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Set forth below is a transcription of an investor conference call held on December 16, 2002.

Operator

Welcome to The First American Corporation and US Search conference call. On the call this morning, are:

- Park Kennedy, president of The First American Corporation;
- Tom Klemens, CFO of The First American Corporation;
- John Long, president of The First American Screening Information group;
- Brent Cohen, president and CEO of US Search;
- Jo Bandy, Vice President of Corporate Communications for The First American Corporation; and
- John Lamson, CFO of First American Real Estate Information Services

All lines will be in a listen only mode until the formal question and answer session at that time instructions will be given on how to ask a question.

This conf is being recorded at the request of The First American Corporation and if you have any objections you may disconnect at this time.

I d like to remind participants that this call will be accompanied by a web-based presentation that can be accessed at the investor relations section of First American s website at www.firstam.com/investor and US Search s website at www.ussearch.com.

Now, I ll turn the call over to Mrs. Bandy. Ma am, you may begin

Jo Bandy VP, Corporate Communications, First American

Good morning everyone, before we get started, I d like to remind our listeners that certain statements made in this presentation are forward-looking. Such statements include those relating to the expected closing date of the transaction, cost and revenue synergies, First Advantage Corporation s revenues for 2002 and 2003, its ability to leverage its technology, its growth rate, its leadership in its industry, its management team, its margin improvement, the services it will be provide, its geographic reach, its financial strength, its operating efficiencies, its market position and market position growth, its acquisition strategy, its expected valuation, its access to capital, the multiple on First Advantage Corporation stock and the accretive nature of the transaction. Risks and uncertainties exist which may cause results to differ materially from those set forth in these forward-looking statements. Factors that could cause the anticipated results to differ from those described in the forward-looking statements include: interest rate fluctuations; changes in the performance of the real estate markets; access to public records and other data; general volatility in the capital markets; changes in applicable government regulations; consolidation among the company s significant customers and competitors; the company s continued ability to identify businesses to be acquired; changes in the company s ability to integrate businesses which it acquires and other factors described in the Annual Reports on Form 10-K for the year ended Dec. 31, 2001 for The First American Corporation and US SEARCH.com Inc., as filed with the Securities and Exchange Commission. The forward-looking statements speak only as of the date they are made. None of The First American Corporation, First Advantage Corporation and US SEARCH.com Inc. undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

With that, it s my pleasure to turn the call over to Park Kennedy, president of The First American Corporation. Park?

Park Kennedy President, First American

Thanks Jo. Good morning and thank you for joining us today to discuss the merger of The First American Corporation s Screening Information segment with US Search and the creation of a new company First Advantage Corporation. The Company, which will apply for listing on the Nasdaq National Market, will be 80% owned by The First American Corporation and 20% owned by the shareholders of US Search. The merger is scheduled to close during the second quarter of 2003.

First Advantage is a critical step in First American s growth strategy to maximize profitability for shareholders and to emerge as a leader in the screening industry. The merger brings many benefits to First American and US Search shareholders, including:

- significant potential cost and revenue synergies, and

- the opportunity for First American and US Search to use the stock of an independent public company as a vehicle to fund continued growth of the screening businesses.

First American is contributing business for which it invested $187 million over the last 4 years. The Merger is expected to be nominally accretive to First American in 2003 and approximately $0.02 accretive in 2004.

First Advantage stock should receive the higher valuation afforded to companies in the screening industry, and we believe that this presents a great opportunity to build First Advantage into a first-class industry leader, while increasing the value of First American s investment.

And, we believe that First Advantage will be well-positioned to be an industry leader. The merger combines top-tier assets, excellent management teams, innovative technology and leading products.

We look forward to the benefits provided by our relationship with First Advantage and to the future of growth and profitability for First American, US Search and future First Advantage shareholders.

Now, let me turn the call over to John Long, president of First American s Screening Services Division to discuss the merger in more detail.

John Long, President First American s Screening Information Group

Thanks Park.

Good morning everyone and thanks for joining us today to discuss the merger of the Screening Information businesses of The First American Corporation, and US Search.

The merger combines our screening services business, which includes employee background screening services, tenant screening, alcohol and drug testing and motor vehicle reports, with US Search s location, background screening services to create a new company called First Advantage Corporation.

This is an extremely exciting transaction and one which we believe is very positive for the employees, customers, vendors and shareholders of both companies. It will result in a new company with capabilities that have the potential to transform our industry. First Advantage will have the scale, scope of services, geographic reach and financial strength to not only be a leader in screening and verification management services, but also to aggressively pursue opportunities for growth in the expanding fields of screening and risk management services.

First Advantage will immediately become a leader of comprehensive screening and verification management services for both businesses and consumers. We will be a top tier player in all of our primary market segments and we will have the critical mass to grow and compete effectively in the rapidly consolidating screening industry and the expanding verification industry.

The merger brings together US Search s innovative and proprietary DARWIN technology and First American s leading business information products. DARWIN s leading work flow and sourcing technology reduces the cost of operations and improves the quality of information. By applying DARWIN across all business lines, the combined company will be able to significantly enhance operating efficiencies and grow margins.

All of which is expected to result in a strong financial performance, both immediately and in the future. The combined company is expected to have revenues of approximately $160 million in 2002, and is expected to be profitable on a net income basis upon inception. First Advantage is expecting significant revenue and cost synergies and is targeting long-term operating margins of over 30%. The company will have a strong balance sheet, with in excess of $10 million in cash and no long-term debt.

In a moment I m going to describe the business strategy behind this combination. But first I d like to say a few words about the genesis of this deal.

For those of you who are new to The First American Corporation, we are a company that has been around for over a century, tracing our history back to 1889. We re a member of the Fortune 500, with more than $3.75 billion in revenues last year. We have over 1,300 offices and 22,000 employees around the world. In many of our products and services, First American is either number one or number two by market share, and achieving market leadership is a fundamental tenet of our corporate strategy.

Over the past several years, First American has expanded the scope of our operations to provide non-cyclical, high margin services to a customer base outside our traditional real estate business. We built our screening services business through a series of strategic acquisitions of companies that provided employee background screening, resident screening, motor vehicle records and substance abuse management and testing. We believed that the screening industry was complementary to our core competencies in providing business information.

We also saw it as an industry that was undergoing rapid consolidation, driven by customer demand for a more comprehensive, integrated solution. As a consequence, we believed we had a limited window of opportunity to build a high growth, high margin business with very attractive returns on invested capital.

It turned out that there was another company that had a similar strategy, but a very different background and set of competencies. We first came across US Search because we were looking at potential acquisitions. As the conversation developed we saw the potential to combine our two businesses in a way that would greatly advance our competitive position, allow us to better serve our customers and create value for the shareholders of both companies.

So what are the business benefits behind this merger?

To begin with, our businesses represent an excellent strategic fit, both in the products we offer and the customers we serve.

The new company will operate in five primary market segments and will be able to leverage the DARWIN technology platform.

> **Employee Background Screening** will be the first one. Through *Hire Check* and *PRSI* we will provide comprehensive background screening to employers, including identity verification, criminal record checks, employment and education verifications, professional reference checks and credit reports.
>
> The second one is **People Location** services. *US Search.com* is the leading provider of online search services to consumers, including individual location, childcare and contractor screening.
>
> The third product will be **Substance Abuse Management and Testing.** Through *Substance Abuse Management, Inc. (SAMI)* and *Employee Health Programs (EHP)* we are a third-party administrator of alcohol and drug

testing. We also provide Employee Assistance Programs, and other services that help employers and employees.

Our fourth business line will be **Resident Screening.** Through *First American Registry* and *Safe Rent* we have built the leading multifamily resident screening service, providing landlords with information regarding a housing applicant s rental payment history, occupancy responsibilities, eviction actions, credit information and similar background data.

And last, **Motor Vehicle Reports.** Our *American Driving Records, Inc. (ADR)* provides Motor Vehicle Reports (MVRs) to insurance agents, background screening companies and transportation carriers, with electronic, Web-based connections to DMV records in 47 states.

Each of these businesses will leverage a common technology platform and shared business processes so as to develop the scale, process excellence and technological superiority required for market leadership.

First Advantage will also have access to US Search s blue-chip customer base of over 200 clients in its key verticals of telecommunications, financial services, insurance and healthcare for cross-selling and up-selling opportunities and to deploy its fully integrated, suite of search and verification services.

First Advantage will be a top tier player in each of its primary market segments. We estimate we will be #3 by market share in the background screening market, #2 in the drug screening market, #1 in the markets for individual location and tenant screening, and one of the top four players in motor vehicle records industry. As I mentioned earlier, being a market share leader is central to First American s business strategy and the new company will have the characteristics that are required for an industry leading cost structure, brand recognition and marketing reach that comes with that position.

We believe that First Advantage will be well positioned to compete against its peers in verification and screening services. And, recent deal multiples make the combination of US Search and First American s Screening Information businesses very attractive and our public currency should enable us to take advantage of the consolidating screening services industry.

Let me turn the call over to Brent Cohen, president and CEO of US Search to continue to discuss the synergies of the two companies.

Brent Cohen, president and CEO of US Search

Thank you, John.

Now that you are beginning to have a better understanding of why we are all so excited about the potential of this combination and the opportunity it presents to create an industry leader with significant scale and competitive differentiation, let me walk you through the transaction in a bit more detail and talk about the benefits for our shareholders.

The merger will bring together two companies with very **complementary core competencies**.

US Search brings a proprietary, **scalable technology platform** that makes it possible to access and intelligently assimilate information from a myriad of available databases on a fully automated basis. DARWIN s industry leading workflow and sourcing technology reduces the cost and improves the quality of both information and analytics. By implementing this scalable platform across all lines of our business, we expect to significantly improve its operating efficiency and margins.

US Search also brings a **consumer Web portal** that can serve as a channel to introduce new consumer information products, including credit reports, property information reports, homeowner s insurance and home warranties.

And US Search provides a **public vehicle** that can be used to fund continued growth using equity that is valued according the growth prospects of our screening businesses.

First American brings with it the **experience and unique information assets** developed as one of the largest players in the business information market. We provide the **breadth of services** required to have a truly comprehensive solution to the needs of both enterprises and consumers. And we bring the **operating scale** required to successfully consolidate the screening industry.

The combination of the two companies will accelerate our shared growth strategy in a manner that neither could achieve on its own. These synergistic benefits, include more rapid market penetration, a scalable technology platform and significant revenue synergies.

So what are the benefits for US Search shareholders? As Park mentioned, the merger significantly advances First American s growth strategy, but it also significantly advances US Search s growth strategy and will support development of a strong competitor in the rapidly consolidating search industry that will benefit both US Search and First American shareholders.

And as for US Search shareholders, they will get a partner who is a leader in the business information sector and be able to significantly accelerate their growth strategy.

Acceleration in growing market

The merger creates a company with the **critical mass** to grow and compete effectively. It will be able to secure economies of scale in data acquisition and will be favorably positioned to meet all of the screening and risk management needs of Global 2000 companies.

With no long-term debt and in excess of $10 million in cash, the new company will have a strong balance sheet and not be encumbered by outstanding debt or financial issues.

The new company will have a strong base of products and the capability to innovate and develop new products. The combination of US Search s market-leading consumer Internet business and the databases of First American will enable the new company to introduce a variety of new products and services.

This results in Ownership in a growth company

The combination of US Search with First American s screening services division will enable the combined company to provide a **full suite of solutions** to address the screening and verification management needs of both businesses and consumers.

The merger will create an excellent fit in terms of existing customer base, with **significant enterprise, small business and consumer customers** and multiple opportunities for cross-selling and up-selling of services. For example, US Search s background screening clients include Fortune 1000 companies, whereas First American s HireCheck clients include mid-sized and smaller companies.

US Search s proprietary, scalable technology makes it possible to access and intelligently assimilate information from a myriad of available databases on a fully automated basis. By implementing this scalable platform across all of its lines of business, the combined company expects to significantly improve its operating efficiency and margins.

To cap it all, we have a Best-in-class management team. The new company will have a **seasoned management team** culled from the best-in-class at both US Search and First American. Parker Kennedy, President of The First American Corporation, will serve as Chairman; John Long, currently president of First

American Screening Services, will serve as CEO; and I will serve as president of the combined company.

We will be headquartered in St. Petersburg, Florida and will have offices located across the country to support our nationwide growth strategy.

With that, I ll turn the call back to John.

John Long, President First American s Screening Information Group

Thanks Brent.

The bottom line is that First Advantage presents a platform for significant growth for all of us. As a public company First Advantage s growth should be able to create acquisition currency that will facilitate further growth and consolidation.

In addition, First American Screening Information group will be able to leverage US Search s DARWIN technology to improve operating efficiency and margins.

And the merger provides First American with new marketing channels and strong customer relationships that will provide the opportunity to sell our products and services to the enterprise and consumer markets.

As sales ramp across all market segments and we cross market our services, we believe that First Advantage will gain further leverage and drive increasing returns.

And very importantly, this deal presents tangible financial synergies.

This includes an estimated $10 million in incremental revenues from cross selling and up selling of new products to our existing clients base, and the development of new products based on the combined products.

It also includes $10 million in estimated reductions in our cost structure due to increased automation of fulfillment, reduced data acquisition costs, elimination of duplicative overhead, and reduction in technology implementation costs.

This merger will result in a company that is better positioned to serve the current and future needs for our customers. We will be able to offer best-in-class integrated software for the verification management. We will be able to introduce a higher degree of automation to our fulfillment and data management, so as to increase data quality and speed time to hire. And we will be able to build a flexible technology platform that our clients can use.

In conclusion, we believe that this merger is a win-win situation for the shareholders of US Search and First American. The combination is expected to result in a business with significantly greater value than its component parts due to revenue and cost synergies.

All shareholders will participate in a company with a stronger market position as the leader provider of a full range of screening services and as the pioneer in the growing verification management sector. The combined company will have:

- a leading market position;
- scalable technology to implement and from which to reap significant operational efficiencies;
- a complementary customer base in various market segments, including enterprise, small business and consumer;
- innovative products;
- profitable operations;
- and significant revenue and cost synergies;
- and the financial and managerial resources to actively pursue growth opportunities.

And, as a public vehicle with significant assets and a clear strategic focus on the screening services market, the combined company should be more attractive to financial analysts and high quality institutional investors.

With that I think we re ready to open up to questions.

Operator

Thank you. At this time we will begin our question and answer session using our polling feature. If you have a question please press *1 on your telephone.

One moment while the questions register. Our first question comes from Mike Vinciquerra from Raymond James.

Mike Vinciquerra Raymond James
Good morning guys. First question. Can you provide us with some analytics to help us better understand the 80/20 split in the ownership and basically an implied valuation on the merger?

John Long
We did an analysis of the two companies of our growth of contribution into the combination and believe that this was a good mix or good split of the two companies. We are very comfortable with that split, with the six businesses that First American put into the transaction. There were two businesses that were put into by US Search. We believe they are very complementary and 80/20 seemed like the appropriate valuation and was supported by our investment bankers.

Mike Vinciquerra
So it would be based on US Search s market cap right now of $75 million, you might expect a market cap of the combined companies of somewhere in the mid $300 to $375 million range. Is that in the ballpark?

John Long: The market will value it as it feels appropriate.

Brent Cohen: The proxy will be out in the next month that will give you a lot more information.

Mike Vinciquerra
O.K. You are talking about $160 million in revenues for 02. From my conversations with the folks at First American, indicate that screening is on a run rate for somewhere around $175 million for 02 because of some recent acquisitions. Can you give us a run rate estimate for 2002 because I believe US Search has added some revenues over the course of the year as well.

John Long: The $160 million that we put into this presentation is the number that we are comfortable with for the year. The $175 million number; I am not sure I know where that came from.

Mike Vinciquerra: Apparently with the acquisitions you made of SafeRent and so forth, John, your run rate is closer to $175 million annualized. What you had before that you included in those two acquisitions.

John Long: Ah I don t believe that is true.

Mike Vinciquerra O.K. And one last question; I ll let someone else on then the one thing that I am not sure I understand is exactly what US Search s product is all about as far as people searching. Brent, can you provide us just a little more detail on exactly what you provide to your Fortune 1000 clients.

Brent Cohen: We ve got two businesses, which are the consumer business which is people location business which is using the Internet as a vehicle to find long-lost family members and friend. We get about 500,000 visits a day on our website. We go through any of the major portals Yahoo! AOL, MSN, etcetera, and you go into the people search area. When you are looking for someone and you can t find them, it automatically defers to our site. On the corporate side, the enterprise side, we have enterprise solution which is focused on the Fortune 1000 companies where we provide integrated solution with online applications with digital signatures to get around the paper from the consumer perspective all the way through compliance from the FCRA capability. Integrated into the HR systems of the customer so it would integrate with PeopleSoft and is really a full blown solution for background screening services which allows us to integrate drug screening with our combined company and the other services that there are.

Mike Vinciquerra Is there a approximate breakdown in businesses between those two sectors?

Brent Cohen It is about 65/35. 35 percent enterprise and 65 consumer.

Mike Vinciquerra O.K. Thanks very much.

Operator: Geoffrey Dunn Keefe Bruyette Woods

Geoff Dunn: Good morning guys. Looking at First American, you have bitten off two big acquisitions before EHP and SafeRent and the challenge for the coming year is to integrate those what other challenges will this deal introduce and how will that affect the guidance you have given to us before the $150 million plus of revenue for next year and growth rates or margins getting into low to mid teens?

John Long:
Clearly it adds two more businesses that we have to worry about consolidating HireCheck and PRSI. We will work diligently toward doing that and certainly during the planning during the period between now and closing we can do that. 2003 for us will be very much a transitional year not knowing exactly when this transaction will close, we will spend the bulk of next year working on consolidating our businesses and implementing the technology. We are very comfortable with our long-term growth rate of 20% or greater per year. And believe that probably in 2004, and on, we will start to see some significant market improvements.

Geoff Dunn When you say that 20% long-term rate are you incorporating all of your discussion about introducing new products and cross-selling or is that the core fundamental growth rate and the rest of that is upside?

John Long: That is organic growth rate from our current businesses, it does not take into account any potentially new products or any acquisitions.

Geoff Dunn: And finally, on the margin front I think you indicated long-term margins you believe will be 30% plus. Is that right?

John Long: Yes we do.

Geoff Dunn: How long until you are able to hit that rate given sort of previous expectations for the screening businesses?

Brent Cohen: I think it will probably take us a couple of years to get there, it depends on how fast we can convert everybody over to the new platform and how fast we ramp the revenues.

Geoff Dunn: Then 2005 is a good guess?

Brent Cohen: 2005. Sure.

Geoff Dunn: I was wondering because of your margin expectation and expectation for top line growth, when does the accretion really kick in. Of course I realize that it is a small part of FAF but I think it may be more than $0.02 for 2004.

John Long: Tom would you like to take that?

Tom Klemens: I think that the $0.02 is a pretty conservative number Geoff. So if we exceed it, great, if not we are trying to be realistic about it.

Geoff Dunn: What s helping the expense savings?

Tom Klemens: How much?

Geoff Dunn: Yeah.

John Long: We have $10 million in expense savings and $10 million in cross selling and upselling.

Geoff Dunn: O.K. Thank you.

Brad Eichler - Stephens Inc.

Good morning guys. To the FAF guys, this is a nice looking way of monetizing an asset that you guys were not getting much credit for. Can you talk a little more about margins right out of the box and just look at the public information on US Search it looks like you guys have been basically at kind of breakeven with a loss of operations year to date and I know that the FAF business is operating at around a 10% margin today? In 03, excluding the $10 million in expense savings, what type of margins is reasonable to expect from these businesses?

Brent Cohen answers: From our perspective, we ve seen historical growth margins in the 17% percent range and you will see historically that the mix of business has changed as well as the growth margins have increased dramatically over the course of last year. Most of it has come from the technology implementation which has resulted in the increase in margins. I think we are going to see similar kinds of improvements on the operating leverage that is going to come about as a result of our deployment of technology across the businesses. Exactly when the full benefit of that comes into play it s a little early for me to give you that determination today.

John Long: 2003 is a tough year for us because of the timing of when the transaction closes and then the actual implementation of the technology and of the synergies related to some of the acquisitions.

Brad Eichler O.K. You talked a little bit about the five business segments and then gave us what you believe to be your market share. Could you talk a little bit about the percent of total revenue, the 160 number, and roughly, how much of it is represented by each of those businesses or segments?

John Long answers: Can I answer that? For public disclosure purposes?

Attorney answers: Yes.

John Long answers: Approximately $35-40 million in motor vehicle record searches, the $30-35 million range for criminal background checks, $40 million range for drug screening, $40 plus million range for tenant screening. Consumer what do we have today $20 million? $20 million plus for consumer. It may not exactly add up but it is approximate.

Brad Eichler Is this going to be a tax-free deal for FAF?

Tom Klemens: Yes.

Brad Eichler Can we get a little bit of background as to how this transaction came about. Was there a process that US Search was going through and this was something that looked interesting to you guys at FAF or ?

John Long: I think that Brent and I were both exploring different possibilities of ways that we could advance our businesses. We met seven or eight months ago and started to talk about this possibility. As we got to know each other and got more comfortable, it seemed like a logical transaction for us. Both businesses had strategies to build a business like this. It certainty seemed better to join together than to compete directly. It is a very complementary management team. The US Search team has very strong benefits that they can add to the combined company. They will really enhance, I think, the overall success of the company. I feel very good about this mix. Brent do you have any other comments?

Brent Cohen: No. I think that is exactly right. We were both pursuing a growth strategy which included doing a number of acquisitions and we came across each other in the course of that process. The complementarity of the two businesses plus the unique information availability from First American for our consumer businesses made it very attractive to us.

Parker Kennedy: Brad, this is Park. We also at the board level talked with John about the best way to realize the value of that segment. Because the segment operates independently of our other segments, it is the kind of thing that works well for a carve out. So we talked to John about looking for a vehicle that could help us go public.

Brad Eichler Thanks. Congratulations

Terry Lally Cramer Rosenthal: Good morning. Can you talk about the individual segments and growth rates you expect in these individual segments?

Brent Cohen: We have management estimates of what we consider to be growth rates from the various areas in which we are participating. There has been very little formal research that has been done in that regard. We see the background screening market as having enormous growth. I think only 15% of employees are screened today. The drug screening market place has less of a growth rate than the background screening area. But there are a number of people in the background screening area who are now only starting to add drug screening to their process. The consumer business is a wild card business because we do not really know how big it can grow given the accessibility we have now to all the additional information from our relationship with First American. There are significant growth opportunities as well as in the areas of tenant screening and the motor vehicle area. We do not have the specifics in terms of growth rates in the industry as it pertains to growth rates. We feel very comfortable from our perspective and the basis of where we are, that we can grow with a compound annual growth rate of 20%.

Terry Lally: You talk about over and under, like say in background having a higher growth rate. Is that higher than the 20% where drug came under 20% or would both the segments actually be north of 20%?

John Long: It is hard to answer that. Remember, one of the opportunities here is the cross selling. One of our major focuses right out of the gate here is to sell different products to each others clients. We have a lot of companies in the mix here. Over the next couple of years we anticipate major penetration within our client base of other products which we are selling including things like employee assistance program. It is a very small business for now, but it could be a very large one over time. I do not want to speculate per se where the bulk of that will come from. We are very comfortable that these businesses will collectively grow 20% or more. We will definitely try to take advantage of our best opportunities in the near time.

Terry Lally: What is the proforma EBITDA?

John Long: That will all be available when the proxy is released in approximately 30 days.

Terry Lally: The $10 million in cost synergies you talked about can you quantify the specific synergies and how much is coming from each category?

John Long: I am sorry I did not hear that?

Terry Lally: The $10 million in cost synergies can you quantify how much is coming from each specific category?

Brent Cohen: I think it is too difficult for us to identify the category it comes from but the costs are largely coming from the data acquisition a high degree of process automation using our technology . . . . value added products that are coming from the unique data assets that we are gaining access to. I think that much of this is coming from those areas.

Terry Lally: How much is coming from duplicate overhead?

Brent Cohen: Most of our businesses are pretty complementary there is not that much overlap.

Terry Lally: You do not want to get into one million here, two million there?

John Long: I think we are comfortable making the statement of $10 million, but dissecting it, I don t think is appropriate.

Terry Lally: I am just asking, I am trying to get to if it is very achievable . . . .

John Long: We think it is very achievable and a considerable amount of thought was put into this presentation.

Terry Lally: For modeling purposes, what is tax rate and the number of shares outstanding?

John Long: We are anticipating a reverse split which will be in the proxy. It will be close to 1 to 25 based on approximately 20 million shares outstanding, tax free. There are some tax benefits that the company will have from some of the historical losses at US Search.we cannot use them all, but we can use some of them. So the tax rate may be tricky.

Terry Lally: It is great to see you are entering into transactions to monetize the value of the assets, especially with the premiums based on the $180 million you put into the businesses.

Ashley Smith Stonegate Securities Good morning gentlemen and congratulations

All: Thank you.

Ashley Smith Great job. A lot of the other things that has been covered already, but do you guys expect to be initiating any acquisitions. This is a rapidly consolidating area and I am sure that there is a lot of competition out there.

John Long: I would say that we will be looking at opportunities between now and closing, especially now that this is public and we can talk about the new company, to potential acquiring companies. Exactly what opportunities will be there for us Things are happening very quickly within this industry and we will do our best to keep up.

Ashley Smith: The companies you are considering targeting are they within the current five segments? If so, which ones or is it something that would be an indication that would be a sixth segment?

John Long: I think we are focused near term on market share improvement and margin improvement in our core businesses today. So I don t see us wandering too far out of this at this point. Although you never know what business opportunities may come up. We want to stay focused on these businesses that we have already invested a lot of money in and we have a lot of work ahead.

Ashley Smith That is all I have and again congratulations. Looking forward to watching this.

Irwin Friedman - Freidman: Congratulations guys, great transaction. Can you explain the structure of the transaction whether it will be a reverse merger issuance of additional US Search shares. What will the pro forma capitalization look like?

John Long: We will be merging the screening services businesses of First American called First Advantage Corp with US Search shareholders today. It will be new security issue of which US Search shareholders will own 20%. First American will own approximately 80% of the new security that is issued.

Irwin Friedman - The new security will be issued to both the US Search shareholders as well as to the....

Brent Cohen: That s right.

Operator: That s all that we have time for questions. I would like to turn the meeting back over to Mr. John Long final comments.

John Long: Thanks for participating in this call. We look forward to sharing additional information about First Advantage Corporation as it becomes available. Thank you so much for your time.

Operator: You may now disconnect.

Additional Information Included in Transcripts Available for Download

US SEARCH intends to file with the SEC a proxy statement / prospectus and other relevant materials in connection with the proposed combination of US SEARCH and the screening services division of The First American Corporation. The proxy statement / prospectus will be mailed to the US SEARCH stockholders. Security holders of US SEARCH are urged to read the proxy statement / prospectus and the other relevant materials when they become available because they will contain important information about US SEARCH and the proposed combination. The proxy statement / prospectus and other relevant materials (when they become available), and any other documents filed by US SEARCH with the SEC, may be obtained free of charge at the SEC s web site at www.sec.gov. In addition, US SEARCH security holders may obtain free copies of the documents filed with the SEC by US SEARCH by directing a request to: US SEARCH.COM Inc., 5401 Beethoven Street, Los Angeles, California 90066, Attn: Investor Relations. US SEARCH security holders are urged to read the proxy statement / prospectus and the other relevant materials when they become available before making any voting or investment decision with respect to the proposed combination.

ft:20px; text-indent:-10px">Pro forma net loss $(1,706) $(2,822) $(1,502) $(7,247)
Net loss per share:

As reported
$(.01) $(.02) $(.01) $(.06)
Pro forma
$(.01) $(.02) $(.01) $(.06)

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Notes to Consolidated Condensed Financial Statements
(Unaudited)
September 30, 2004

Earnings Per Share

Basic and diluted earnings or loss per share are the same for all periods presented because all potential common shares were anti-dilutive during those periods. Potential common shares excluded from the calculation of diluted earnings per share are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
	(in Thousands)			
Out of the money potential common shares	12,000	6,000	12,000	6,000
Other anti-dilutive potential common shares	52,000	48,000	52,000	48,000

Notes Payable

Notes payable consist of the following (in thousands):

	September 30, 2004	**December 31, 2003**
Guaranteed bank facility	$ 3,900	$ 4,200
12% convertible subordinate notes	2,860	3,130
Subsidiary revolving credit facility	575	
Other	290	100
	7,625	7,430
Unamortized discount	(340)	(821)
	7,285	6,609
Due within one year	(6,520)	(700)
Amount due after one year	$ 765	$ 5,909

The Company s $4,200,000 credit facility with Bank One, NA provided for the facility to be reduced by $300,000 by June 30, 2004. During June 2004 the facility was amended to provide for this $300,000 reduction to be made by July 31, 2004. In July 2004 the Company repaid $300,000 and the maximum amount available under the facility was reduced to $3,900,000. Terms of the credit facility provide for a further reduction of $300,000 by December 31, 2004 and for all amounts outstanding to be due on April 30, 2005.

The note agreement related to the Company s 12% Convertible Subordinated Notes due June 2005 contains a provision that the Company will have reported net revenues of not less than $15,000,000 for the twelve month period ended June 30, 2004. In July 2004 compliance with this provision was waived by the holders of the notes, as provided for in the note agreement.

In July 2004 the Company and its wholly-owned subsidiary, DNA Computing Solutions, Inc. (DCS) entered into a $575,000 revolving credit facility with FirstCapital Bank. Borrowings under the facility

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bear interest at prime plus 1% and all amounts outstanding are due January 30, 2006, but may be prepaid at anytime without penalty. The facility is secured by the fixed assets, accounts receivable and inventory of DCS and by limited guarantees provided by a group of private investors, including one of the Company s directors. As consideration for providing the guarantees the Company has entered into a Reimbursement Agreement with the guarantors. The Reimbursement Agreement provides that the Company will reimburse the guarantors for any amounts that they may be required to reimburse the bank pursuant to the underlying guarantees. Pursuant to the Reimbursement Agreement, the guarantors have the right to purchase up to 3,194,444 shares of the Company s common stock for $575,000 in cash, the proceeds of which will be used to repay amounts outstanding under the credit agreement and provide for the release of the guarantees. The guarantors have also received warrants to purchase 1,597,222 shares of common stock, which have been valued at approximately $110,000 and recorded as an asset in the accompanying consolidated balance sheet. Additionally, the guarantors may receive warrants for up to an additional 1,597,222 shares of common stock if the Company does not meet certain goals related to outstanding debt. All warrants have an exercise price of $0.21 per share and may be exercised at any time from their issuance through July 31, 2008.

In October 2004 the DCS facility was expanded to provide for additional borrowings of up to $600,000, or $1,175,000 in total. The group of private investors provided additional limited guarantees to secure the additional borrowings pursuant to a new Reimbursement Agreement. Pursuant to the new Reimbursement Agreement, the guarantors have the right to purchase of up to 3,333,333 shares of the Company s common stock for $600,000 in cash, the proceeds of which will be used to repay amounts outstanding under the credit agreement and provide for the release of the guarantees. The guarantors have received additional warrants to purchase 6,666,667 shares of common stock which have been valued at approximately $495,000 and recorded as an asset in the accompanying balance sheet. These warrants have an exercise price of $0.20 per share and may be exercised at any time from their issuance through October 30, 2010. The Company has agreed to file a registration statement related to the potential resale of the shares of common stock issuable upon the exercise of the stock purchase rights and upon exercise of the warrants no later than December 31, 2004. As of September 30, 2004 there was $575,000 outstanding under the total facility.

Supplemental Disclosure of Cash Flow Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
	($ Thousands)			
Cash paid during the period for:				
Interest	$ 37	$ 64	$387	$153

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ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE PERIOD ENDED SEPTEMBER 30, 2004

Forward Looking Statements

The statements in this Quarterly Report on Form 10-Q of TeraForce Technology Corporation (the Company) regarding future financial and operating performance and results, and other statements that are not historical facts, are forward-looking statements, as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use the words may, expect, anticipate, believe, continue, estimate, project, intend, designed or other similar expressions to identify forward-looking statements. You should read statements that contain such words carefully because they discuss future expectations, contain projections of results of operations or of our financial condition, and/or state other forward-looking information. These statements also involve risks and uncertainties, including, but not limited to:

- events, conditions and financial trends that may affect the Company s future plans and business strategy,
- results of expectations and estimates as to prospective events, and
- circumstances about which the Company can give no firm assurance.

Examples of types of forward-looking statements include statements on future levels of net revenue and cash flow, new product development, strategic plans and financing. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Factors that might cause a difference include, but are not limited to:

- general economic conditions in the markets in which the Company operates;
- success in the development and market acceptance of new and existing products;
- dependence on suppliers, third party manufacturers and channels of distribution;
- customer and product concentration;
- fluctuations in customer demand;
- the ability to obtain and maintain access to external sources of capital;
- the ability to control costs;
- U. S. Government budget, procurement and contracting trends;
- overall management of the Company s expansion; and
- other risk factors detailed from time to time in the Company s filings with the Securities and Exchange Commission.

We believe it is important to communicate our expectations of future performance to our investors. However, events may occur in the future that we are unable to accurately predict, or that we cannot control. Any forward-looking statement speaks only as of the date the statement was made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date the statement was made. Because it is not possible to predict every new factor that may emerge, forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. When considering our forward-looking statements, keep in mind the risk factors and other cautionary statements in our Annual Report on Form 10-K for the year ended December 31, 2003 and other filings with the Securities and Exchange Commission. Risk factors provide examples of risks, uncertainties and events that may cause our actual results to differ materially from those contained in any forward-looking statement. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual outcomes may vary materially from those forward-looking statements included in this Quarterly Report on Form 10-Q. The terms we, our and us and similar terms refer to the Company and its consolidated subsidiaries, not to any individual or group of individuals.

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Comparison of Three and Nine Months Ended September 30, 2004 to Three and Nine Months Ended September 30, 2003

Net Revenue

Net revenues, all of which relate to our defense electronics business, were derived from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	($ Thousands)			
Product sales and services	$1,439	$1,699	$5,014	$4,037
License fees			3,400	
	$1,439	$1,699	$8,414	$4,037

Product sales increased in the first nine months of 2004 as compared to the same period in 2003 due to increased shipments of our VQG4 product line and integrated sub-systems. The shipments relate, in large part, to design wins that we had secured in prior periods and which began to move into a production phase beginning in the fourth quarter of 2003. For the three months ended September 30, 2004 product sales declined as compared to the third quarter of 2003. This decrease is primarily the result of the timing of shipments. Our customer concentration in the 2004 periods was not materially different from that in 2003. We expect net revenues from product sales to generally increase over the balance of 2004 and for net revenues from product sales for all of 2004 to exceed those in 2003. However, as in the third quarter of 2004, the specific timing of the receipt and shipment of particular customer orders can have a material effect on product sales in a quarter. The expected increase in product sales results from continued shipments related to prior design wins and other design wins we anticipate securing during 2004. Some of the increased shipments, we believe, will be related to our VQCG4 and Eagle I products. We expect the VQCG4 product and certain enhancements to the Eagle I product to be available to customers in the fourth quarter of 2004. We also expect to have a new product family, Nexus, available for customers in the fourth quarter of 2004; however, we do not expect material sales of this product in 2004.

We believe that general factors in our industry have contributed to the historical increase in our net revenues and that these factors will continue to positively affect net revenues. The demand for products such as ours has been increasing as defense expenditures have increased and, more importantly, as the portion of those expenditures related to defense electronics has increased. We believe that even if overall defense expenditures were to decrease, expenditures related to defense electronics will continue to increase.

License fees are attributable to our technology licensing and marketing agreement with VISTA Controls, Inc. (VISTA). As of June 30, 2004 we had met all of our delivery requirements under the agreement, except for those that are perfunctory. We recognized net revenues related to these license fees in the amount of $2,950,000 in the first quarter of 2004 and $450,000 in the second quarter of 2004. We expect to recognize and receive the remaining $100,000 related to this agreement in the fourth quarter 2004. We received payment of $1,550,000 related to these fees in December 2003, $1,400,000 in April 2004, $450,000 in July 2004 and expect to receive the remaining balance of $100,000 in the fourth quarter of 2004. We also believe that the agreement with VISTA will have a positive effect on our net revenues through access to new products and access to additional market channels. There is no assurance, however, as to the timing or amount of this effect, if any.

Gross Profit

Gross profit increased in the first nine months of 2004 compared to the first nine months of 2003 due in part to the license fees recognized in 2004 for which we incurred little incremental cost and also due to increased product sales. Gross profit in the first nine months of 2004, excluding the effect of the license fees, was approximately $2,001,000, or 40% of product sales and services. In the first nine months of 2003 gross profit was $1,272,000, or 32% of product sales and services. For the third quarter of 2004 gross profit was approximately 33% of product sales versus 35% in the third quarter of 2003. This change resulted from the slightly lower sales in the third quarter of 2004 and in changes in product mix. As product sales increase, we generally expect gross profit as a percent of those sales to increase due to the effect of fixed costs which are included as cost of revenue. However, this relationship will be affected by the mix of particular products sold during a period.

Engineering and Development Expense

Engineering and development expenses declined $70,000 in the third quarter of 2004 as compared to the second quarter of 2003 and $532,000 in the first nine months of 2004 as compared to the first nine months of 2003. The third quarter and first nine months of 2003 included approximately $26,000 and $193,000, respectively, in charges related to our engineering services agreement with Flextronics Incorporated that was completed in 2003. The balance of the decrease related primarily to a reduction in outsourced services. We do not expect engineering and development expense to increase or decrease materially over the balance of 2004.

Selling and Administrative Expense

Selling and administrative expense decreased by $70,000 in the third quarter of 2004 compared to the third quarter of 2003 and increased $218,000 in the first nine months of 2004 compared to the same periods in 2003. The decrease in the third quarter of 2004 versus the third quarter of 2003 is due primarily to lower sales commission. The increase in the first nine months of 2004 relates primarily to increased sales and marketing expenses, particularly increased sales commissions resulting from the increase in net revenues. We generally expect these expenses to increase as net revenues increase in the future. In addition, administrative expenses for the first nine months of 2004 include approximately $115,000 in costs related to our annual stockholders meeting and the related proxy solicitation, which we did not incur in 2003.

Litigation Costs

Litigation costs represent legal fees and expenses related to the shareholder action that was brought in 1999 against the Company and certain former officers and directors. During the fourth quarter of 2003 we reached an agreement in principle to settle this matter and the settlement agreement was completed in the third quarter of 2004.

Unconsolidated Affiliate

In the third quarter of 2003 we adjusted the carrying value of our 22% investment in Intelect Technologies, Inc. (ITI) to net realizable value based on an agreement in principle to sell this investment to a third party for $250,000. In June 2004 we determined that it was unlikely that this transaction would be completed and we settled all obligations between ITI and the Company and sold one third of our interest in ITI to the management of ITI for cash payments aggregating $100,000. In June 2004 we adjusted the carrying value of our remaining approximate 13% interest in ITI to $100,000, based on the consideration received for the interest sold, and recorded a charge of $50,000.

Interest Expense

Interest expense for the third quarter and first nine months of 2004 include approximately $233,000 and $713,000, respectively, related to the amortization of the value of warrants issued in connection with various debt transactions and beneficial conversion features related to convertible debt obligations. In the third quarter and first nine months of 2003 these non-cash charges amounted to approximately $277,000 and $510,000, respectively. The warrants were valued when they were issued using the Black-Scholes option pricing model and the amount is being amortized over the life of term of the underlying debt.

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Liquidity and Capital Resources

As of September 30, 2004, our working capital deficit was $7,320,000. This includes the effect of notes payable totaling approximately $6,520,000 that are due within one year. Notes at September 30, 2004 consist of (i) $3,900,000 related to our guaranteed bank facility, (ii) $2,521,000 related to our 12% convertible subordinated notes, net of unamortized discount, (iii) $575,000 in a guaranteed working capital facility, (iv) approximately $189,000 related to a promissory note issued in connection with the settlement of certain litigation and (v) a $100,000 convertible demand note payable to an officer and director.

Our guaranteed bank facility with Bank One, NA was reduced by $300,000 in July 2004. The terms of the facility provide for a further reduction of $300,000 by December 31, 2004 and for all amounts to be due on April 30, 2005.

As of September 30, 2004 the outstanding principal amount of our 12% convertible subordinated debentures amounted to $2,860,000, including $250,000 held by an officer and a director. These amounts are presented in our unaudited balance sheet net of approximately $339,000 in unamortized discount. The notes mature on June 30, 2005.

Operating Activities

Net cash used in operations for the nine months ended September 30, 2004 amounted to $531,000. This amount arose primarily from the net loss of $1,079,000 and the effect of non-cash charges related to depreciation and amortization, offset by the reduction in deferred revenue of $1,550,000 related to license fees from VISTA.

Investing Activities

For the nine months ended September 30, 2004, investing activities provided cash in the amount of $28,000. This resulted from the proceeds of the sale of a partial interest in ITI, offset by capital expenditures, primarily for computer equipment. We expect capital expenditures to remain near this level for the balance of 2004.

Financing Activities

In the nine months ended September 30, 2004 financing activities produced $339,000 in cash as a result of the proceeds from notes payable, the exercise of warrants and options to purchase our common stock, offset by repayments of notes payable. During the balance of 2004 we may generate cash flow from the issuance of debt or equity securities or from the proceeds of credit facilities.

Liquidity Outlook

For the nine months ended September 30, 2004 our net cash used in operating activities was $531,000, as compared to $4,905,000 in the same period of 2003. This is a significant decline from prior periods, due in part to the receipt of license fees from VISTA. We expect to generate cash flow from operating activities over the next 12 months. We expect that increases in net revenues from product shipments and services will contribute to our ability to generate positive cash flow from operating activities over the next 12 months. Should we not receive orders that we anticipate from our customers, or if we do not receive them within the timeframe we expect, we will not generate positive cash flow from operations.

The timing of expected product shipments is difficult to predict with accuracy. Accordingly, from time to time we may require additional working capital in order to offset the effect of potential delays of product shipments. Therefore, in July and October 2004 we entered into a revolving credit facility to provide up to $1,175,000 of additional working capital. At November 1, 2004 there was $775,000 outstanding under this facility.

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We have approximately $6,760,000 in notes payable that are due within the next twelve months. Of this amount, $2,860,000 relates to our 12% convertible subordinated notes that are convertible into our common stock at a rate that is below recent market prices. The balance of the notes payable relates to our guaranteed bank facility that has an outstanding balance of $3,900,000 as of September 30, 2004. We believe that we will be able to satisfy these obligations through (i) the possible conversion into common stock , (ii) restructuring the obligations, (iii) refinancing with the issuance of other debt or equity securities, (iv) the reduction of the obligations with cash flow from operations, or (v) a combination of these sources.

While we believe we will have adequate liquidity to operate our business, our estimate of capital needs is subject to a number of risks and uncertainties that could result in additional capital needs that we have not anticipated. An important aspect of our estimated capital requirements is our ability to generate positive cash flow from operations. Our ability to generate positive cash flow from operations is dependent upon our ability to increase revenues from our defense electronics business, to generate adequate gross profit from those sales and to control other costs and expenses. Our capital needs could increase materially if any of our contingent liabilities are resolved adversely to the Company. In addition, we could require additional working capital if the defense electronics business increases more rapidly than we currently anticipate.

Should we need additional capital over the next several months we believe that we will be able to secure it. Likely sources of additional capital include the sale of additional debt or equity securities. A sale of additional securities could result in dilution to existing common stockholders. There is no assurance that additional capital will be available under terms that are acceptable to us.

Contingent Liabilities

As discussed in ITEM 3 Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2003, we are exposed to certain contingent liabilities which, if resolved adversely to us, would adversely affect our liquidity, results of operations, and/or financial position. Other than as discussed in PART II ITEM 1 LEGAL PROCEEDINGS herein, there were no material changes to these matters in the first nine months of 2004.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have outstanding debt at September 30, 2004 amounting to approximately $4,475,000 that bears interest at a variable interest rate and subjects us to interest rate risk. This interest is based on widely used reference interest rates known as prime and LIBOR. For example, an increase of 50 basis points in these rates would result in an increase in our annual interest expense of approximately $22,000.

ITEM 4 CONTROLS AND PROCEDURES

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Our management, including our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

There were no changes to our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

In August 2004 we completed the previously announced settlement of a lawsuit that had been brought against the Company and certain current and former officers and directors in November 1999. Pursuant to the settlement agreement we paid an aggregate of $189,298 to the twelve individual plaintiffs in this matter in exchange for a release of all claims.

Zurich American Insurance Company (Zurich) provides excess liability coverage of up to $3,000,000 for amounts in excess of $2,000,000 related to this matter. The Company s incurred costs related to this matter, including defense costs and the settlement payments, total approximately $1,900,000. Accordingly, the coverage provided by Zurich has not been invoked. Zurich has none the less agreed to advance the settlement payments to the plaintiffs in return for the Company s promissory note in the amount of $189,298. The note is due July 21, 2006 and bears interest at 7% annually. Accrued interest is payable quarterly. The note is secured by warrants to purchase 948,517 shares of our common stock. The warrants expire upon the repayment of the note and any proceeds from the sale of common stock issued upon exercise of the warrants will be used to repay the promissory note.

Our costs related to this matter are also subject to a liability insurance policy issued by Reliance Insurance Company (Reliance). Reliance has been ordered liquidated by the insurance commissioner of the State of Pennsylvania. We have previously received reimbursement of $300,000 of our costs from the Texas Property and Casualty Guaranty Association and have filed a proof of claim for the remaining approximately $1,600,000 with the Statutory Liquidator for Reliance. The Statutory Liquidator has indicated that there will be funds available for distribution to policy holders of Reliance; however, the amount of these funds and the timing of the distribution, if any, is uncertain. Therefore, we have not reflected any further recovery from Reliance in our financial statements.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In connection with the arrangements related to the settlement of certain litigation (See Item 1 Legal Proceedings), we issued to Zurich a warrant for the purchase of 948,517 shares of common stock on August 19, 2004. The warrant was issued as collateral for a promissory note in the amount of $189,298 issued by the Company to Zurich and expires upon the repayment of the promissory note. The warrant has an exercise price of $0.01 per share. The number of shares of common stock subject to the warrant is subject to adjustment in certain circumstances. The warrant was issued pursuant to an exemption claimed under Section 4(2) of the Securities Act of 1933 in a private placement to a sophisticated institutional purchaser. The warrant and the shares issuable thereunder contain legends restricting their resale. We have entered into a Registration Rights Agreement with Zurich whereby we have agreed to file a registration statement for the resale of the common stock to be issued upon the exercise of the warrant not later than December 31, 2004.

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ITEM 6 - EXHIBITS

Listed below are all Exhibits filed as part of this report.

Exhibit	Description of Exhibit
4.1	Warrant Agreement issued to Zurich American Insurance Company
4.2	Registration Rights Agreement with Zurich American Insurance Company
10.1	Term Promissory Note dated August 19, 2004
31.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TERAFORCE TECHNOLOGY CORPORATION
(Registrant)

Date: November 12, 2004	/s/ ROBERT P. CAPPS
	Robert P. Capps Chief Financial Officer (Principal Financial and Accounting Officer)
Date: November 12, 2004	/s/ HERMAN M. FRIETSCH
	Herman M. Frietsch Chief Executive Officer and Director (Principal Executive Officer)

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Exhibit 31.1

302 CERTIFICATION

I, Herman M. Frietsch, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of TeraForce Technology Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

(5) The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 12, 2004

/s/ HERMAN M. FRIETSCH

Herman M. Frietsch
Chief Executive Officer

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Exhibit 31.2

302 CERTIFICATION

I, Robert P. Capps, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of TeraForce Technology Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

(5) The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 12, 2004

/s/ ROBERT P. CAPPS

Robert P. Capps
Chief Financial Officer

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of TeraForce Technology Corporation (the Company), does hereby certify, to such officer s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

November 12, 2004	/s/ Herman M. Frietsch
	Herman M. Frietsch Chief Executive Officer
November 12, 2004	/s/ Robert P. Capps
	Robert P. Capps Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filings of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): October 25, 2004

TeraForce Technology Corporation

(Exact name of registrant as specified in its charter)

Delaware	0-11630	76-0471342
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
1240 East Campbell Road, Richardson, Texas		75081
(Address of principal executive offices)		(Zip Code)

Registrant s telephone number, including area code: 469-330-4960

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

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On October 25, 2004 our wholly-owned subsidiary, DNA Computing Solutions, Inc. (DCS), expanded its revolving crdit arrangement with FirstCapital Bank (FirstCapital) by entering into a new Loan Agreement with whereby it can borrow up to $600,000 on a revolving basis. This new agreement is in addition the the $575,000 loan agreement with FirstCapital that was entered into in July 2004. Collectively, these loan agreement provide for borrowings of up to $1,175,000 (the Loans). The Loans are secured by the fixed assets, accounts receivable and inventory of DCS and by limited guarantees provided by a group of private investors, including one of our directors. The advances under the Loans bear interest, payable monthly, at prime plus 1%. All amounts outstanding under the Loans are due January 30, 2006 but may be repaid at any time without penalty.

Item 3.02. Unregistered Sales of Equity Securities.

As consideration for providing the guarantees that secure the new loan agreement referred to in Section 2.03 herein, we have entered into a Reimbursement Agreement dated July 22, 2004 with the guarantors. Pursuant to the Reimbursement Agreement and related agreements, the investors have the right to purchase up to 3,333,333 shares of our common stock for $600,000 in cash, the proceed of which will be use repay amounts outstanding under the new loan agreement and provide for the release of the guarantees. In addition, the investors have received warrants to purchase an aggregate of 6,666,667 shares of our common stock at a price of $0.20 per share. The warrants may be exercised at any time through July 31, 2010.

The Company has entered into registration rights agreements with each of these investors, and has agreed to file a registration statement registering the 3,333,333 shares of common stock that may be purchased by the investors upon repayment of the Note and the up to 36,666,667 shares of common stock to be issued upon the exercise of the warrants. The registration statement is to be filed no later than December 31, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TeraForce Technology Corporation

October 27, 2004 *By: Herman M. Frietsh*

Name: Herman M. Frietsh
Title: Chairman and CEO

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Exhibit Index

Exhibit No.	Description
4.1	Form of Warrant
4.2	Form of Registration Rights Agreement
10..1	Reimbursement Agreement
10.2	Subordinated Loan Agreement

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 10, 2004

TeraForce Technology Corporation

(Exact name of registrant as specified in its charter)

Delaware	0-11630	76-0471342
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1240 East Campbell Road, Richardson, Texas	75081
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 469-330-4960

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

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On November 10, 2004 the Company issued a press release announcing its financial results for its third quarter ended September 30, 2004 and announcing an investor conference call to be held on November 11, 2004. The Company s press release is attached as Exhibit 99.1 and is incorporated herein by refence.

The information in this Current Report on Form 8-K and the Exhibit attached hereto shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of any general incorporation language in such filing

Item 9.01. Financial Statements and Exhibits.

Exhibit 99.1 Press Release dated November 10, 2004

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TeraForce Technology Corporation

November 10, 2004 *By: Herman M. Frietsh*

Name: Herman M. Frietsh
Title: Chairman and CEO

Exhibit Index

Exhibit No.	Description
99.1	Press release dated November 10, 2004

N E W S R E L E A S E

TeraForce Reports Third Quarter 2004 Results

Contact: Patty Dickerson, Investor Relations 469-330-4969
pdickerson@teraforce-tech.com

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RICHARDSON, TEXAS (November 10, 2004) TeraForce Technology Corporation (OTCBB: TERA) today announced financial results for the third quarter ended September 30, 2004.

Financial Results

Net revenues in the third quarter of 2004 amounted to $1,439,000 versus $1,699,000 in the third quarter of 2003. Operating loss for the three months ended September 30, 2004 amounted to $1,143,000 versus an operating loss of $1,611,000 in the same period of 2003. For the first nine months of 2004 net revenues amounted to $8,414,000 and operating profit totaled $130,000. This compares with net revenues of $4,037,000 and an operating loss of $4,762,000 in the first nine months of 2003. The results for the first nine months of 2004 reflect product shipments of $5,014,000 and license fees of $3,400,000.

Engineering and development expenses in the third quarter of 2004 were $512,000 as compared to $582,000 in the third quarter of 2003. Selling and administrative expenses decreased to $1,101,000 in the third quarter of 2004 versus $1,171,000 in the third quarter last year.

Herman Frietsch, chairman and chief executive officer of TeraForce Technology Corporation commented, The slight dip in net revenues for this period, following quarterly increases, reflects the variability in order flow during the early stages of production stemming from our design wins. The business we anticipate from design wins has not diminished. However, as we have indicated previously, variability will continue to be seen as we progress into more consistent production phases.

Our base of business continues to grow and we are increasing our number of new program pursuits. Our recent transition to a direct sales force coupled with our new products are beginning to make a significant contribution to our growth expectations.

From a broader perspective, the overall political and budgetary environment appears very promising for our target segments of the defense and homeland security markets. In addition we are seeing considerable consolidation activity within our industry. While this activity may present certain challenges, we believe it provides us with important opportunities that we can exploit effectively.

Conference Call Scheduled

The Company will host a management conference call Thursday, November 11, 2004 at 3:30 p.m. Central Standard Time, to review the matters discussed in this release. Shareholders and investors interested in attending the conference call should dial 816-650-0765 ten minutes prior to the call and enter reservation code 28809669. A live webcast of the conference call will also be available on the TeraForce website at http://www.teraforcetechnology.com/ and click on Investor Relations.

A replay of the conference call will be available later that day from 5:00 p.m. Eastern Standard Time through 5:00 p.m. Eastern Standard Time on December 10, 2004. To access the playback, please call 402-220-2491. The reservation code for the replay is 2880669. A replay will be available online through the TeraForce website at http://www.teraforcetechnology.com/ and click on Investor Relations.

About TeraForce Technology Corporation

Based in Richardson, Texas, TeraForce Technology Corporation (OTCBB: TERA) designs,

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develops, produces and sells high-density embedded computing platforms and digital signal processing products, primarily for applications in the defense electronics industry. TeraForce s primary operating unit is DNA Computing Solutions, Inc.

Except for the historical information contained herein, the statements in this announcement are forward looking statements which involve risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the forward looking statements. Factors that might cause such a difference include, but are not limited to, those relating to: general economic conditions in the markets in which the Company operates; success in the development and market acceptance of new and existing products; dependence on suppliers, third party manufacturers and channels of distribution; contingent liabilities; customer and product concentration; fluctuations in customer demand; maintaining access to external sources of capital; ability to attract and retain key management and technical personnel; issues regarding intellectual property rights; overall management of the Company s expansion; and other risk factors detailed from time to time in the Company s filings with the Securities and Exchange Commission.

TERAFORCE TECHNOLOGY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(Thousands of dollars, except share and per share data)

	September 30, 2004	December 31, 2003
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1	$ 165
Accounts receivable net of allowance of $30 in 2004 and 2003	660	1,935
Inventories	1,161	1,595
Prepaid expenses and other current assets	552	537
Total current assets	2,374	4,232
Property and equipment, net	293	378
Investment in affiliate	100	250
Other assets	804	488
	$3,571	$ 5,348
Liabilities and Stockholders Deficit		
Current liabilities:		
Current portion of notes payable	$6,520	$ 700
Accounts payable	952	552
Deferred revenue		1,550
Accrued liabilities	2,222	2,629

Total current liabilities	9,694	5,431
Long-term notes payable	765	5,909
Other long-term liabilities	150	795
Stockholders deficit:		

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	September 30, 2004	December 31, 2003
	(unaudited)	
Common Stock, $.01 par value; authorized 250,000,000 shares; 133,561,526 and 130,837,186 shares issued in 2004 and 2003, respectively	1,336	1,308
Additional paid-in capital	189,994	189,194
Accumulated deficit	(196,781)	(195,702)
	(5,451)	(5,200)
Less 400,474 shares of common stock in treasury at cost	(1,587)	(1,587)
Total stockholders deficit	(7,038)	(6,787)
	$ 3,571	$ 5,348

TERAFORCE TECHNOLOGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(Thousands of dollars, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
		(unaudited)		
Net revenues	$ 1,439	$ 1,699	$ 8,414	$ 4,037
Cost of revenues	969	1,108	3,013	2,765
Gross profit	470	591	5,401	1,272
Expenses:				
Engineering and development	512	582	1,531	2,063
Selling and administrative	1,101	1,171	3,740	3,522
Write-off of receivable from unconsolidated affiliate		449		449
	1,613	2,202	5,271	6,034
Operating profit (loss)	(1,143)	(1,611)	130	(4,762)

Other income (expense):				
Litigation costs, net of insurance reimbursement	(50)	(292)	(50)	(417)
Share of loss and adjustment to carrying value of unconsolidated affiliate		(333)	(50)	(702)
Interest expense	(364)	(407)	(1,099)	(775)
Other	(2)	(16)	(10)	(81)
	(416)	(1,048)	(1,209)	(1,975)
Net loss	$ (1,559)	$ (2,659)	$ (1,079)	$ (6,737)
Basic and diluted loss per share	$ (.01)	$ (.02)	$ (.01)	$ (.06)
Weighted average number of common shares outstanding (thousands) basic and diluted	133,161	118,138	132,184	117,102

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TERAFORCE TECHNOLOGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Thousands of dollars)

	Nine Months Ended September 30,	
	2004	**2003**
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (1,079)	$ (6,737)
Adjustments to reconcile net loss to net cash used in operating activities:		
Utilization of prepaid services		193
Depreciation and amortization	165	190
Amortization of deferred financing costs	713	510
Loss related to unconsolidated affiliate	50	1,151
Other	(248)	(462)
Changes in operating assets and liabilities:		
Accounts receivable	1,275	(469)
Inventories	434	564
Deferred revenue	(1,550)	
Accounts payable and accrued liabilities	(291)	155
Net cash used in operating activities	(531)	(4,905)
Cash flows from investing activities:		
Capital expenditures	(63)	(22)
Investment in temporary cash investments		457
Proceeds from sale of partial interest in affiliate	100	
Software development costs	(9)	(105)
Net cash provided by investing activities	28	330
Cash flows from financing activities:		
Proceeds from issuance of notes payable	575	4,260
Proceeds from issuance of common stock	64	516
Principal payments on notes payable	(300)	(225)
Net cash provided by financing activities	339	4,551
Net decrease in cash and cash equivalents	(164)	(24)
Cash and cash equivalents, beginning of period	165	55

Cash and cash equivalents, end of period	$ 1	$ 31