upon this impairment analysis, the results indicated that the carrying amount of the goodwill would not be fully recovered through estimated undiscounted future operating cash flows, an impairment charge of $14,779,000 was recorded during the year ended December 31, 2002. The impairment of goodwill was measured as the amount by which the carrying amount exceeded the present value of the estimated discounted future cash flows attributable to such goodwill.

The following table presents net loss as reported and net loss on a pro forma basis as if SFAS 142 had been adopted on January 1, 2001:

	Twelve months ended December 31, 2001
	(in thousands)
Net loss as reported	$ (40,331)
Amortization of goodwill	3,025
Net loss as adjusted	(37,306)
Basic and diluted loss per share as reported	$ (1.76)
Basic and diluted loss per share as adjusted	$ (1.62)

Pursuant to a distribution agreement Switchboard entered into with America Online, Inc. (AOL , the Directory Agreement), Switchboard issued shares of its common stock to AOL. The value of these shares of common stock had been recorded as an intangible asset, and had been amortized on a straight-line basis over the life of the Directory Agreement. As of December 31, 2001, Switchboard evaluated the net realizable value of all of its assets related to AOL and Envenue as a result of lower than anticipated revenues in accordance with Statement of Financial Accounting Standards No. 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of (SFAS 121) and determined that both its assets related to AOL and Envenue had been impaired. As a result, Switchboard recorded a loss on impairment as a component of its special charge in 2001 (Notes 11 and 24).

On November 24, 2000, Switchboard acquired Envenue, a wireless provider of advanced product searching technologies designed to drive leads to traditional retailers. The transaction was accounted for as a purchase. The total purchase price included consideration of $2,000,000 in cash, which was to be paid on or before May 24, 2002, and $38,000 in recorded value of stock options to purchase 10,200 shares of Switchboard s common stock issued to non-employees. Switchboard did not pay the $2,000,000 on or before May 24, 2002, as it was involved in a contractual dispute with the previous owners of Envenue. In June 2002, Switchboard placed $2,000,000 into an escrow account, which was to be held until the resolution of this dispute. In October 2002, Switchboard paid $410,000 out of the escrowed funds, representing the undisputed portion of the purchase price plus interest from the original maturity date to the former stockholders of Envenue. The remaining $1,604,000 of the purchase price, which was non-interest bearing, was classified separately in the accompanying financial statements as of December 31, 2002.

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Switchboard recorded $1,604,000 as restricted cash at December 31, 2002 related to the cash held in escrow. In June 2003, Switchboard paid the former owners of Envenue $1,700,000 to settle all claims related to the acquisition of Envenue. As a result, Switchboard no longer has funds in escrow related to the matter.

In December 2001, Switchboard exercised its rights under the acquisition agreement to substantially reduce the funding of its Envenue acquisition. Additionally, Switchboard evaluated the carrying value of its goodwill in Envenue, and determined it would not be fully recovered through estimated undiscounted future operating cash flows. As a result during the three months ending December 31, 2001, Switchboard recorded an impairment charge of $1,859,000 related to the Envenue goodwill. This impairment charge was recorded as a component of special charges within the consolidated statement of operations (See Note 11).

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets, which was effective for the Company on January 1, 2002. SFAS No. 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, except goodwill, that are either held and used or disposed of through sale or other means. SFAS No. 144 did not have an impact on the Company s financial position financial position, results of operations and cash flows.

NOTE 7. DEBT AND FINANCING AGREEMENTS

On November 7, 2002, the Company entered into a $10,000,000 revolving line of credit with Silicon Valley Bank (SVB) that provides for borrowings at SVB s prime rate. This credit agreement had a one-year term and contained covenants relating to the maintenance of certain financial ratios. The Company had no borrowings under this facility outstanding at December 31, 2002 and did not renew the line in 2003.

In March 2001, Switchboard entered into a computer equipment sale-leaseback agreement with Fleet Capital Corporation (FCC) under which Switchboard was able to lease up to $3,000,000 of equipment. Under the agreement, Switchboard was to have leased computer equipment over a three-year period ending on June 28, 2004. At December 31, 2001, Switchboard had utilized approximately $1,101,000 of this lease facility. The agreement had an estimated effective annual percentage rate of approximately 7.90%. Under the terms of the agreement, Switchboard was required to maintain on deposit with Fleet a compensating balance, restricted as to use, in an amount equal to the principal outstanding under the lease. Switchboard had accounted for the transaction as a capital lease. In May 2002, Switchboard paid $794,000 to FCC to terminate its lease obligations with FCC through an early buy-out. The $794,000 was comprised of $764,000 in outstanding principal under the lease and $30,000 in expenses associated with the early termination. In exchange for the amount paid, Switchboard assumed all right and title to the assets leased under the facility. Additionally, Switchboard s requirement to maintain a compensating balance with Fleet was eliminated.

In June 2002, Switchboard entered into a loan and security agreement (the SVB Financing Agreement) with Silicon Valley Bank (SVB), under which Switchboard was able to borrow up to $4,000,000 for the purchase of equipment. Amounts borrowed under the facility accrued interest at a rate equal to prime plus 0.25%, and were to have been repaid monthly over a 30-month period. Switchboard had utilized $2,700,000 of this facility through borrowings that occurred in June 2002 and September 2002. Switchboard recorded a note payable to SVB on its balance sheet totaling $2,200,000 for the equipment financed as of December 31, 2002, of which $1,100,000 was classified as a current liability. The SVB Financing Agreement also provided for a $1,000,000 revolving line of credit at an interest rate equal to prime. Switchboard did not borrow any amounts under the revolving line of credit. Switchboard s ability to borrow additional amounts under the SVB Financing Agreement expired on May 30, 2003 after Switchboard chose not to renew the agreement. In May 2003, Switchboard paid SVB $1,800,000 in satisfaction of its outstanding borrowings under the loan facility.

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NOTE 8. EMPLOYEE BENEFIT PLANS

The Company has a savings and profit sharing plan covering substantially all U.S. employees. The plan is qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended.

The Company matches an employee s elective deferrals to the plan based upon a prescribed formula. Vesting of the Company s matching contribution is over a four-year period and begins on the date of hire. The Company contributed $206,000, $307,000 and $480,000 in 2003, 2002 and 2001, respectively.

NOTE 9. DEFERRED OFFERING COSTS

On October 23, 2003, Switchboard filed a Registration Statement on Form S-1 in connection with a proposed underwritten offering of 8,815,171 shares of its common stock, plus an over-allotment option of 1,322,250 shares. Of the shares proposed to be sold, including the over-allotment option, 10,037,421 shares are proposed to be sold by ePresence, Inc. and certain other selling shareholders, and 100,000 are proposed to be sold by Switchboard. The offering is being initiated by ePresence in order to facilitate an orderly disposition of its Switchboard holdings in conjunction with its announced plan of liquidation. At the completion of the offering, Switchboard anticipates that ePresence will continue to own 5.6% of Switchboard s shares. If the over-allotment option is exercised and the additional 1,322,250 shares are sold, ePresence will no longer own any shares of Switchboard. The sale of ePresence s entire holdings of Switchboard stock is subject to the approval of ePresence s shareholders. However, ePresence may sell up to approximately 5,400,000 of its shares of Switchboard stock without shareholder approval.

As of December 31, 2003, Switchboard had incurred $511,000 of costs associated with the offering, of which $15,000 was paid in 2003. Switchboard has classified these deferred offering costs as a long-term asset on its balance sheet as of December 31, 2003. Switchboard anticipates offsetting these costs with proceeds received from the offering. If the offering is not completed, these costs will be expensed.

NOTE 10. ACCRUED EXPENSES

Accrued expenses consist of the following at:

	December 31,	
	2003	2002
	(in thousands)	
Compensation	$ 2,688	$ 2,587
Restructuring	1,881	3,196
Other	1,692	2,739
Total	6,261	8,522

NOTE 11. RESTRUCTURING CHARGES

The following table summarizes activity related to the Company s restructuring accrual:

	Twelve Months Ended December 31, 2003 (in thousands)				
	Accrual/ Reserve Balance 12/31/02	Total Other Charges	Cash Payments	Non-cash Charges	Accrual/ Reserve Balance 12/31/03
Staff reductions	$ 846	$	$ (504)	$ (38)	$ 304
Office closures, asset write-offs and other costs	2,350		(776)	3	1,577
	$ 3,196	$	$ (1,280)	$ (35)	$ 1,881

In 2002, as part of the Company s plan to implement cost-cutting measures, the Company recorded net pre-tax charges of $4,000,000 during the first quarter of 2002 and $1,100,000 in the fourth quarter of 2002, for a combined charge of $5,100,000 for

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services restructuring activities. The reductions were focused principally on the closure of our offices in Germany and the United Kingdom, reductions in our marketing and general and administrative functions, and the elimination of several senior management and executive-level positions. These charges included workforce reductions of approximately 75 positions, office closures and asset write-offs.

At December 31, 2003, the Company had utilized approximately $3,650,000 in total of the liability of which $1,464,000 was severance related costs, and the remainder related to office closures and asset write-offs. The remaining 2002 liability at December 31, 2003 was approximately $1,450,000 of cash related expenditures. The Company anticipates that it will utilize a substantial portion of the remaining 2002 liability by the end of fiscal year 2004.

In 2001, as part of the Company s plan to implement cost-cutting measures in its services business, the Company recorded net pre-tax charges of $3,953,000 related to a workforce reduction of approximately 100 positions, office closures and asset write-offs. At December 31, 2003, the Company had utilized approximately $3,532,000 in total of the 2001 liability of which $1,966,000 was severance-related costs, and the remainder related to office closures and asset write-offs. The remaining 2001 liability at December 31, 2003 was approximately $421,000 of cash related expenditures. The Company anticipates that it will utilize a substantial portion of the remaining 2001 liability by the end of fiscal year 2004.

In 2003, Switchboard recorded the reversal of $35,000 of excess restructuring reserves as a special credit. The 2003 reversal resulted primarily from a change in estimate with respect to a compensation amount for a terminated employee that had been provided for as part of Switchboard s 2001 special charges. In 2002, Switchboard recorded the reversal of $262,000 in excess restructuring reserves as a special credit. The 2002 reversal resulted primarily from better than expected results in the subleasing of idle office space which Switchboard had reserved for as part of its 2002 special charges. Under a non-cancelable sublease, Switchboard received $156,000 and $72,000 in 2003 and 2002, and anticipates receiving $132,000 and $60,000 in 2004 and 2005, respectively.

In December 2001, Switchboard recorded net pre-tax special charges of approximately $17,300,000, comprised primarily of $15,600,000 for the impairment of certain assets, $1,000,000 for costs related to facility closures and $700,000 in severance costs related to the reduction of approximately 21% of Switchboard s workforce. The restructuring resulted in 21 Switchboard employee separations.

Included in the $15,600,000 impairment charge for certain assets is $11,700,000 recorded for the impairment of the unamortized portion of the value of the common stock issued and amounts prepaid to AOL. Switchboard assessed the value of its assets related to its AOL Directory Agreement for impairment as it had a current period operating loss combined with a history of operating losses with respect to its AOL relationship and revenues were lower at the end of the first year of the Directory Agreement than originally anticipated and Switchboard had incurred a current period and historical operating loss with respect to its AOL business. This analysis was performed as part of Switchboard s restatement of its financial statements for the year ended December 31, 2001, which occurred in September 2002. However, in performing this impairment analysis, Switchboard was unable to utilize the more favorable financial terms of the April 2002 and August 2002 amendments as they had occurred subsequent to the date Switchboard had filed its original Annual Report on Form 10-K for the year ended December 31, 2001 (March 2002). The financial terms of the April 2002 and August 2002 amendments were developments that occurred subsequent to the March 2002 filing and, in accordance with existing accounting standards, could not be considered. If Switchboard had been able to utilize the more favorable financial terms resulting from the April 2002 and August 2002 amendments, its AOL assets may have been considered to be fully recoverable.

Switchboard s impairment analysis, utilizing the estimated cash flow approach, included certain revenue and expense assumptions through December 2004, the expiration date of the Directory Agreement. Switchboard assumed annual revenue growth rates of 77%, 135% and 85% under the agreement in 2002, 2003 and 2004, respectively. Switchboard s expense assumptions included contractually fixed payments of $39,000,000; a total of $4,800,000 of value associated with two additional contractual stock issuances to AOL of 746,260 shares each, which were to have occurred in December 2002 and 2003; and an estimate of other costs and expenses Switchboard would incur to support the relationship with AOL. Switchboard s analysis indicated that the AOL assets were impaired due to the fact that the projected future cash flows from AOL over the remainder of the term of the agreement were insufficient to support the value of the AOL related assets. Switchboard then measured impairment by performing an analysis of the discounted future cash flows under the Directory Agreement using a discount factor of 20% per year. This discounted cash flow analysis indicated that the AOL related assets were fully impaired as of December 31, 2001. Accordingly, a charge of $11,700,000 was recorded as an additional component of special charges during 2001.

In December 2001, Switchboard exercised its rights under the Envenue acquisition agreement to substantially reduce the funding of Envenue. Switchboard evaluated the carrying value of its goodwill in Envenue, and determined it would not be fully recovered through estimated undiscounted future operating cash flows. As a result, in 2001 Switchboard recorded as a component of the $15,600,000 impairment charge, $1,900,000 related to the Envenue goodwill. The impairment was measured as the amount by which the carrying amount of these assets exceeded the present value of the estimated discounted future cash flows attributable to these assets.

Also included in the impairment charge for certain assets are amounts related to prepaid advertising expenses. As a result of Switchboard s change in overall strategy from a destination site to a technology provider, Switchboard no longer considered this prepaid advertising to be complementary to its corporate strategy. Accordingly, Switchboard recorded $1,400,000 for the impairment of these prepaid advertising assets.

Of Switchboard s total $1,300,000 facilities and severance charge, which is net of the $35,000 and $262,000 special credits recorded in 2003 and 2002, approximately $1,100,000 was cash related. Switchboard has a remaining liability of $10,000 on its balance sheet as of December 31, 2003 relating to the special charges.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities and certain equipment under non-cancelable lease agreements, which expire at various dates through March 2014. Rental expense under these leases totaled $570,000, $679,000 and $1,671,000 in 2003, 2002 and 2001, respectively. Under some of these agreements, the Company is obligated to pay for utilities, taxes, insurance and maintenance.

At December 31, 2003, future minimum lease payments under operating leases with initial terms exceeding one year are as follows (in thousands):

2004	$ 1,468
2005	1,124
2006	244
2007	232
2008	232
Thereafter	1,680
Total future minimum lease payments	$ 4,980

The total of future minimum rentals to be received under non-cancelable subleases related to the above leases are $333,000 and $250,000 for the years ending 2004 and 2005, respectively.

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the Company s business, to which the Company is a party or of which any of the Company s property is the subject.

On November 21, 2001, a putative class action lawsuit was filed in the United States District Court for the Southern District of New York on behalf of all persons and entities who purchased or otherwise acquired common stock of Switchboard from March 2, 2000 through December 6, 2000. The complaint named as defendants Switchboard, the managing underwriters of Switchboard s initial public offering, Douglas J. Greenlaw, Dean Polnerow, and John P. Jewett. Mr. Polnerow is Switchboard s President and CEO, and Mr. Greenlaw and Mr. Jewett are former officers of Switchboard.

An amended complaint was filed on April 20, 2002. The amended complaint alleges violations of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, primarily based on the assertion that the defendants made material false and misleading statements in Switchboard s registration statement and prospectus filed with the SEC in connection with Switchboard s initial public offering because of the failure to disclose (a) the alleged solicitation and receipt of excessive and undisclosed commissions by the underwriters in connection with the allocation of shares of common stock to certain investors in Switchboard s public offering and (b) that certain of the underwriters allegedly had entered into agreements with investors whereby underwriters agreed to allocate the public offering shares in exchange for which the investors agreed to make additional purchases of stock in the aftermarket at pre-determined prices. The amended complaint alleges claims under Sections 11 and 15 of the Securities Act, and Sections 10(b) and 20(a) of the Securities Exchange Act. The amended complaint seeks damages in an unspecified amount.

In July 2002, Switchboard, Douglas J. Greenlaw, Dean Polnerow and John P. Jewett joined in an omnibus motion to dismiss challenging the legal sufficiency of plaintiffs claims. The motion was filed on behalf of hundreds of issuer and individual defendants named in similar lawsuits. The plaintiffs opposed the motion, and the Court heard oral argument on the motion in November 2002. On February 19, 2003, the court issued its decision on the defendants motion to dismiss, granting in part and denying in part the motion as to Switchboard. In addition, in October 2002, Messrs. Greenlaw, Polnerow and Jewett were dismissed from this case without prejudice.

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In June 2003, the plaintiffs, the issuer defendants and their insurers agreed on the terms and conditions of a proposed settlement of this case. The terms and conditions of the proposed settlement have been widely reported in the press. Switchboard s special committee of the board of directors met twice during June 2003 to evaluate the proposed settlement. The committee was advised by outside counsel on the merits of the proposed settlement. The committee determined that the settlement was in the best interests of Switchboard and that they should accept the proposed settlement. There is no guarantee that the settlement will become final, as it is subject to a number of conditions, including court approval; however, based on this proposed settlement. In the third quarter of 2003, Switchboard was informed by outside counsel that all but two of the non-bankrupt issuers decided to accept the terms and conditions of the proposed settlement of this case. The two issuers who did not accept the proposal were in unique circumstances that do not apply to other issuers. Switchboard does not believe they will suffer material future losses related to this lawsuit.

NOTE 13. PREFERRED STOCK

The Company has authorized 1,000,000 shares of an undesignated preferred stock. The preferred stock is $.01 par value and may be issued in one or more series with voting rights and preferences to be determined by the Board of Directors. In March 1998, 263,158 shares were designated as Series A Convertible Preferred Stock and were issued to HarbourVest Partners along with warrants to purchase 65,790 shares of Series B Convertible Preferred Stock and 65,790 shares of Series C Convertible Preferred Stock at an exercise price of $45.00 and $50.00 per share, respectively, in exchange for cash of $9,500,000, net of issuance costs of $500,000. Each share of preferred stock was initially convertible, at the option of the holder, into ten shares of common stock, subject to adjustment for certain dilutive issuances. In June 1999, the 263,158 shares of Series A Convertible Preferred Stock, held by HarbourVest Partners, automatically converted into 2,631,580 shares of common stock. On March 10, 2000, the warrants to purchase shares of Series B and Series C Convertible Preferred Stock converted into warrants to purchase an aggregate of 1,315,800 shares of common stock.

NOTE 14. STOCK OPTION PLANS

Under the Company s 1992 Stock Incentive Plan, as amended (the 1992 Stock Incentive Plan), the Company was permitted to grant incentive stock options and non-statutory options for the purchase of an aggregate of 5,470,000 shares of common stock to employees, officers, directors, consultants and advisors. At December 31, 2003, 2,264,362 options and shares were outstanding under this plan, of which 360,000 shares were subject to the Company s repurchase right and certain other restrictions for a period of up to three years. The 1992 Stock Incentive Plan provided that incentive stock options may not be granted at less than the fair market value of the Company s common stock at the grant date. Options outstanding under this plan generally vest ratably over a three-year period and expire ten years from the date of grant.

Effective as of June 2002 no further options or other awards may be made under this plan, but options and other awards previously granted may remain outstanding beyond this date.

The 1992 Stock Incentive Plan also permitted awards of restricted stock at a price determined by the Compensation Committee or the Board of Directors subject to the Company s right to repurchase such stock in specified circumstances prior to the expiration of a restricted period. In October 1998, the Company issued 396,000 shares of restricted common stock to executive officers and certain members of senior management at par value. An amount for unearned compensation of $1,426,000 was recorded within shareholders equity equal to the fair market value of the stock on the date it was issued, less the purchase price. An additional 480,000 shares and 40,000 shares of restricted stock were issued in 2000 and 1999, respectively. An additional $2,560,200 and $277,000 was recorded as unearned compensation within shareholders equity in 2000 and 1999, respectively, equal to the fair market value of the stock on the date it was issued, less the purchase price. In 2000, 35,600 shares of restricted stock were cancelled, and 10,000 shares of restricted stock were cancelled in 1999. Amortization of $413,715, $724,447 and $1,196,652 was recorded in 2003, 2002 and 2001, respectively, as compensation expense related to these issuances.

The Company currently holds notes receivable for a total of approximately $782,000 from executive officers and other members of senior management of the Company. The notes arose from transactions in 1999, 2000, and 2001 whereby the Company loaned the officers money to pay federal and state tax obligations with respect to the vesting and issuance of restricted stock. The notes bear interest at the applicable Federal rate. The principal plus accrued interest on the remaining $782,000 will be forgiven at a rate of 20% on the anniversary date of the note, over a five-year period subject to continued employment. In 2003 and 2002, $277,000 and $299,000, respectively, were forgiven based on the provisions in the notes. The portion of the notes and the accrued interest to be forgiven within the year are recorded as other current assets and the remaining balance on the notes are recorded as an other non-current asset.

Under the Company s 2000 Non-Executive Stock Incentive Plan (the 2000 Non-Executive Stock Plan), the Company may grant non-statutory options for the purchase of an aggregate of 1,250,000 shares of common stock to employees, consultants

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and advisors. At December 31, 2003, 787,701 options were outstanding under this plan. These options vest ratably over a three-year period and expire ten years from the date of grant.

The 2000 Non-Executive Stock Plan also permits awards of restricted stock at a price determined by the Compensation Committee or the Board of Directors subject to the Company s right to repurchase such stock in specified circumstances prior to the expiration of a restricted period. On October 19, 2000, the Company issued 80,000 shares of restricted stock to certain members of senior management at par value of which no shares were outstanding at December 31, 2003. These shares are subject to the Company s repurchase right and certain other restrictions for a period of up to two years. An amount for unearned compensation of $454,200 was recorded within shareholders equity equal to the fair market value of the stock on the date it was issued, less the purchase price. An additional 6,000 shares of restricted stock were issued in 2001. An additional $25,000 was recorded as unearned compensation within shareholders equity in 2001 equal to the fair market value of the stock on the date it was issued, less the purchase price. Amortization of zero, $181,924 and $252,000 was recorded in 2003, 2002 and 2001, respectively, as compensation expense related to these issuances.

Under the Company s 2001 Stock Incentive Plan (the 2001 Plan), the Company may grant stock options and other stock based awards for the purchase of an aggregate of 2,500,000 shares of common stock to employees, officers, directors, consultants and advisors. At December 31, 2003, 912,067 options were outstanding under this plan. The 2001 Plan provides that incentive stock options may not be granted at less than the fair market value of the Company s common stock at the grant date. Options generally vest ratably over a three-year period and expire ten years from the date of grant.

Under the Company s 1992 Director Stock Option Plan, as amended (the 1992 Director Plan), the Company may grant non-statutory stock options for the purchase of up to an aggregate of 450,000 shares of common stock to directors of the Company who are not officers or employees of the Company or any subsidiary of the Company. Under the terms of the 1992 Director Plan, initial options are automatically granted to each eligible director upon his or her initial election as a director that cover 40,000 shares of common stock, and annual options are automatically granted on the date of each Annual Meeting of Shareholders of the Company that cover 10,000 shares of common stock. In addition, after four years of service on the Board, each director will automatically receive an option that covers 20,000 shares. The 1992 Director Plan provides that options shall be granted at the fair market value of the Company s common stock at the grant date. Annual options generally vest twelve months after the grant date and initial options and service options vest ratably over a four-year period. At December 31, 2003, 379,000 options were outstanding under the 1992 Director Plan.

In 2001, the Board of Directors had suspended the Company s 1995 Employee Stock Purchase Plan until further notice. Under this plan, as amended, 1,050,000 shares of common stock were available to all full-time employees through semi-annual offerings. At December 31, 2003, 1,010,378 shares of common stock had been purchased under this plan.

In May 2000, the Company acquired SND and assumed the 2000 SND Stock Incentive Plan. At December 31, 2003, 35,600 options were outstanding under this plan. The 2000 SND Stock Incentive Plan provides that incentive stock options may not be granted at less than the fair market value of the Company s common stock at the grant date. Options generally vest ratably over a three-year period and expire ten years from the date of grant.

During 1997, in addition to the options described above, options to purchase an aggregate of 1,300,000 shares were issued to four executive officers of the Company. The underlying shares were registered with the SEC and generally vest over a four-year period. At December 31, 2003, 760,000 of such options were outstanding.

A summary of the status of the Company s stock plans as of December 31, 2003, 2002 and 2001 and changes during the years ending on those dates is presented below.

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(share amounts in thousands)					
Outstanding at beginning of year	5,063	$ 5.81	5,085	$ 6.68	4,447	$ 8.81
Granted	846	$ 2.21	1,113	$ 3.54	1,981	$ 3.89
Exercised	(134)	$ 3.49	(16)	$ 2.83	(91)	$ 2.79
Cancelled	(996)	$ 5.74	(1,119)	$ 7.56	(1,252)	$ 6.80
Outstanding at end of year	4,779	$ 5.25	5,063	$ 5.81	5,085	$ 6.68
Options exercisable at end of year	3,603	$ 5.99	3,165	$ 6.58	2,362	$ 6.87

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The following table summarizes information about the Company s stock options at December 31, 2003:

(share amounts in thousands)

		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
		(share amounts in thousands)			
$1.15-$2.25	1,336	6.0 years	$ 2.10	816	$ 2.19
$2.26-$3.99	1,393	7.5 years	$ 3.32	864	$ 3.24
$4.00-$6.50	814	6.9 years	$ 5.28	695	$ 5.40
$6.51-$10.00	565	5.5 years	$ 8.90	565	$ 8.90
$10.01-$20.00	671	5.9 years	$ 12.40	663	$ 12.41
	4,779			3,603	

NOTE 15. SWITCHBOARD NOTE RECEIVABLE FOR THE ISSUANCE OF RESTRICTED COMMON STOCK

In January 2002, Switchboard recorded a note receivable from Mr. Greenlaw, its Chief Executive Officer, who was also a member of its Board of Directors, for approximately $1,400,000 arising from the financing of a purchase of 450,000 shares of its common stock as restricted stock by Mr. Greenlaw. As of December 31, 2002, 300,000 of such shares were unvested and restricted from transfer. On each of January 4, 2003, 2004, 2005 and 2006, 75,000 of these restricted shares were to have vested, respectively. The note bore interest at a rate of 4.875%, which was deemed to be fair market value, compounding annually and was 100% recourse as to principal and interest. The note was payable upon the earlier of the occurrence of the sale of all or part of the shares by the issuer of the note, or January 4, 2008. During 2003 and 2002, Switchboard recorded $56,000 and $71,000 in interest income resulting from this note receivable. At December 31, 2002, Switchboard had recorded $1,500,000 in principal and interest as a note receivable classified within stockholders equity.

Mr. Greenlaw ceased to be an employee and resigned as a director effective September 2, 2003. In connection with Mr. Greenlaw s separation of employment, Switchboard recorded, as a component of general and administrative expense, certain separation expenses of $174,000 in 2003 in accordance with Mr. Greenlaw s employment agreement. At the time Mr. Greenlaw ceased to be affiliated with Switchboard, 225,000 of the original 450,000 shares granted were vested. In September 2003, Switchboard exercised its right to repurchase the remaining 225,000 unvested shares for $725,000, resulting in a corresponding reduction in the outstanding note of $725,000. In accordance with the terms of the note, Mr. Greenlaw repaid the note payable and all accrued interest outstanding to Switchboard in full through payments totaling $851,000. The final payment was received in November 2003.

NOTE 16. STOCK REPURCHASE

In December 2000, the Board of Directors of the Company authorized the repurchase of up to $10,000,000 of its common stock on the open market. Repurchases of stock are at management s discretion, depending upon acceptable prices and availability. Funds used in the repurchase of shares come from the Company s existing cash and investment balances along with cash generated from operations. As of December 31, 2003, the Company had expended $7,415,000 toward stock repurchases of which $1,109,000 and $6,140,000 was expended during the years ended December 31, 2003 and 2002, respectively.

NOTE 17. SALE OF INVESTMENT

In 1996, the Company made an equity investment of approximately $2,000,000 in Software.com, Inc. (Software.com), a company which supplied Internet messaging solutions to services providers. During the year ended December 31, 2000, the Company sold 491,202 shares of common stock of Software.com, resulting in net proceeds of $45,276,000 and a realized gain of approximately $44,556,000. At December 31, 2000, the Company held 400,000 shares of common stock of Software.com of which 300,000 and 100,000 of said shares were valued at $114.50 and $115.90 per share, respectively, with a total value of $45,940,000. The net unrealized gain of approximately $29,025,000, net of taxes of approximately $16,308,000, is included in other comprehensive income within shareholders equity.

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In January 2000, the Company entered into a hedging contract for 300,000 shares of Software.com common stock. The maturity date for the contract was February 2, 2001. Upon maturity, the Company received payment for the value of the Software.com common shares based upon the average closing price of the ten consecutive trading days prior to, and including, the maturity date. Under the agreement the settlement price could be no lower than $84.04 and no higher than $114.50 per common share.

In February 2000, the Company entered into a hedging contract for 100,000 shares of Software.com common stock. The maturity date for the contract was February 25, 2001. Upon maturity, the Company received payment for the value of the Software.com common shares based upon the average closing price of the ten consecutive trading days prior to, and including, the maturity date. Under the agreement the settlement price could be no lower than $84.60 and no higher than $115.90 per common share.

On November 17, 2000, Software.com and Phone.com merged and began doing business as Openwave Systems, Inc. (Openwave). Each Software.com shareholder received 1.6105 Phone.com shares. On October 26, 2000, the Company entered into two hedging contracts for Openwave shares effectively rolling over its hedging contracts of Software.com common shares. The contracts were adjusted to equivalent Phone.com shares and pricing and maintained the same terms as the original contracts with the exception of maturities. The hedging contract for 483,150 Openwave shares matured between January 23, 2001 and January 29, 2001 and the average settlement price was $67.55 per common share. The hedging contract for 161,050 Openwave shares matured on January 24, 2001 and the settlement price was $70.60 per common share.

In January 2001, the Company liquidated its Openwave position for gross proceeds of approximately $44,006,000 and a realized gain of approximately $33,378,000. The Company paid a fee of $4,740,000 as a result of the early liquidation of the hedge contracts. The gain on sale of Openwave reported by the Company in its statement of operations includes the effect of writing off the previously recorded asset related to these hedges.

NOTE 18. SALE OF SUBSIDIARY

On March 22, 2001, the Company sold its Australian subsidiary to an Australian-based company. The Company exchanged its shares in the Australian subsidiary for a 10% interest in the acquiring company. The Company recorded a $1,039,000 loss as a result of the transaction and valued the 10% interest received at zero.

NOTE 19. INCOME TAXES

The (benefit from)/provision for income taxes consists of the following:

	Years ended December 31,		
	2003	**2002**	**2001**
		(in thousands)	
Current tax expense:			
Federal income taxes	$ (318)	$	$

State income taxes	8	48	
Foreign income taxes		47	
Total current expense	(310)	95	
Deferred tax expense:			
Federal income taxes	(3,500)	(8,938)	(31,474)
State and local	(1,198)	(1,867)	(8,879)
Foreign income taxes			
Valuation allowance	4,697	10,805	51,378
Total deferred expense			11,025
Total (benefit)/provision	$ (310)	$ 95	$ 11,025

As a result of the Company s adoption of SFAS No. 133, the Company had recorded a $1,855 provision as part of its cumulative effect of change in accounting policy in 2001.

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The tax effects of the temporary differences that give rise to the deferred tax asset and liabilities at December 31, 2003 and December 31, 2002 were as follows:

	December 31, 2003		December 31, 2002	
	Assets	Liabilities	Assets	Liabilities
	(in thousands)			
Current:				
Bad debts	$ 337	$	$ 568	$
Employee benefits and compensation	107		72	
FAS 115				(46)
Total Current	444		640	(46)
Non-Current:				
Goodwill and other intangibles	9,122		9,332	
Net operating loss and credit carryforwards	54,914		47,125	
Fixed assets	738		1,092	
Accrual to cash		(62)		(200)
Other	1,808		1,528	
Prepaid advertising & restructuring	775		2,854	
Total non-current	67,357	(62)	61,931	(200)
Total deferred taxes before valuation allowance	67,801	(62)	62,571	(246)
Net deferreds before valuation allowance	67,739		62,325	
Valuation allowance	(67,739)		(62,325)	
Net deferred tax asset	$		$	

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some or all of the deferred tax asset will not be realized. The Company believes that sufficient uncertainty exists regarding the realizability of the deferred tax assets such that a valuation allowance of $67,739,000 and $62,325,000 for December 31, 2003 and 2002, respectively, has been established for deferred tax assets.

As of December 31, 2003, the Company has net operating loss carryforwards for federal and state tax purposes of approximately $123,063,000 and $136,590,000, respectively. The federal net operating loss carryforwards will begin to expire in 2012 and the state net operating loss carryforwards began to expire in 2002.

Switchboard is not a member in the Company s consolidated federal income tax return because they are less than 80% owned by vote and value. As of December 31, 2003, Switchboard has net operating loss carryforwards for federal and state tax purposes of approximately $87,735,000 and $87,726,000, respectively.

As of December 31, 2003, ePresence has net operating loss carryforwards for federal and state tax purposes of approximately $35,328,000 and 48,864,000, respectively from its services business.

Ownership changes resulting in the Company s issuance of capital stock may limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. The amount of the annual limitation is determined based upon the Company s value immediately prior to the ownership change. Subsequent significant changes in ownership could further affect the limitation in the future.

A reconciliation of the Federal statutory tax rate to the Company s effective income tax rate is as follows:

	2003	2002	2001
Tax at statutory rate	(35.0%)	(35.0%)	(35.0%)
State Income Taxes, net of U.S. federal benefit	(4.7)	(4.0)	(17.6)
Non-Deductible Goodwill Amortization		6.0	6.7
Minority Interest	2.3	(2.1)	(37.9)
Foreign Losses not benefited		(0.5)	(3.8)
Other	0.5	(0.1)	1.6
Valuation Allowance			51.3
Losses not benefited	34.7	36.0	68.4
Effective Rate	(2.2%)	0.3%	33.7%

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NOTE 20. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is based upon the weighted average number of common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding stock options and warrants, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. Potential common shares also include the unvested portion of restricted stock.

Options to purchase 4,779,000, 5,063,000 and 5,085,000 shares of common stock outstanding during the years ended December 31, 2003, 2002 and 2001, respectively, were excluded from the calculation of diluted earnings per share, as their effect would have been antidilutive.

NOTE 21. SEGMENT INFORMATION

As described in Note 1. Nature of Business, the Company has two reportable segments: Services and Switchboard. Significant financial information relative to the Company s reportable segments is as follows:

	Years Ended December 31,		
	2003	2002	2001
		(in thousands)	
Services:			
Revenues	$ 16,547	$ 32,077	$ 51,711
Cost of Revenues	11,718	21,649	35,777
Gross Profit	4,829	10,428	15,934
Operating Expenses:			
Sales and marketing	6,035	10,329	17,706
General and administrative	8,658	11,078	15,011
Amortization of goodwill and intangibles			2,668
Termination of vendor relationship	6,500		
Impairment of goodwill			