ACTUATE CORP
Form 10-K
March 16, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-24607

Actuate Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-3193197**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

701 Gateway Boulevard

South San Francisco, California 94080

(Address of principal executive offices)

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(650) 837-2000

(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, $.001 par value

(Title of each class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 Rule 12b-2 of the Exchange Act).

Yes x No ¨

Based on the closing price as reported on the Nasdaq Stock Market as of the last business day of the Registrant s most recently completed second fiscal quarter (June 30, 2004), the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $150,256,000. Shares of common stock held by each executive officer and director and by each person who is known by the registrant to own 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. Share ownership information of certain persons known by the Company to own greater than 5% of the outstanding common stock for purposes of the preceding calculation is based solely on information on Schedule 13G filed with the Commission. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2005 there were 61,964,776 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to specified portions of the registrant s definitive Proxy Statement for its 2005 Annual Meeting of Stockholders, which is expected to be filed with the Securities and Exchange Commission not later than 120 days after the Registrant s fiscal year ended December 31, 2004.

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ACTUATE CORPORATION

Annual Report on Form 10-K

for the fiscal year ended December 31, 2004

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this report on Form 10-K under Business, Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors That May Affect Future Results, and elsewhere constitute forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. Forward-looking statements include statements regarding Actuate s expectations, beliefs, hopes, intentions or strategies regarding the future. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievement to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, those listed under Risk Factors That May Affect Future Results and elsewhere in this Report on Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements contained in this Report on Form 10-K after the date hereof or to conform such statements to actual results. Readers are cautioned not to place undue reliance on forward-looking statements and should carefully review the risk factors described in other documents Actuate files from time to time with the Securities and Exchange Commission, including Quarterly Reports on Form 10-Q to be filed by Actuate during 2005.

PART I

ITEM 1. BUSINESS

Overview

Actuate Corporation (We , Actuate or the Company) provides an Enterprise Reporting Application Platform, a unified software platform that enables large organizations and packaged application software vendors to develop and deploy self-service, customer and employee-facing Enterprise Reporting Applications. Enterprise Reporting Applications are intuitive, Web portal-like reporting applications that empower 100% of users with decision-making information. The application experience is designed to fit seamlessly into the way in which individuals work, providing a readily accessible way for users to receive highly relevant information that is usable, dependable, and timely. Enterprise Reporting Applications allow organizations to gain real-time operational visibility, improve customer profitability, and distribute accountability throughout the organization. Our goal is to ensure that 100% of users adopt decision-making information into their day-to-day activities, opening up completely new avenues for improving corporate performance. With 100% user adoption of information, organizations can more easily grow revenues, improve service quality, control expenses, meet regulatory requirements, and increase efficiency.

Our Actuate 8 product line provides a platform upon which Global 9000 organizations (companies with annual revenues greater than $1 billion) and packaged application software vendors develop and deploy mission-critical Enterprise Reporting Applications. Such Applications retrieve business information from corporate databases and deliver it as interactive Web pages, Excel spreadsheets, and analytic cubes to customers, partners and employees around the globe. Our products and services are used by our customers to develop and deploy Enterprise Reporting Applications across a range of business functions including financial management, sales management, account management, and customer self-service. Actuate 8 is a comprehensive platform that can be seamlessly integrated into any enterprise IT infrastructure and consists of a highly scalable and reliable Enterprise Reporting server and a robust development environment for building Enterprise Reporting Applications of any scale. Actuate 8 s powerful development architecture allows developers to create content from virtually any data source and present it in virtually any format required by users.

Actuate was incorporated in November 1993 in the State of California and reincorporated in the State of Delaware in July 1998. Actuate s principal executive offices are located at 701 Gateway Boulevard, South San

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Francisco, California. Actuate s telephone number is 650-837-2000. Actuate maintains a Web site at www.actuate.com. The information posted on the Web site is not incorporated into this Annual Report.

Industry Background

The emergence and acceptance of as well as the dependence on the Internet have fundamentally changed the way that consumers and businesses communicate, obtain information, purchase goods and transact business. Through the frequent and widespread usage of the Internet, users have developed a new set of expectations for accessing relevant and timely information.

While these new user expectations have been developing, organizations have been striving to improve corporate performance. A common strategy for improving performance has been to better leverage the information captured by applications that have been implemented to manage business process such as sales, service, finance, manufacturing and human resources. Organizations have been seeking to use the captured data to make informed decisions regarding both day-to-day operations and high-level strategies. These efforts have been largely unsuccessful due to the disruptive nature of traditional business intelligence tools used to access and analyze this data. Because these tools demand that users invest time and effort in learning new interfaces, user adoption has been low, and as a consequence, use of decision-making information throughout the organization has been limited.

In order to achieve 100% user adoption of decision-making information, and reap the resulting benefits in corporate performance, organizations are turning to developing and deploying Enterprise Reporting Applications. These Enterprise Reporting Applications eliminate the traditional obstacles to user adoption by providing decision-making information through intuitive, Web portal-like interfaces that satisfy new user expectations for information accessibility and relevance.

The Actuate Solution

Actuate 8 is a unified software platform for developing and deploying Enterprise Reporting Applications. The platform features a development architecture that is flexible enough to meet every user requirement for intuitively accessible and personalized information. Actuate 8 provides the industry s first real-time Enterprise Reporting Application Platform with integrated Enterprise Information Integration (EII) for developing and deploying Enterprise Reporting Applications. Actuate 8 features a deployment architecture that is scalable enough to serve 100% of the user population throughout the enterprise and beyond. Actuate s Enterprise Reporting Application Platform consists of:

- A set of products that provide Web pages, Microsoft Excel spreadsheets, and analytic cubes to present users with an intuitive, Web-portal like experience for accessing and interacting with decision-making information (e.Report Option, e.Report Designer, e.Spreadsheet Option, e.Spreadsheet Designer, e.Analysis Option, Actuate Query, and Actuate Analytics Option);
- A comprehensive development environment to build, integrate, and maintain the core data access and reporting infrastructure of Enterprise Reporting Applications (e.Report Designer Professional, e.Spreadsheet Designer, Information Object Designer, and Analytics Designer); and

A unified metadata layer, which improves the overall accuracy of information analysis and is accessible by all products within Actuate s Platform.

Actuate 8 s key benefits include:

Increased user satisfaction and reduced support and training costs due to a zero-training analysis and reporting experience for users that leverages their existing expertise and skill sets;

Reduced hardware and maintenance costs for serving the information needs of large numbers of users due to a highly scalable information server;

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Flexibility to meet all user requirements through powerful, programmatically extensible tools for developers;

Reduced development and maintenance costs due to a true, object-oriented development framework;

Flexibility to integrate with any software infrastructure through a complete Web services application programming interface;

Operational visibility that is dramatically improved through an EII option that supports the real-time integration of disparate data sources including ERP and CRM applications, data warehouses, legacy systems and other XML-based data sources;

Information Objects that present a sharable, reusable business-friendly data abstraction layer that allows IT to quickly create complex distributed queries that deliver operational information in real-time to all users across the enterprise;

New adoption monitoring capabilities that track usage of the system and enable customers to monitor progress towards 100% user adoption of their Enterprise Reporting Applications and identify the reports and analyses that are most and least useful to users;

e.Spreadsheet Cell Locking capability that enables companies to distribute live spreadsheets containing formulas and graphs that enable immediate what-if analysis while also protecting specified cells against alteration; and

e.Spreadsheet Matrix Script functionality that allows companies to easily generate live Excel spreadsheet reports that display hierarchical performance data based on any dimension, including geography, organizational structure, time or any other arbitrary dimensions specific to a business. It also enables the creation of spreadsheet reports that dynamically adjust based on the value of key metrics, providing users with immediate visibility into information that requires their attention,

Strategy

Our strategy is to be the leading provider of Enterprise Reporting solutions. Key elements of our strategy include:

Expand Market Leadership Position through Strategic Relationships. We believe that we have established a leading position in the market for Enterprise Reporting Applications. To accelerate the adoption of Actuate 8 as the standard Enterprise Reporting Application platform for Global 9000 companies, we have established strategic relationships with leading software application vendors, systems integrators, consulting firms and development partners. We intend to further develop our existing strategic relationships and enter into new partnerships to expand our market presence and leadership.

Extend Technology Leadership. Since inception, we have focused our research and development efforts on developing core technologies that address the requirements of developing and deploying Enterprise Reporting Applications. Our products integrate a number of advanced technologies, including a patented method of providing page level security in a report, LDAP integration, advanced viewing technology incorporating Java, PDF, DHTML, Unicode, XML, and Web services, a patented method of storing report objects, a multi-tier architecture, Web access and delivery technology, EII data access technology and patent-pending spreadsheet technology. In addition, we have in the past rapidly incorporated new technology into our product offerings. We believe that we provide a leading Enterprise Reporting Application Platform technology and we intend to extend this leadership position by continuing to devote significant resources to research and development efforts, and by acquiring and integrating complementary technologies.

Broaden Distribution Channels. To date, our products have been sold worldwide by our direct sales force and through our software application vendors, original equipment manufacturers (OEMs), resellers, and systems integrators. In the future, we intend to expand our direct sales force and telesales capability. In addition, we intend to continue to leverage and grow our existing network of OEMs, systems integrators, and resellers and expand our indirect distribution channel worldwide.

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Focus on Key Application Areas. Our technology is uniquely suited to meet customer requirements for Enterprise Reporting Applications for specific business functions such as financial management, customer self-service, sales management and account management. We intend to create a special focus on these areas within our sales and marketing functions as well as provide more complete customer solutions through targeted partnering and technology development.

Leverage e.Services Capabilities. We have established successful relationships with our customers by serving as an advisor in developing and deploying Enterprise Reporting Applications. We are extending our direct e.Services capabilities to provide an expanded set of services to address areas such as Enterprise Reporting Application development strategy, project management, security integration and application design. In addition, we offer similar high-quality professional services capabilities through third-party alliances and are currently focused on the development of relationships with global and national systems integrators. By offering our clients a full range of e.Services on a global basis, we believe that we can broaden market awareness about the advantages of our Enterprise Reporting Application platform and create opportunities to sell new or additional products to clients.

Increase International Presence. We plan to increase our international operations. Outside North America, we have established subsidiaries in a number of countries and have reseller relationships throughout Europe, and the Asia/Pacific region. We have localized versions of our products in French, German, Spanish, and Japanese and we also support Chinese, Korean, and right-to-left reporting. We intend to expand our international operations by increasing our international sales force, expanding our indirect distribution channels worldwide and by continuing the localization of our products in selected markets.

Products and Technology

Actuate 8 is a unified software platform for developing and deploying Enterprise Reporting Applications. Enterprise Reporting Applications provide decision-making information with the simplicity, consistency, and relevance necessary for adoption by 100% of users, both inside and outside the firewall. In the case of direct sales to end user customers, our products have been typically priced on either a per CPU basis or on a per named user basis. Our development products are typically priced on a per named user basis. Indirect sales are usually either fixed price, unlimited usage arrangements, or arrangements where royalties are paid to us based on sell through to end-users.

The following table sets forth the primary products that comprise Actuate 8:

Actuate Products	Product Description
Actuate iServer	Scalable information server for generating, managing, and securely delivering reporting and analytic content that is adopted by 100% of an organization s users.
Actuate Query Option	Web-based query tool for end-users of all levels of computing sophistication.
Actuate Analytics Option	Server option that provides Web-based Online Analytical Processing (OLAP) capabilities to power users, business analysts, and management.
Actuate Data Integration Option	Server option licenses Information Objects deployed on the server to combine data from two or more disparate data sources.
Actuate e.Report Option	Server option for generating enterprise reports for employees, customers, and business partners in browser-based Web formats.

Actuate e.Spreadsheet Option	Server option for generating, managing, and distributing critical business information over the Internet in easy-to-use and intuitive desktop spreadsheets.

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Actuate Products	Product Description
Actuate e.Analysis Option	Server option that delivers to users browser-based, interactive analysis of report data without requiring any configuration or warehousing of application data.
Actuate Page Level Security Option	This server option allows users to view reports using page-level security.
Actuate Analytics Cube Designer	Enables IT to control access to the data and define the structure of each cube delivered by the Actuate iServer. Additionally, enables IT to blend Analytics seamlessly into existing Enterprise Reporting Applications and provide a branded, personalized end-user experience that requires almost no training.
Actuate e.Report Designer Professional	Provides a comprehensive, object-oriented environment for professional developers to create tightly integrated, highly flexible enterprise reports for any Web-enabled application.
Actuate e.Report Designer	Wizard-driven development tool that enables Web developers to rapidly publish database information to the Web in the form of embedded, actionable reports.
Actuate e.Spreadsheet Designer	Development environment for creating flexible and customizable Excel-based spreadsheet reports.
Information Object Designer	Development environment that enables professional developers to create controlled views of enterprise data for end-user querying. Additionally, enables the creation of Information Objects that pull and integrate real-time data from any number of heterogeneous data sources.
Formula One e.Spreadsheet Engine	Provides an API-driven component that Java developers use to embed Excel reporting functionality into projects deployed from J2EE application and Web servers.
Formula One e.Report Engine	100% pure Java tool for extracting, formatting, and delivering data from a variety of data sources including Java objects inside applications, databases, Enterprise JavaBeans, and text files.
Formula One Active X component	Provides an API-driven, Excel-compatible spreadsheet component for building Windows applications in visual development environments such as Visual Basic and Visual C++.

Eclipse Business Intelligence and Reporting Tools Project

Actuate joined the Eclipse Foundation, a community committed to the implementation of a universal platform for tools integration, as strategic developer and board member in August 2004. Actuate proposed a Business Intelligence and Reporting Tools (BIRT) project to the Eclipse open-source community for review at the same time. The Eclipse Foundation approved the project in September. Actuate is stewarding development of BIRT, which is expected to culminate in the industry s first open Business Intelligence and Reporting platform in the first half of 2005.

Customers

Our customers operate in a wide variety of industries, including financial services, government, health care, manufacturing, pharmaceuticals, telecommunications, high technology, utilities, automotive, education, entertainment, travel, retail and others. International sales accounted for 21%, 18% and 23% of our total revenues in 2004, 2003 and 2002, respectively.

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Sales

We sell our software and services worldwide through two primary means: (i) directly to corporate and government customers through our direct sales force and (ii) through indirect channel partners such as OEMs, systems integrators, and resellers.

Direct Sales Organization. Our direct sales force focuses its sales efforts primarily on Global 9000 companies. The direct sales process involves the generation of sales leads through Web-based marketing, direct mail, seminars and telemarketing. As part of the direct sales effort, our field sales force typically conducts demonstrations and presentations of our products to developers and managers at customer sites. Our telesales force conducts demonstrations via the Web and sells our products to new and existing customers over the phone. We maintain sales offices in a number of locations throughout North America, Europe and Asia/Pacific.

OEM Sales Organization. We have a separate sales force that addresses the OEM market. Our OEMs integrate our products with their applications and either resell or provide them in hosted environments to their customers. The OEM s end-user customer is licensed to use our products solely in conjunction with the vendor s application with which our products are integrated.

Systems Integrators. We have a business development group that focuses on establishing and maintaining relationships with systems integrators. Systems integrators typically re-market our products to their customer base as part of a software application being built for a customer. Systems integrators are offered discounts on our products and sell a full use license of the product. Our systems integrators do not provide post-sales support.

Resellers. Resellers are typically given the non-exclusive right to market our software in a specific territory and are offered discounts on our products. Resellers typically provide customers with some post-sales support and services.

Marketing

Our marketing organization is focused on generating leads, building market awareness and promoting acceptance of our Company and our products, as well as on developing strategic marketing, technology and other relationships. We have a comprehensive marketing strategy with several key components: image, awareness and credibility building, direct marketing to both prospective and existing customers, a strong Web presence, comprehensive sales support materials as well as broad-scale marketing programs in conjunction with key partners. Our corporate marketing strategy includes print advertising, public relations activities, trade shows and user group meetings. We also engage in programs to work closely with industry analysts and other influential third parties. Our direct marketing activities include extensive Web-based marketing campaigns, participation in selected trade shows and conferences and targeted ongoing direct mail and email efforts to existing and prospective customers. We also offer seminars, both in-person and over the Web, to educate prospective customers about our Enterprise Reporting Application platform. Finally, we have invested in building a partner and channel marketing function to conduct cooperative marketing programs with our partners.

e.Services

Our e.Services organization provides high value consulting services to customers developing and deploying Enterprise Reporting Applications with our products. These services include Enterprise Reporting Application development strategy, project management, security integration and application design. We also actively recruit and train third party consulting firms to provide consulting services for our products. Due to the critical nature of Enterprise Reporting Applications, we believe that our e.Services group and relationships with our consulting partners play a key role in facilitating initial license sales and enabling customers to successfully develop and deploy Actuate-based applications. In addition, we offer, directly and through our network of certified training partners, classes and training programs for our products.

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Customer Service

We believe that providing superior customer service is critical to successfully selling and marketing our products. Our maintenance and support contracts are typically for 12 months, and may be renewed annually. Maintenance fees are typically set at either a percentage of the total license fees paid by a customer or a percentage of the list price of the underlying products. Maintenance and support contracts entitle the customer to receive software patches, updates and enhancements, when and if available. Customers purchasing maintenance are able to access Actuate s local support centers located in the United States, Singapore, Switzerland and the United Kingdom via email and telephone during normal business hours. We supplement our telephone support with Web-based support services, including access to cases, resolutions, online Web forums and a software patch download area. We also offer an extended maintenance plan that gives our customers access to 24x7 support and additional support services. To improve access to our explanatory materials, we provide online documentation with all of our products.

Research and Development

Our research and development organization is divided into groups consisting of product managers, development engineers, quality assurance engineers, technical writers and developer communications personnel. Our development process begins with requirement specification, followed by functional and technical design, and concludes with implementation. Requirements are based on the needs of customers and prospects, as well as competitive, technological and industry factors. Our development group uses detailed processes and frequent milestones during the functional and technical design phases. During implementation, the product is built and tested daily and our quality assurance group verifies that functionality, quality and performance criteria are met. We have development centers located in South San Francisco, CA, Overland Park, KS, and Shanghai, China.

Research and development expenses were $19.8 million, $18.7 million and $18.6 million in fiscal years 2004, 2003 and 2002, respectively. We intend to continue to make substantial investments in research and development and related activities to maintain and enhance our product lines. We believe that our future success will depend on our ability to create products that directly address our customers needs, are of high quality, and leverage the latest technological innovations. These products must also support current and future releases of popular operating systems platforms, development languages, databases, Internet standards, and enterprise software applications. We intend to maintain and improve our current product line and to timely develop or acquire new products. Our ability to achieve future revenue growth will depend in large part on the market acceptance of our current and future products.

Competition

Our market is intensely competitive and characterized by rapidly changing technology, evolving standards and new product releases by our competitors that are marketed to compete directly with our products. Our competition comes in four principal forms:

- Competition from current or future business intelligence software vendors such as Business Objects, Cognos, Hyperion, Information Builders and MicroStrategy, which offer enterprise reporting products;

- Competition from other large software vendors such as Microsoft, Oracle and SAP, to the extent they include reporting functionality with their applications or databases;

Competition from other software vendors and software development tool vendors; and

Competition from the IT departments of current or potential customers that may develop scalable Enterprise Reporting Applications internally, which may be cheaper and more customized than our products.

Most of our current and potential competitors have significantly greater financial, technical, marketing and other resources than we do. These competitors may be able to respond more quickly to new or emerging

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technologies and changes in customer requirements or devote greater resources to the development, promotion and sales of their products than we may. Also, most current and potential competitors have greater name recognition and the ability to leverage a significant installed customer base. These companies have released and can continue to release competing enterprise reporting software products or significantly increase the functionality of their existing reporting software products. We expect additional competition as other established and emerging companies enter the Enterprise Reporting Application market and new products and technologies are introduced.

Intellectual Property Rights

We rely primarily on a combination of copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technology. For example, we license our software pursuant to shrink/click-wrap or signed license agreements that impose certain restrictions on licensees ability to utilize the software. In addition, we take precautions to avoid disclosure of our intellectual property. These precautions include requiring those persons with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code. We seek to protect our software, documentation, and other written materials under trade secret and copyright laws, which afford only limited protection. We also have a small number of issued and pending U.S. patents expiring at varying times ranging from 2015 to 2019. The expiration of any such patents would not have a material effect on our business.

Employees

As of December 31, 2004, we had 480 full-time employees, including 151 in sales and marketing, 126 in research and development, 121 in services and support, and 82 in general and administrative functions. None of our employees are represented by a collective bargaining agreement, nor have we experienced a work stoppage. We believe our employee relations are good. We also believe that our future success will depend in large part upon our continuing ability to attract and retain highly skilled managerial, sales, marketing, customer support and research and development personnel and, in particular, executive officers.

Actuate Executive Officers

Actuate s executive officers as of February 10, 2005 are as follows:

Name	Offices
Nicolas C. Nierenberg	Chairman of the Board and Chief Architect
Peter I. Cittadini	Director, President and Chief Executive Officer
Daniel A. Gaudreau	Senior Vice President, Finance and Administration and Chief Financial Officer
Mark A. Coggins	Senior Vice President, Engineering
Thomas P. Ryan	Senior Vice President, Customer Service and Chief Information Officer
Ilene M. Vogt	Senior Vice President, Worldwide Operations
N. Nobby Akiha	Vice President, Marketing

Philip R. Strauss	General Counsel and Vice President, Corporate Development

Nicolas C. Nierenberg, 48, has been Chairman of the Board of Directors since he co-founded Actuate in November 1993 and became our Chief Architect in August 2000. Mr. Nierenberg was also Chief Executive Officer of Actuate from November 1993 until August 2000 and President from November 1993 until October 1998. Prior to founding Actuate, from April 1993 to November 1993, Mr. Nierenberg worked as a consultant for Accel Partners, a venture capital firm, evaluating investment opportunities in the enterprise software market. Mr. Nierenberg co-founded Unify Corporation, which develops and markets relational database development

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tools. Mr. Nierenberg held a number of positions at Unify including, Chairman of the Board of Directors, Chief Executive Officer, President, Vice President, Engineering and Chief Technical Officer. Mr. Nierenberg is currently a director for AwarePoint, a privately held software company, and is a member of the board of trustees for The Burnham Institute, a non-profit organization.

Peter I. Cittadini, 49, has been Chief Executive Officer of Actuate since August 2000 and has been the President of Actuate since October 1998. Mr. Cittadini was also Actuate s Chief Operating Officer from October 1998 until August 2000 and served as Actuate s Executive Vice President from January 1995 to October 1998. From 1992 to 1995, Mr. Cittadini held a number of positions at Interleaf, Inc., an enterprise software publishing company, including Senior Vice President of Worldwide Operations responsible for worldwide sales, marketing, customer support and services. From 1985 to 1991, Mr. Cittadini held a number of positions at Oracle Corporation, including Vice President, Northeast Division.

Daniel A. Gaudreau, 57, has been Senior Vice President, Finance and Administration and Chief Financial Officer since January 1999 and served as Vice President, Finance and Administration and Chief Financial Officer from February 1997 to January 1999. From January 1994 to February 1997, Mr. Gaudreau served as Vice President, Finance and Chief Financial Officer of Plantronics, Inc., a publicly traded telephone headset manufacturing company, where he was responsible for all financial and administrative operations. From January 1990 to January 1994, Mr. Gaudreau was Vice President, Finance and Chief Financial Officer at Ready Systems, an operating systems software company. Prior to that, Mr. Gaudreau spent two years at Apple Computer as the Controller of Fremont Manufacturing Operations, prior to which he spent 18 years at General Electric where he held various financial management positions. Mr. Gaudreau currently serves as a Director of BiTMICRO Networks, a privately held manufacturer of solid state storage devices.

Mark A. Coggins, 48, has been Senior Vice President, Engineering since October 2003. From May 2001 to April 2003, Mr. Coggins was Vice President, Engineeering at Verisign, a publicly traded security software company. From January 1999 to April 2001, Mr. Coggins was Vice President, Products at ShortCycles, a CRM software company. Prior to that, Mr. Coggins held positions in engineering and marketing management at Netscape Communications, Interactive Development Environments and Hewlett Packard.

Thomas P. Ryan, 44, has been Senior Vice President, Customer Service and Chief Information Officer since January 2002 and served as Vice President and Director, Customer Service from August 1997 to December 2001. From June 1996 to July 1997, Mr. Ryan was a senior manager in the advanced support group at Informix. Prior to that, Mr. Ryan held various management positions at Illustra, Oracle Corporation and Amdahl.

Ilene M. Vogt, 46, has been Senior Vice President, Worldwide Operations since July 2002 and served as Senior Vice President and Vice President, North American Operations and Director, Western Region Sales from March 1995 to June 2002. From July 1991 to February 1995, Ms. Vogt was a Sales Manager for Interleaf, Inc.

N. Nobby Akiha, 47, has been Vice President, Marketing since August 2000. From August 1994 to July 2000, Mr. Akiha was Vice President, Marketing and Business Development at Inference Corporation. From October 1993 to July 1994, Mr. Akiha was a Senior Consultant at Regis McKenna, Inc. Prior to that, Mr. Akiha was Director of Marketing Communications at Interactive Development Environments and a Group Product Manager at Oracle Corporation.

Philip R. Strauss, 36, has been General Counsel and Vice President, Corporate Development since January 2005. Mr. Strauss was formerly Vice President and General Counsel of Brio Software (2000 to 2003), held positions as Corporate Counsel at Adobe Systems (2004 to 2005), Senior

Counsel at Hyperion Solutions (2003) and was an associate in the law firms Shearman & Sterling LLP and Jones Day. Mr. Strauss is currently a director of Data Beacon, a private software company.

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Website Access to Actuate s Reports

Our annual reports 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 Securities and Exchange Act of 1934, as amended, are available free of charge through our Website at www.actuate.com as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

ITEM 2. PROPERTIES

Actuate s properties consist of leased facilities for sales and marketing, research and development, services and support and administrative personnel. Actuate s headquarters facilities consist of approximately 124,000 square feet in South San Francisco, California, of which approximately 50,000 square feet have been subleased. This facility lease is through April of 2011. Actuate also leases office facilities in various locations in the United States and abroad.

We believe that our existing facilities are adequate for our current needs and that additional space sufficient to meet our needs for the foreseeable future will be available on reasonable terms. As a result of our California facilities being located near major earthquake fault lines, in the event of an earthquake our business, financial condition and operating results could be seriously harmed. In addition, California has in the past experienced energy power shortages. If future power shortages result in numerous or prolonged brownouts or blackouts, our business, financial condition and operating results could be seriously harmed. All facilities are leased under operating leases.

ITEM 3. LEGAL PROCEEDINGS

We are engaged in certain legal actions arising in the ordinary course of business. Although there can be no assurance as to the outcome of such litigation, we believe we have adequate legal defenses and we believe that the ultimate outcome of any of these actions will not have a material effect on our financial position or results of operations.

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

We did not submit any matters to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2004.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTER AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq National Market under the symbol ACTU and has been traded on Nasdaq since Actuate s initial public offering in 1998. The following table sets forth the high and low closing sales prices of our common stock during the last two years:

	High	Low
First Quarter of Fiscal 2003	$ 2.90	$ 1.25
Second Quarter of Fiscal 2003	$ 3.15	$ 1.33
Third Quarter of Fiscal 2003	$ 3.77	$ 2.50
Fourth Quarter of Fiscal 2003	$ 4.21	$ 2.69
First Quarter of Fiscal 2004	$ 3.80	$ 2.70
Second Quarter of Fiscal 2004	$ 4.09	$ 2.96
Third Quarter of Fiscal 2004	$ 3.92	$ 2.96
Fourth Quarter of Fiscal 2004	$ 3.59	$ 2.37

According to the records of Actuate s transfer agent, as of January 31, 2005, Actuate had 137 stockholders of record (which number does not include the number of stockholders whose shares are held by a brokerage house or clearing agency, but does include, as one record holder each such brokerage house or clearing agency). We believe we had approximately 7,000 beneficial owners of our common stock. On January 31, 2005, the closing price of our common stock was $2.53 per share.

We have never paid a cash dividend on our common stock and do not intend to pay cash dividends on our common stock in the foreseeable future.

Equity Compensation Plan Information

Information about our equity compensation plans at December 31, 2004, that were either approved or not approved by stockholders was as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of available securities remaining for future issuance

Equity compensation plans approved by stockholders (1)	17,609,896	$ 2.97	9,919,240
Equity compensation plans not approved by stockholders (2)	1,469,237	$ 2.02	619,110
Total	19,079,133	$ 2.90	10,538,350

(1) Consists of five plans: our 1998 Equity Incentive Plan, Tidestone 1998 Incentive Stock Option Plan, Tidestone Non-Qualified Stock Option Plan of 1999, 1998 Non-Employee Directors Option Plan, and the 1998 Employee Stock Purchase Plan.

(2) Consists of one plan: our 2001 Supplemental Stock Option Plan. See Note 9 of the Notes to Consolidated Financial Statements.

Issuer Purchases of Equity Securities

Pursuant to the stock repurchase program announced in September 2001, Actuate s Board of Directors has authorized, on an on-going basis, the repurchase of up to $1.5 million of Actuate common stock each calendar quarter. The Board of Directors had suspended the repurchase program for the fourth quarter of 2004, so we did not repurchase any shares in this quarter. However, the program was reinstated in the first quarter of fiscal year 2004. We repurchased approximately $1.5 million of Actuate stock during the first quarter of fiscal year 2005.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and with the Consolidated Financial Statements and Notes thereto that are included elsewhere in this Form 10-K. The consolidated statements of operations data for the years ended December 31, 2004, 2003 and 2002 and the consolidated balance sheets data at December 31, 2004 and 2003 are derived from the audited consolidated financial statements included elsewhere in this Form 10-K. The consolidated statements of operations data for the year ended December 31, 2001 and 2000 and the consolidated balance sheets data as of December 31, 2002, 2001 and 2000 are derived from audited consolidated financial statements that are not included in this Form 10-K. Historical results are not necessarily indicative of results to be anticipated in the future.

	Year ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues:					
License fees	$ 42,703	$ 47,598	$ 58,280	$ 79,106	$ 72,286
Services	61,954	56,857	50,884	48,100	36,474
Total revenues	104,657	104,455	109,164	127,206	108,760
Costs and expenses:					
Cost of license fees	3,417	3,140	2,824	2,305	1,959
Cost of services	24,763	23,648	23,936	29,702	22,471
Sales and marketing	41,296	45,769	46,550	58,859	48,133
Research and development	19,847	18,732	18,576	19,011	14,938
General and administrative	10,856	12,220	12,724	10,853	7,015
Amortization of goodwill (in 2001 & 2000 only) and other intangibles	1,110	2,021	3,082	10,704	7,147
Purchased in-process research and development		600			
Restructuring charges	2,006		27,136	859	
Total costs and expenses	103,295	106,130	134,828	132,293	101,663
Income (loss) from operations	1,362	(1,675)	(25,664)	(5,087)	7,097
Interest and other income, net	822	720	769	1,148	891
Income (loss) before income taxes	2,184	(955)	(24,895)	(3,939)	7,988
Provision for income taxes	886	3,542	576	2,478	2,589
Net income (loss)	$ 1,298	$ (4,497)	$ (25,471)	$ (6,417)	$ 5,399
Basic net income (loss) per share (1)	$ 0.02	$ (0.07)	$ (0.42)	$ (0.11)	$ 0.10
Shares used in basic per share calculation (1)	61,577	60,766	60,141	59,299	56,114
Diluted net income (loss) per share (1)	$ 0.02	$ (0.07)	$ (0.42)	$ (0.11)	$ 0.08

Shares used in diluted per share calculation (1)	65,202	60,766	60,141	59,299	64,483

	December 31,				
	2004	2003	2002	2001	2000
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 47,273	$ 45,439	$ 44,867	$ 39,807	$ 26,928
Working capital	28,922	27,085	29,874	28,143	23,237
Total assets	105,455	101,406	108,436	117,391	98,322
Long-term liabilities, less current portion	12,885	15,453	17,754	2,080	2,182
Stockholders equity	46,945	45,181	48,423	71,077	56,977

(1) See Note 1 of Notes to the Consolidated Financial Statements for an explanation of the method used to determine the number of shares used in computing net income (loss) per share.

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

The statements contained in this Report on Form 10-K that are not purely historical statements are forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. See Risk Factors that May Affect Future Results and Special Note Regarding Forward-Looking Statements in this Report on Form 10-K and the risks discussed in other reports filed by us from time to time with the Securities and Exchange Commission.

Overview

We are a leading provider of an Enterprise Reporting Application Platform, a unified software platform that enables large organizations and packaged application software vendors to develop and deploy self-service, customer and employee-facing Enterprise Reporting Applications. Enterprise Reporting Applications are intuitive, Web portal-like reporting applications that empower 100% of users with decision-making information. Our Actuate 8 product line provides a platform upon which Global 9000 organizations (companies with annual revenues greater than $1 billion) and packaged application software vendors develop and deploy mission-critical Enterprise Reporting Applications. These applications retrieve business information from corporate databases and deliver it as interactive Web pages, Excel spreadsheets, and analytic cubes to customers, partners and employees around the globe. Our products and services are used by our customers to develop and deploy Enterprise Reporting Applications across a range of business functions including financial management, sales management, account management, and customer self-service.

We began shipping our first product in January 1996. We sell software products through two primary means: (i) directly to end-user customers through our direct sales force and (ii) through indirect channel partners such as OEMs, resellers and system integrators. OEMs generally integrate our products with their applications and either provide hosting services or resell them with their products. Our other indirect channel partners resell our software products to end-user customers. Our revenues are derived from license fees for software products and fees for services relating to such products, including software maintenance and support, consulting and training.

Our total revenues for fiscal year 2004 were $104.7 million, which were consistent with our prior fiscal year revenues of $104.5 million. License revenues decreased by 10% from $47.6 million in fiscal 2003 to $42.7 million in fiscal year 2004. The decrease in license revenues was more than offset by growth in services revenues, which grew approximately 9% from $56.9 million in fiscal 2003 to $62.0 million in fiscal year 2004. This growth was primarily due to increases in maintenance pricing and the installed base of customers receiving ongoing maintenance and support.

For fiscal year 2004, net income was $1.3 million or $.02 per diluted share compared with a net loss of $4.5 million or $0.07 per share in fiscal year 2003. The improvement in profitability was due to lower expenses in fiscal year 2004 compared to fiscal year 2003. In fiscal year 2004, provision for income taxes was $0.9 million compared to $3.5 million in fiscal year 2003. The $2.6 million decrease in the provision for income taxes was primarily due to a $3.0 million increase in the valuation allowance for deferred tax assets in fiscal year 2003 when we determined that such deferred tax assets were no longer more likely than not to be realized. From fiscal year 2003 to fiscal year 2004, total costs and expenses also decreased by $2.8 million. Various factors contributed to the decrease including a decline of approximately $2.0 million in legal fees associated with the Microstrategy litigation. The court ruled in favor of us regarding this matter in June 2004.

North American total revenues decreased by approximately 3% during the year from $85.0 million in fiscal year 2003 to $82.3 million in fiscal year 2004, while revenues from our international regions increased 15% from $19.4 million in fiscal year 2003 to $22.4 million in fiscal year 2004. To date, we have sold our products

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internationally primarily through our subsidiaries in Europe and Asia/Pacific. During fiscal year 2004, we derived 21% of our total revenues from sales outside of North America while 18% of our total revenues were derived from sales outside North America in fiscal year 2003.

During fiscal year 2004, three trends had a significant impact on our results of operations. First, as an enterprise software vendor, we experienced a weak corporate spending environment for enterprise reporting applications. We currently believe that corporate IT budgets will grow only modestly in 2005. Second, in 2004 we continued to witness corporations consolidating their business intelligence and enterprise reporting software purchases into fewer suppliers. Corporations were reluctant to buy software from new vendors. This impacted our ability to acquire as many new Global 9000 customers as planned. If this trend continues, it will impact our business in 2005. Finally, for the past several years, we experienced vigorous competition in the enterprise reporting market. The existence of this competitive environment required additional sales and marketing efforts to differentiate our products, which resulted in extended sales cycles. We believe that competition in the enterprise reporting market will be vigorous in 2005.

During 2004, we announced four strategic initiatives that we are undertaking to help improve the sale of our software products in the future. These initiatives are as follows:

Selling to IT Management We intend to re-focus our sales efforts on selling our products to IT managers who we believe generally recognize the technical advantages of our products. We hope this initiative will result in increased license revenue in the short term.

Solution Selling to Line-of-Business Management We are creating software solutions to market to-line-of-business managers. These solutions will initially be related to financial management and reporting. We hope this initiative will result in increased license revenue over the medium-to-long term.

Investing in the Business Intelligence Reporting Tool (BIRT) We are continuing to make a significant investment in creating a new open source code reporting tool, known as BIRT. We hope that BIRT will eventually become widely adopted by Java developers and will create demand for our other commercially available products. The BIRT project is a long-term initiative.

Selling to Global 9000 Corporations in the Financial Services Sector - We intend to continue focusing on selling our products to Global 9000 financial services companies in an effort to increase our substantive market share in this sector.

As of December 31, 2004, we had 480 full-time employees, a net decrease of 55 employees, or 10%, in our workforce reported as of December 31, 2003. During 2004, 53 positions were eliminated through our announced restructurings and the remaining positions were eliminated through attrition. We expect that there will be an additional 13 positions eliminated in fiscal year 2005 resulting from our restructuring announced in October 2004. Approximately 87% of the positions that were eliminated in fiscal year 2004 occurred in our sales and marketing group.

In the first quarter of 2004 we recognized $586,000 in severance, benefit and related legal costs when we initiated a restructuring of our French operations to size the operation to meet the expected business and economic environment for our products in France. This restructuring resulted in a workforce reduction of five people. In the fourth quarter of 2004, we implemented a second restructuring program. This was to further align our cost structure with future revenue expectations. We estimate that the restructuring plan will have eliminated approximately $10.0 million in operating costs annually. Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Therefore, only a portion of the costs associated with this restructuring are reflected in our results of operations for the fourth quarter of 2004. The total amount of these costs expensed during the quarter was approximately $1.4 million. We expect further additional residual costs associated with this restructuring will be incurred in the first quarter of fiscal year 2005.

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In March 2004, we introduced a new price list with added focus on licensing our server products based on the number of named users as opposed to the number of CPUs. This change was made to allow for a lower entry price point for new customers as well as to address the increases in the performance of individual CPU s and the scalability of our software. Under our new licensing model, our server products can either be licensed on a CPU basis or on a named user basis. These named user licenses are sold in predefined user blocks . In conjunction with the introduction of named user pricing, we also significantly increased the list price for our CPU-based licenses. As maintenance and support is often priced as a percentage of software list price, in such cases, our pricing for maintenance has also increased accordingly.

In the first quarter of fiscal year 2004, the company began the implementation of a new enterprise accounting system. In accordance with Statement of Position (SOP) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, all appropriate implementation costs are being capitalized from the beginning of the implementation project until the date in which the system is substantially complete. We activated the new accounting system in the third quarter of fiscal year 2004. However, we were still in the application development stage of the project and continue to incur significant costs to further modify the system through the first quarter of fiscal year 2005. Such costs continue to be capitalized in accordance with SOP No. 98-1 until the system is deemed to be substantially complete, which we expect to occur in the first quarter of fiscal year 2005. As of December 31, 2004, a total of $2.7 million has been capitalized under this project. The total capitalized costs of this project are being amortized over an estimated useful life of seven years. Amortization began upon activation of the new system in August of fiscal year 2004.

During 2004, we implemented new requirements under the Sarbanes-Oxley Act of 2002 and recently enacted rules of the SEC and Nasdaq. These efforts caused us to incur significant increased costs. In particular, the rules governing the standards that must be met for management to assess our internal controls over financial reporting under Section 404 are new and complex, and require significant documentation, testing and possible remediation. This ongoing process of reviewing, documenting and testing our internal controls over financial reporting has resulted in, and will likely continue to result in, a significant strain on our management, information systems and resources. Furthermore, achieving and maintaining compliance with the Sarbanes-Oxley Act of 2002 and other new rules and regulations has required us to hire additional personnel and has and will continue to require us to use additional outside legal, accounting and advisory services.

During the course of the audit of Actuate Corporation s 2004 financial statements, the Company identified a material weakness in internal controls over financial reporting related to an audit adjustment identified by our external auditors, KPMG LLP, relating to the restructuring charge incurred in the fourth quarter of 2004. Specifically, a decision was made to vacate a foreign facility and a liability aggregating $628,000 was recorded for costs to be incurred for its remaining term. However, as of December 31, 2004, we had not met all of the requirements under SFAS No. 146 to record this charge and, therefore, no liability should have been recorded. The liability is now expected to be recorded in the first quarter of 2005. The restructuring charge was corrected prior to completion of the audit and, as a result, this correction did not have any effect on reported year-end or previously reported financial results.

We have a limited ability to forecast future revenues and expenses, thus the prediction of future operating results is difficult and unreliable. In addition, historical growth rates in our revenues and earnings should not be considered indicative of future revenue or earnings growth rates or operating results. There can be no assurance that any of our business strategies will be successful or that we will be able to achieve and maintain profitability on a quarterly or annual basis. It is likely that in some future quarter our operating results will be below the expectations of public market analysts and investors, and in such event the price of our common stock could decline.

Critical Accounting Policies and Estimates

General. Discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally

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accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On a regular basis, we evaluate estimates, including those related to bad debts, income taxes, restructuring, and litigation. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenues in accordance with AICPA Statement of Position (SOP) 97-2 (SOP 97-2), *Software Revenue Recognition,* as amended and modified by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions.* However, certain judgments affect the application of our revenue recognition policy. For example, we are required to exercise judgment in evaluating risk of concession when payments terms extend beyond the normal credit period ranging between net 30 to 60 days. In certain circumstances, we may grant extended payment terms to our customers. If such extended terms cause us to believe that the underlying fees are no longer fixed or determinable, we may recognize license revenues as payments become due and payable. Further, assessment of collectibility is particularly critical in determining whether revenues should be recognized in the current market environment. We also record a small provision for estimated sales returns on product and service related sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data, and other known factors. If the historical data we use to calculate these estimates does not properly reflect future returns, revenues could be overstated. For multiple- element arrangements that include software products, we allocate and defer revenue for the undelivered elements based on their vendor-specific objective evidence (VSOE) of fair value, which is generally the price charged when that element is sold separately. We are required to exercise judgment in determining whether VSOE exists for each undelivered element.

We have analyzed all of the elements included in our multiple element arrangements and determined that we have sufficient VSOE of fair value to allocate revenue to the underlying elements. Accordingly, assuming all other revenue recognition criteria are met, we recognize revenue from perpetual license sales upon delivery using the residual method in accordance with SOP 98-9. We recognize associated maintenance revenue ratably over the maintenance term and revenue from consulting and other services as the related services are performed.

Allowance for Doubtful Accounts. The Company s accounts receivable is subject to collection risks. Our gross accounts receivable is reserved against this risk through an allowance for doubtful accounts. This allowance is for estimated losses resulting from the inability of our customers to make required payments. It is a significant estimate and is regularly evaluated by us for adequacy by taking into consideration a combination of factors. We look at factors such as past experience, credit quality of the customer, age of the receivable balance, and current economic conditions. These factors are reviewed to determine whether a specific reserve for bad debt should be recorded to reduce the related receivable to the amount believed to be collectible. We also specifically reserve for all outstanding domestic consulting, training, and maintenance renewal invoices which are older than a specified number of months past due.

The Company also records unspecified reserves for bad debt for all other customers based on a variety of factors, including length of time the receivables are past due and historical experience. A reserve percentage is applied to various aged categories of receivables based on historical experience to determine how much of an unspecified reserve is needed. The use of different estimates or assumptions could produce different allowance balances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

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Allowance for Deferred Tax Assets. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for and amount of the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income or reduce loss and increase shareholder s equity in the period such determination was made. Likewise, if we were to determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. Due to the current economic environment, increased competition, a history of net losses, and our uncertainty in projecting future taxable income, we have determined that we can no longer rely on projections of future taxable income to support the realization of our deferred tax assets. Accordingly, as of December 31, 2004, we recorded a $1.1 million increase to the valuation allowance related to deferred tax assets generated in the current year.

Contingencies. We are or have been engaged in legal actions arising in the ordinary course of business. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after careful analysis of each individual matter. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in litigation or settlement strategy for a particular matter.

Accrual for Restructuring Charges. During the fiscal years ended December 31, 2004 and 2002, we implemented certain restructuring plans that were a combination of reductions in workforce, exits of idle facilities and write-offs of fixed assets. The restructuring charges were based on actual and estimated costs incurred in connection with these restructuring plans. These estimates were impacted by the rules governing the termination of employees, especially those in foreign countries. In fiscal year 2002, we recorded a facility restructuring charge, which consisted of estimated future obligations for the non-cancelable lease payments and estimated costs associated with subleasing the property. We reduced the amount of the facility restructuring charge by the estimated amount of sublease income. The assumptions we made, which we periodically re-evaluate and adjust as appropriate, are based on estimates of such factors as future vacancy rates, the time required to sublease the property and sublease rates. These market conditions can fluctuate greatly due to such factors as changes in property occupancy rates and the rental prices charged for comparable properties. These changes could materially affect our accrual. If, in future periods, it is determined that we have over-accrued for restructuring charges for exiting the idle facilities, the reversal of such over-accrual would have a favorable impact on our financial statements in the period this was determined and would be recorded as a credit to restructuring charges. Conversely, if it is determined that our accrual is insufficient, an additional restructuring charge would be recorded and would have an unfavorable impact on our financial statements in the period this was determined.

Valuation of Goodwill and Other Purchased Intangible Assets. We evaluate our intangible assets for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets consist of purchased technology, customer lists, non-compete agreements, experienced workforce, and trademarks. Factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets, or the strategy for our overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the intangible asset may be impaired, we make an assessment of the recoverability of the net carrying value of the asset over its remaining useful life. If the assessment indicates that the intangible asset is not recoverable, we will reduce the net carrying value of the related intangible asset to fair value and may adjust the remaining amortization period. Any such impairment charge could be significant and could have a material adverse effect on our reported financial statements. We did not record any impairment charges on our intangible assets during fiscal year 2004. As of December 31, 2004, the net carrying amount of our intangible assets was $3.1 million.

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We evaluate goodwill on an annual basis for indications of impairment based on our fair value as determined by our market capitalization in accordance with Statement of Financial Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets . If this evaluation indicates that the value of the goodwill may be impaired, we make an assessment of the impairment of the goodwill using the two-step method prescribed by SFAS 142. Any such impairment charge could be significant and could have a material adverse effect on our reported financial statements. We did not record any impairment charges on our goodwill during fiscal year 2004. As of December 31, 2004, the carrying amount of our goodwill was $20.8 million.

Valuation of Minority Interest in Actuate Japan. The minority shareholders of Actuate Japan have the option to put their 33.3% equity interest (Minority Interest) in Actuate Japan and we have the option to call the Minority Interest for approximately $1.3 million as of December 31, 2004. Our policy is to record a loss, if any, at the time that the put or call is probable of being exercised. Should an indicator arise that the Minority Interest has declined in value below the exercise price of the put and call option, we would conclude that exercise is probable at that point in time and recognize a liability for the intrinsic value of the option. We periodically perform a valuation analysis of the Minority Interest. This valuation analysis includes assumptions regarding projected future cash flows and discount rates. Variances in these assumptions could have a significant impact on our conclusion as to whether a loss is probable and the amount of the loss. As of December 31, 2004, we concluded that a loss was not probable. We consolidate 100% of the operating results and all investments in the subsidiary are eliminated in consolidation.

Recovery of Long-Lived Assets. The Company evaluates the recovery of its long-lived assets periodically by analyzing its operating results and considering significant events or changes in the business environment.

Results of Operations

The following table sets forth certain consolidated statement of operations data as a percentage of total revenues for the periods indicated:

	Year Ended December 31,		
	2004	**2003**	**2002**
Revenues:			
License fees	41%	46%	53%
Services	59	54	47
Total revenues	100	100	100
Costs and expenses:			
Cost of license fees	3	3	2
Cost of services	24	22	22
Sales and marketing	40	44	43
Research and development	19	18	17
General and administrative	10	12	11
Amortization of other intangibles	1	2	3
Purchased in-process research and development		1	
Restructuring charges	2		25

Total costs and expenses	99	102	123
Income (loss) from operations	1	(2)	(23)
Interest and other income, net	1	1	1
Income (loss) before income taxes	2	(1)	(22)
Provision for income taxes	1	3	1
Net income (loss)	1%	(4)%	(23)%

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Revenues

Our revenues are derived from license fees and services, which include software maintenance and support, consulting, and training. Total revenues were $104.7 million in fiscal year 2004 compared with $104.5 million in fiscal year 2003 and decreased by 4% from $109.2 million in fiscal year 2002 to $104.5 million in fiscal year 2003. No single customer accounted for more than 10% of our revenues for any of the periods presented.

License Fees. Revenues from license fees decreased by 10% from $47.6 million in fiscal year 2003 to $42.7 million in fiscal year 2004 and decreased by 18% from $58.3 million in fiscal year 2002 to $47.6 million in fiscal year 2003. The domestic total license revenue decreased by 16% from fiscal year 2004 to fiscal year 2003 whereas the international license revenues grew by 12% in fiscal year 2004 over fiscal year 2003. The 2004 increase in international license fees was primarily seen in our Japanese and Canadian subsidiaries, whose license fees grew by $922,000 and $439,000 from the prior year, respectively. Meanwhile, we saw a slight decrease in the 2004 license fees from the European regions from the prior year. The decrease in domestic license fee revenues from fiscal year 2002 to fiscal year 2004 was primarily due to a weak corporate spending environment for enterprise reporting applications and a more competitive environment in our market niche. We have seen customers engage in vendor consolidation and our competitors have recently released competing products. These factors have had an adverse impact on the demand for our products in domestic markets. License revenues derived from our indirect channel partners, including OEMs, systems integrators and resellers, accounted for 13%, 30% and 32% of total revenues from license fees for fiscal years 2004, 2003 and 2002, respectively.

Services. Revenues from services are comprised of maintenance and support, consulting, and training. Service revenues increased by 9% from $56.9 million in fiscal year 2003 to $62.0 million in fiscal year 2004 and increased by 12% from $50.9 million in fiscal year 2002 to $56.9 million in fiscal year 2003. The increases in service revenues from fiscal year 2002 to fiscal year 2004 were primarily due to an increase in the worldwide installed base of customers receiving ongoing maintenance and support.

Costs and Expenses

Cost of License Fees. Cost of license fees consists primarily of production costs including printing and packaging, amortization of purchased technologies, and localization costs. Cost of license fees increased by 9% from $3.1 million, or 7% of revenues from license fees, in fiscal year 2003 to $3.4 million, or 8% of revenues from license fees, in fiscal year 2004. Cost of license fees increased by 11% from $2.8 million, or 5% of revenues, in fiscal year 2002 to $3.1 million in fiscal year 2003. The increase in cost of license fees in fiscal 2004 as compared to fiscal year 2003 was primarily due to a full year amortization of purchased technology as a result of our acquisition of Nimble Technology in fiscal year 2003 resulting in a net increase of $370,000, increased printing and production costs of $480,000 and an increase in royalties of $430,000 due to third parties. These increases were offset by a $360,000 decrease in localization costs. The increase in cost of license fees in fiscal year 2003 as compared to fiscal year 2002 was primarily due to partial year amortization of purchased technology as a result of our acquisition of Nimble Technology during the middle of fiscal year 2003. We recognized $1.5 million, $1.2 million, and $903,000 for the amortization of purchased technology in fiscal years 2004, 2003 and 2002, respectively. We expect our cost of license fees as a percentage of revenues from license fees to gradually decrease in future periods primarily as a result of lower amortization of purchased technology.

Cost of Services. Cost of services consists primarily of personnel and related costs, facilities costs incurred in providing software maintenance and support, training and consulting services, as well as third-party costs incurred in providing training and consulting services. Cost of services increased by 5% or approximately $1.2 million from $23.6 million or 42% of service revenues, in fiscal year 2003 to $24.8 million, or 40% of services revenues, in fiscal year 2004. Cost of services decreased by 1% from $23.9 million, or 47% of services revenues, in fiscal year 2002 to

$23.6 million in fiscal year 2003. The increase in cost of services in absolute dollars in fiscal year 2004 is primarily a result of the increase in service revenue during the year. Although service revenue in absolute dollars increased by $5.1 million over fiscal year 2003, cost of services as a percentage of services revenues decreased from 42% in fiscal year 2003 to 40% in fiscal year 2004. This

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decrease is due to the fact that the primary driver in the service revenue increase was derived from maintenance and support, which have considerably lower costs associated with them than consulting services. The decrease in cost of services as a percentage of services revenues during fiscal year 2003 was also primarily due to an increase in an on-going maintenance and support revenue while maintaining corresponding expenses at the prior year level.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions and bonuses earned by sales and marketing personnel, promotional expenses, travel, entertainment and facility costs. Sales and marketing expenses decreased by 10% from $45.8 million, or 44% of total revenues, in fiscal year 2003 to $41.3 million, or 40% of total revenues, in fiscal year 2004. Sales and marketing expenses decreased by 2% from $46.6 million, or 43% of total revenues, in fiscal year 2002 to $45.8 million in fiscal year 2003. Sales and marketing expenses decreased in fiscal year 2004 as compared to fiscal year 2003 due primarily to a reduction of $3.5 million in marketing program expenses and a reduction of $1.1 million in professional and outside consulting services, both as a result of the Company s efforts in fiscal year 2004 to focus on reducing overall marketing expenditures. Sales and marketing expenses also decreased in fiscal year 2004 as a result of a 24% decrease in headcount. This decrease in headcount was largely due to our two restructurings that were implemented globally. At the end of fiscal year 2004, we had 151 employees in sales and marketing, compared with 199 and 197 employees at the end of fiscal years 2003 and 2002, respectively. Sales and marketing expense decreased slightly in fiscal year 2003 as compared to fiscal year 2002 due primarily to lower commissions earned on lower revenues and a reversal of accrued commissions that we recorded in the third quarter of fiscal year 2003, of which approximately $430,000 was accrued in prior years. See further discussion in Note 1 to the Consolidated Financial Statements. We currently expect our sales and marketing expenses as a percentage of total revenues to be in the range of 35-45% in future periods.

Research and Development. Research and development expenses are expensed as incurred and consist primarily of personnel and related costs associated with the development of new products, the enhancement of existing products, quality assurance and testing. Research and development expenses increased by 6% from $18.7 million, or 18% of total revenues, in fiscal year 2003 to $19.8 million, or 19% of total revenues, in fiscal year 2004. Research and development expenses increased by 1% from $18.6 million, or 17% of total revenues, in fiscal year 2002 to $18.7 million in fiscal year 2003. The increase in fiscal year 2004 was primarily due to costs associated with the opening of our Shanghai research facility totaling approximately $510,000. The increase in research and development expenses in absolute dollars in fiscal year 2003 as compared to fiscal year 2002 was primarily due to higher rent and facility related charges totaling $517,000, as well as a slight increase in salaries and benefits related expenses of approximately $115,000, both resulting from the acquisition of Nimble Technology in July 2003. Offsetting these increased expenses were lower depreciation expenses of $243,000, lower consulting expenses of approximately $200,000, and lower employee relations and other related charges of $66,000 in fiscal year 2003. At the end of fiscal year 2004, we had 126 employees in research and development compared to 130 and 113 employees at the end of fiscal years 2003 and 2002, respectively. The increases in research and development expenses as a percentage of total revenues for fiscal year 2004 and 2003 were due to the decline in our total revenues in fiscal years 2004 and 2003, as compared to total revenues for the same period in fiscal year 2002. We believe that continued investments in technology and product development are essential for us to remain competitive in the markets we serve. We expect research and development expenses to remain relatively stable in absolute dollars in the short-term.

General and Administrative. General and administrative expenses consist primarily of personnel and related costs in finance, human resources, legal and tax functions, as well as audit and legal fees and bad debt expense. General and administrative expenses decreased by 11% from $12.2 million, or 12% of total revenues, in fiscal year 2003 to $10.9 million, or 10% of total revenues, in fiscal year 2004. General and administrative expenses decreased by 4% from $12.7 million, or 12% of total revenues, in fiscal year 2002 to $12.2 million or 12% of total revenues in fiscal year 2003. The $1.4 million decrease in general and administrative expenses from fiscal year 2003 to fiscal year 2004 was primarily due to a decrease of $2.0 million in legal costs associated with the MicroStrategy litigation, which ended favorably in fiscal year 2004. We also recorded a reversal of sales taxes of $365,000 in the second quarter of fiscal year 2004 due to a favorable outcome on our Board of

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Equalization audit. In addition, we negotiated a more favorable property and liability insurance premium, which lowered the expense by approximately $260,000 in fiscal year 2004. These decreases were offset by increases in professional consulting fees and internal personnel costs of approximately $1.2 million in fiscal year 2004 as a result of the Company s compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. The slight decrease of $500,000 in general and administrative expenses from fiscal year 2002 to fiscal year 2003 was due to declines in depreciation expense of $567,000, bad debt expense of $500,000 and staffing related expenses of $370,000. These decreases were offset by increases in legal and accounting expenses totaling approximately $700,000 and property and liability insurance of $200,000 in fiscal year 2003. We expect our general and administrative expenses will continue to increase in absolute dollars in future periods due primarily to the implementation of a program to ensure compliance with the Sarbanes-Oxley Act and ongoing legal expenses.

Amortization of Other Intangibles. On January 1, 2002, we implemented Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SAFS 142), which addresses the financial accounting and reporting standards for goodwill and other intangible assets subsequent to their acquisition. This accounting standard requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis. Accordingly, we discontinued the amortization of goodwill effective January 1, 2002. In addition, we reclassified $2.3 million of acquired workforce, which is no longer defined as a separately identifiable intangible assets under SFAS 142, as goodwill. As a result, no acquired workforce amortization was recognized in fiscal year 2002.

The provisions of SFAS 142 required the completion of a transitional impairment test within six months of adopting the accounting standard and any impairments identified must be treated as a cumulative effect of a change in accounting principle. During the quarter ended June 30, 2002, we completed the transitional impairment test, which did not result in an impairment of recorded goodwill. The provisions of SFAS 142 also require an annual impairment test, which we completed on October 1, 2002, October 1, 2003 and October 1, 2004. None of these annual impairment tests resulted in an impairment of recorded goodwill.

Amortization of other intangible assets was $2.6 million, $3.2 million and $4.0 million for fiscal years 2004, 2003 and 2002, respectively. The net decrease in amortization of other purchased intangible assets in fiscal year 2004 as compared to fiscal year 2003 was primarily due to the customer base related to prior acquisitions in Europe that were fully amortized by the middle of fiscal year 2003. This resulted in a decrease of approximately $1.0 million offset by an increase in the amortization of purchased technology and workforce of $488,000 related to the acquisition of Nimble Technology, a development stage Company. The decrease in amortization of other purchased intangible assets in fiscal year 2003 as compared to fiscal year 2002 was a result of the adoption of SFAS 142, which reclassified acquired workforce as goodwill and amortization was no longer required. We expect the estimated amortization expense of our existing other purchased intangible assets to be approximately $1.0 million in fiscal year 2005.

Purchased In-process Research and Development. During the quarter ended September 30, 2003 and in connection with the acquisition of Nimble Technology, we recorded a charge to operations of $600,000 for purchased in-process research and development. The purchased in-process research and development was expensed because it had not reached technological feasibility and had no alternative uses. The value of the purchased in-process research and development was computed using a cost approach analysis, whereby the value of the purchased in-process research and development was determined by estimating the current cost of replacing the asset with one of equivalent economic utility. An independent third party determined the valuation of the purchased in-process research and development. We did not acquire any entities in fiscal year 2004 or 2002 and consequently did not record any purchased-in-process research and development costs.

Restructuring Charges. The following discussion should be read in conjunction with the Notes to the Consolidated Financial Statements, which are included in this Form 10-K.

During fiscal year 2002, we recorded a restructuring charge of $27.1 million. This charge consisted of a $24.8 million facility exit charge and $2.3 million in costs related to the reduction of our worldwide workforce.

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The facility exit charge was the result of a long-term non-cancelable lease agreement that we entered into during the fourth quarter of fiscal year 2000, in anticipation of a projected business expansion. During the third quarter of fiscal year 2002, we decided to exit this facility. The $24.8 million facility exit charge consisted of $21.5 million of estimated future obligations for the non-cancelable lease payments (net of $10.2 million of estimated sublease income) and estimated costs associated with subleasing the property (e.g., leasing commissions). This facility exit charge also included a $3.4 million write-off of property and equipment (primarily leasehold improvements) as a result of the abandonment of the leased facilities.

During fiscal year 2004, the Company underwent two restructurings. The first occurred in the first quarter of fiscal year 2004 when we initiated a restructuring of our French operation. We undertook this restructuring in order to size the operation to meet the expected business and economic environment for our products in France and to shift our sales strategy in France from one based primarily on direct sales to a strategy more focused on indirect sales channels. This restructuring consisted primarily of a workforce reduction and associated legal expenses, which resulted in a headcount reduction of five people and associated severance, benefit and related legal costs of $586,000 during the first quarter of 2004.

In early October 2004, we implemented an additional restructuring. This company-wide restructuring was undertaken to align our cost structure with future revenue expectations. The costs associated with this restructuring totaled $1.4 million in the fourth quarter of 2004 and were primarily comprised of severance and related costs. We expect to incur an additional expenditure of