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PART I

ITEM 1. BUSINESS

Development Of The Business

Fair, Isaac and Company, Incorporated (NYSE: FIC) ("Fair, Isaac" or the "Company") is a leading developer of data management systems and services for the financial services, retail, telecommunications, healthcare, personal lines insurance and other industries. The Company employs various tools, such as database enhancement software, predictive modeling, adaptive control and systems automation to help businesses worldwide use data to make faster, more profitable decisions on their marketing, customers, operations and portfolios. Fair, Isaac (www.fairisaac.com) is headquartered in San Rafael, California.

Established in 1956, Fair, Isaac pioneered the credit risk scoring technologies now employed by most major U.S. consumer credit grantors. Its rule-based decision management systems, originally developed to screen consumer credit applicants, are now routinely employed in all phases of the credit account cycle: direct mail solicitation (credit cards, lines of credit, etc.), application processing, card reissuance, on-line credit authorization, and collection. Although direct comparisons are difficult, management believes Fair, Isaac ranks first or second in sales of every type of credit management product or service it markets, and that its total sales to the consumer credit market exceed those for similar products by any direct competitor. Approximately 48% of the Company's revenues in fiscal 1999 were derived from usage-priced products and services marketed through alliances with major credit bureaus and third-party credit card processors. Sales of decision management products and services directly to credit industry end-users accounted for approximately 23% of revenues.

In more recent years Fair, Isaac has expanded its product and service offerings, applying its proven risk/reward modeling capabilities to automobile and home insurance underwriting, small business and mortgage lending, telecommunications, retail, healthcare, and eBusiness. With the acquisition of DynaMark in 1992, the Company made its first foray into marketing data processing and database management, combining DynaMark's strengths in warehousing and manipulating complex consumer databases with Fair, Isaac's expertise in predictive modeling and decision systems. DynaMark contributed \$65.3 million or 24% of Fair, Isaac's fiscal 1999 revenues. On October 1, 1999, DynaMark was merged into Fair, Isaac.

The Company's Insurance business unit generated revenues in fiscal 1999 of \$9.4 million or 3% of revenues. In fiscal 1997, the Company recorded its first revenues from its new Healthcare business unit, and in fiscal 1998, derived revenues from providing analytical marketing services to a large pharmaceuticals manufacturer to help improve customer relationships and management of prescription compliance (i.e., a patient's fulfillment of prescriptions and taking them to completion). Following the end of fiscal 1999, the Company announced its intent to exit the receivables management segment of its Healthcare business to focus on other opportunities.

In July 1997 the Company acquired Risk Management Technologies (RMT), a provider of enterprise-wide risk management and performance measurement solutions to major financial institutions around the world. RMT's revenues in fiscal 1999 were \$2.7 million, or 1% of the Company's revenues.

Fair, Isaac numbers, among its regular customers, hundreds of the world's leading credit card and travel card issuers, retail establishments and consumer lenders. It has enjoyed continuous client relationships with some of these companies for nearly 30 years. Through alliances with all three major U.S. credit bureaus, the Company also serves a large and growing number of middle-market credit grantors, primarily by providing direct mail solicitation screening, application scoring and account management services on a usage-fee basis. In addition, some of the Company's end-user products, such as CreditDesk(R) application processing software and CreditTable(R) pooled-data scoring systems, are designed to meet the needs of relatively small users.

Approximately 15% of Fair, Isaac's fiscal 1999 revenues came from sales outside the United States. With its long-standing presence in Western Europe and Canada and the more recent establishment of operating bases in Brazil, Great Britain, France, Germany, Italy, Japan, Mexico, South Africa and Spain, the Company is well positioned to benefit from the expected growth in global credit card issuance and usage into the next century.

Since 1994, Fair, Isaac's revenues and diluted earnings per share have increased at a compound rate of 25% and 21%, respectively. The Company attributes this growth to rising market demand for credit scoring and account management services; success in increasing its share of the market; and a gradual shift in marketing and pricing strategy, from primary reliance on direct, end-user sales of customized analytical and software products to ongoing usage revenues from services provided through credit bureaus and bankcard processing agencies.

During the period since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of the Company's largest institutional clients have merged and consolidated, the Company has generated above-average growth in revenues--even after adjusting for the effect of acquisitions--from its bankcard-related scoring and account management businesses by deepening its penetration of large banks and other credit issuers. The Company believes much of its future growth prospects will rest on its ability to: (1) develop new, high-value added products, (2) increase its penetration of established or emerging credit markets outside the U.S. and Canada and (3) expand--either directly or through further acquisitions--into relatively undeveloped or underdeveloped markets for its products and services, such as direct marketing, insurance, small business lending, healthcare, retail, telecommunications and eBusiness.

In fiscal 1999, the Company was organized into business units that corresponded to its principal markets: consumer credit, insurance, direct marketing (DynaMark), enterprise-wide financial risk management (RMT) and healthcare. In October 1999 the Company formally adopted new organizational structure and business models to focus on growth opportunities in the retail and telecommunications markets and to implement its new strategic objective of becoming an "analytic application service provider."

Late in calendar 1999, the Company declared its intent to become a Web-based "analytic application service provider" or "ASP." The Company already delivers certain of its capabilities through secure Web sites and it will try to adopt this delivery mode whenever possible in the future. Although not Web-based, certain other services--such as credit scores delivered through credit reporting agencies and account management services delivered through credit card processors--fall within the broader definition of an ASP. The Company is actively looking for more opportunities to deliver its capabilities in service bureau mode rather than as discrete component deliverables.

Products and Services

The Company's principal products are statistically derived, rule-based analytic tools designed to help businesses make more profitable decisions on their customers and prospective customers, and software systems and components to implement these analytic tools. In addition to sales of these products directly to end-users, the Company also makes these products available in service mode through arrangements with credit bureaus and third-party credit card processors. The Company provides data processing and database management services to businesses engaged in direct marketing. The Company's RMT subsidiary provides management tools to larger, more sophisticated financial institutions for enterprise-wide, integrated financial risk and profitability management.

Products and services sold to the consumer credit industry have traditionally accounted for most of the Company's revenues. However, the Company is actively promoting its products and services to other segments of the credit industry, including mortgage and small business lending; and to non-credit industries, particularly personal lines insurance, direct marketing, telecommunications, retail and healthcare. Consumer credit accounted for over 71% of the Company's revenues in each of the three years in the period ended September 30, 1999. Sales to customers in the direct marketing business, including the marketing arms of financial service businesses, accounted for 15% to 24% of revenues in each of the three years in the period ended September 30, 1999. Revenues from sales to the insurance industry accounted for 3% to 4% of revenues in each of the three years in the period ended September 30, 1999. In fiscal 1997 the Company recorded the first revenues from its new Healthcare business unit, and during fiscal 1998 derived revenues from providing analytical marketing services to a large pharmaceuticals manufacturer to help improve customer relationships and management of prescription compliance (i.e., a patient's fulfillment of prescriptions and taking them to completion) and introduced its healthcare receivables management

system product. In October 1999 the Company announced its intent to exit the healthcare receivables management business.

Analytic Products

The Company's primary analytic products are scoring algorithms (also called "models" or "scorecards") which can be used in screening lists of prospective customers, evaluating applicants for credit or insurance and managing existing credit accounts. Some of the most common types of scoring algorithms developed by the Company are described below. Scoring algorithms are developed by correlating information available at the time a particular decision is made with known performance at a later date. Scoring algorithms can be developed to predict the likelihood of different kinds of performance (e.g., credit delinquency, response to a solicitation, and insurance claims frequency); they can be developed from different data sources (e.g., credit applications and credit bureau files); and they can be developed either for a particular user ("custom" models or scorecards) or for many users in a particular industry ("pooled data" or "broad-based" models or scorecards).

Credit Application Scoring Algorithms. First introduced in 1958, Credit Application Scoring Algorithms are tools that permit credit grantors to calculate the risk of lending to individual applicants. They are delivered in the form of a table of numbers, one for each possible answer to each of about 10 to 12 selected predictive questions that are found on the form filled in by the applicant or on a credit report purchased by the credit grantor. The model "scores" an applicant by totaling the numbers associated with the answers provided about the applicant. The "score" thus obtained is compared to a "cutoff score" previously established by the credit grantor's management to determine whether or not to extend the requested credit, and on what terms. A significant proportion of revenues from Credit Application Scoring Algorithms is derived from sales of new or replacement algorithms to existing users.

Behavior Scoring Algorithms. The Company pioneered Behavior Scoring Algorithms with a research program in 1969. The first commercially successful products were introduced in 1978. In contrast to Credit Application Scoring Algorithms which deal with credit applicants, Behavior Scoring Algorithms permit management to define rules for the treatment of existing customers on an ongoing basis.

Although similar in statistical principle and manner of construction, Behavior Scoring Algorithms differ in several important respects from Credit Application Scoring Algorithms. First, rather than using an applicant's answers on a credit application or a credit report, the data used to determine a behavior score come from the customer's purchase and payment history with that organization. Second, each customer is scored monthly, rather than only at application time, and an action is selected each time in response to the score. Third, the available actions are much more varied. For example, if an account is delinquent, the actions available to a manager can include a simple message on a customer's bill calling attention to the delinquency, a dunning letter, a phone call, or a referral to a collection agency, with the action to be taken in any given case to be determined by the customer's behavior score.

To use a credit card example, scores produced by specially designed Behavior Scoring Algorithms can be used to select actions for mailing promotional materials to customers, for changing the credit limits allowed, for authorizing individual credit card transactions, for taking various actions on delinquent accounts and for reissuing credit cards which are about to expire. Behavior Scoring Algorithms are also components of the Adaptive Control Systems described below.

Credit Bureau Scoring Services. The Company also provides scoring algorithms to each of the three major automated credit bureaus in the United States. The algorithms calculate scores based solely on the information in consumer credit bureau files. Customers of the credit bureau can use the scores derived from these algorithms to prescreen solicitation candidates, to evaluate applicants for new credit and to review existing accounts. Credit grantors using these services pay based on usage and the Company and the credit bureau share these usage revenues. The PreScore(R) service offered by the Company through credit bureaus combines a license to use such algorithms for prescreening solicitation candidates along with tracking and consulting services provided by the Company, and is priced on a time or usage basis.

ScoreNet(R) Service. ScoreNet Service, introduced in August 1991, allows credit grantors to obtain Fair, Isaac's credit bureau scores and related data on a regular basis and in a format convenient for use in their account management programs. In most cases the account management program is a Fair, Isaac Adaptive Control System or Adaptive Control service at a credit card processor. The Company obtains the data from the credit bureau(s) selected

by each subscriber and delivers it to the subscriber in a format compatible with the subscriber's account management system.

Insurance Scoring Algorithms. The Company has also delivered scoring systems for insurance underwriters and marketers. Such systems use the same underlying statistical technology as credit scoring systems, but are designed to predict claim frequency or profitability of applicants for personal insurance such as automobile or homeowners' coverage. During fiscal 1993, the Company introduced a Property Loss Score ("PLS") service in conjunction with Equifax, Inc., a leading provider of data to insurance underwriters. In 1994, the Company introduced a similar service in conjunction with Trans Union Corporation called "ASSIST" which is designed to predict automobile insurance risk. In 1995, with Equifax Inc., the Company introduced a risk prediction score for automobile insurance called Casualty Loss Score ("CLS") service. Equifax subsequently spun off its Insurance unit, which is now Choicepoint. In 1996, with Acxiom, the Company introduced a risk prediction score for homeowners' and automobile insurance called InfoScore and during fiscal 1999, the Company introduced a similar score with Experian named the Experian/Fair, Isaac score. PLS, ASSIST, CLS, InfoScore and the Experian/Fair, Isaac scoring services are similar to the credit bureau scoring services in that a purchaser of data from ChoicePoint, Trans Union, Acxiom and Experian can use the scores to evaluate the risk posed by applicants for homeowners' or automobile insurance. The Company and ChoicePoint, Trans Union, Acxiom and Experian, as the case may be, share the usage revenue produced by these services. Aspects of automated application processing systems and Adaptive Control Systems are also applicable to insurance underwriting decisions. The Company is actively marketing its products and services to the insurance industry.

Other Scoring Algorithms. The Company has developed scoring algorithms for other users, which include public utilities that require deposits from selected applicants before starting service, tax authorities that select returns to be audited, and mortgage lenders. The Company has also developed scoring algorithms for use in selecting life insurance salesmen, finance company managers, and prisoners suitable for early release, although to date these algorithms have not generated significant revenues.

Automated Strategic Application Processing Systems (ASAP)

The Company's Automated Strategic Application Processing systems (ASAP) automate the processing of credit applications, including the implementation of the Company's Credit Application Scoring Algorithms. The Company offers Mid-Range ASAPs which are stand-alone assemblies of hardware and software; Mainframe ASAP, SEARCH, StrategyWare(R) and ScoreWare consisting of software for IBM and IBM-compatible mainframe computers; CreditDesk which consists of software for personal computers; and CreditCenter(TM) which is a new product for application processing that integrates components from Mainframe ASAP, StrategyWare and SEARCH with a web enabled user interface. The Company does not expect significant sales of new Mid-Range ASAP systems but still derives maintenance and enhancement revenues from existing systems.

The tasks performed by these systems may include: (i) checking for the completeness of the data initially given and printing an inquiry letter in the case of insufficient information; (ii) checking whether an applicant is a known perpetrator of fraud; (iii) electronically requesting, receiving, and interpreting a credit report when it is economic to do so; (iv) assigning a credit limit to the account, if acceptable, and printing a denial letter if not; and (v) forwarding the data necessary to originate billing records for accepted applicants.

Mid-Range ASAP is a minicomputer-based system which carries out the tasks listed above in a manner extensively "tailored" to each user's unique requirements. Mainframe ASAP is a software-only package designed to be executed on IBM or IBM-compatible mainframe computers. It is most useful for very large volume credit grantors who elect to enter application information from a number of separate locations. CreditDesk is designed for use on stand-alone or networked personal computers. Although its software functions are not tailored as extensively as the other versions of ASAP, CreditDesk features an easy-to-use graphics interface. The Company also sells software components for IBM or IBM-compatible mainframe computers under the tradenames "SEARCH" and "ScoreWare." SEARCH acquires and interprets credit bureau reports as a separate package. ScoreWare provides for easy installation of credit application scorecards and computes scores from such scorecards as part of the application processing sequence. StrategyWare combines the application processing features described above with the "Champion/Challenger" strategy concept described below under "Adaptive Control Systems".

The Company's Mid-Range and Mainframe ASAP systems are currently being used in the United States, Canada, and Europe by banks, retailers, and other financial institutions. CreditDesk is being used by over 600 credit

grantors in more than a dozen countries. To support these installations, the Company provides complete hardware and software maintenance, general software support in the form of consulting, and specific software support by producing enhancements, as well as other modifications at a user's request.

Adaptive Control Systems

The Company's most advanced product is the Adaptive Control System, now generally marketed under the tradename "TRIAD." An Adaptive Control System is a complex of behavior scoring algorithms, computer software, and account management strategy addressed to one or more aspects of the management of a consumer credit or similar portfolio. For example, the Company has developed Adaptive Control Systems for use by an electric utility and a telecommunications company in the management of its customer accounts.

A principal feature of an Adaptive Control System is software for testing and evaluation of alternative management strategies, designated the "Champion and Challenger Strategy Software." The "Champion" strategy applied to any aspect of controlling a portfolio of accounts (such as determining collection messages or setting credit limits) is that set of rules considered by management to be the most effective at the time. A "Challenger" strategy is a different set of rules which is considered a viable candidate to outperform the Champion. The Company's Champion and Challenger Strategy software is tailored to the customer's billing system and is designed to permit the operation of both strategies at the same time and also to permit varying fractions of the accounts to go to each of the competing strategies. For example, if a Challenger is very different from the Champion, management may wish to test it on a very small fraction of the accounts, rather than to risk a large loss. Alternatively, if a Challenger appears to be outperforming a Champion, management can direct more and more of the account flow to it. There need not, in fact, be a limitation on the number of Challengers in place at any one time beyond the limits imposed by the ability of the Company and the user management to study the results.

A Champion/Challenger structure is based on one or more of the Company's component products, usually Behavior Scoring Algorithms, as well as Company-developed software that permits convenient allocation of accounts to strategies and convenient modification of the strategies themselves. Adaptive Control Systems can also consider information external to the particular creditor, particularly scores and other information obtained from credit bureaus, in the design of strategies. A specific goal of the Company's Adaptive Control System product is to make the account management functions of the user as independent as possible of the user's overall data processing systems development department.

For a Champion/Challenger structure to function effectively, new Challenger strategies must be developed continually as insight is gained, as external conditions change, and as management goals are modified. The Company often participates in the design and development of new Challenger strategies and in the evaluation of the results of Champion/Challenger competitions as they develop.

Contracts for Adaptive Control Systems for end-users generally include multi-year software maintenance, strategy design and evaluation, and consulting components. The Company also provides Adaptive Control services through First Data Resources, Inc. and Total System Services, Inc., the two largest third-party credit card processors in the United States. The Adaptive Control service is also available in the United Kingdom through First Data Resources, Ltd. and Bank of Scotland; in Buenos Aires, through Argencard S.A.; and in Frankfurt, through B+S Card Service GmbH. Credit card issuers subscribing to these services pay monthly fees based on the number of accounts processed. The Company's StrategyWare(R) product is an Adaptive Control System designed to apply Champion/Challenger principles to the processing of new credit accounts, rather than the management of existing accounts. The Company believes that Adaptive Control Systems also can operate in areas other than consumer credit; and, as noted above, has provided an Adaptive Control System to an electric utility company and a telecommunications company.

DynaMark

DynaMark provides a variety of data processing and database management services to companies and organizations in direct marketing. DynaMark offers several proprietary tools in connection with such services including "DynaLink" and "DynaMatch." DynaLink gives financial institutions and other users remote computer access to their "warehoused" customer account files or marketing databases. It allows them to perform on-line analyses ranging from profiling the history of a single customer purchase or credit usage to calling up print-outs of all files having certain defined characteristics in common. DynaMatch uses a unique scoring system to identify matching or duplicate records that most standard "merge-purge" systems would overlook. Credit managers and direct marketers can use it to identify household relationships (accounts registered in different names, but sharing a common address and surname) and to eliminate costly duplicate mailings. Credit card issuers can use it to spot potentially fraudulent or overlimit credit card charges by individuals using two or more cards issued under slightly different names or addresses.

Risk Management Technologies

Risk Management Technologies (RMT) provides management tools to larger, more sophisticated financial institutions around the world for enterprise-wide, integrated financial risk and profitability management. Financial institutions must constantly evaluate the effect of interest rate changes and other factors on their entire operation including their loan, credit card and investment portfolios, to determine bottom line exposure and potential revenues. RMT's financial decision support software, the RADAR System, is a comprehensive enterprise management system that performs asset-liability management, transfer pricing, and performance measurement modeling. RMT's Genesis product is a graphical data integration management tool used to integrate data rapidly from multiple legacy systems and other sources into a consolidated, client/server data warehouse. Within this warehouse, data remain readily available for use in multiple decision-support applications.

Healthcare

The Company is currently providing analytical marketing services to a large pharmaceuticals manufacturer to help improve customer relationship and "compliance" management using a variety of techniques including internet communications. "Compliance" in this instance refers to whether prescriptions are actually filled and taken to completion. The Company also introduced a healthcare receivables management system for hospitals and other healthcare providers, and signed its first revenue-generating contract for this product in October 1998. Following the end of fiscal 1999 the Company announced its intent to exit the healthcare receivables management business.

Customer Service and Support

The Company provides service and support to its customers in a variety of ways. They include: (i) education of liaison teams appointed by buyers of scoring algorithms and software; (ii) maintenance of an answering service that responds to inquiries on minor technical questions; (iii) proactive Company follow-up with purchasers of the Company's products and services; (iv) conducting seminars held several times a year in various parts of the United States and, less often, in other countries; (v) conducting annual conferences for clients in which user experience is exchanged and new products are introduced; (vi) delivery of special studies which are related to the use of the Company's products and services; and (vii) consulting and training services provided by the Company's subsidiary, Credit & Risk Management Associates, Inc. ("CRMA"). CRMA was merged into the Company on October 1, 1999.

Scoring algorithms can diminish in effectiveness over time as the population of applicants or customers changes. Such changes take place for a variety of reasons, many of which are unknown or poorly understood, but some are a result of marketing strategy changes or shifts in the national or the local economy. It is to the user's advantage, therefore, to monitor the performance of its algorithms so that they can be replaced when it is economic to do so. In response to this need as well as the requirement of the Equal Credit Opportunity Act that scoring algorithms be periodically validated, the Company provides tracking services and software products which measure the continuing performance of its scoring algorithms while in use by customers.

Technology

The Company's personnel have a high degree of expertise in several separate disciplines: operations research, mathematical statistics, computer-based systems design, programming and data processing.

The fundamental principle of operations research is to direct attention to a class of management decisions, to make a mathematical model of the situation surrounding that class of decisions and to find rules for making the decisions which maximize achievement of the manager's goal. The Company's analytic products are classic examples of this doctrine reduced to practice. The entire focus is on decision making using the best mathematical and computational techniques available.

The fundamental goal of mathematical statistics is to provide the method for deriving the maximum amount of useful information from an undigested body of data. The objective of the design of computer-based systems is to provide a mechanism for efficiently accepting input data from a source, storing that data in a cost-effective medium, operating on the data with reliable algorithms and decision rules and reporting results in readily comprehensible forms.

The Company's analytic products have a clear distinguishing characteristic in that they make management by rule possible in situations where the only alternative is reliance on a group of people whose actions can never be entirely consistent. Rules for selecting actions require computation of probabilities of results. But computing the probability of a particular result in the traditional mode, that is, by counting the number of occurrences of each possible result in all possible combinations of circumstances, clearly breaks down when the number of combinations becomes very large. When only a few thousand cases of results are available, more subtle mathematical methods must be used. The Company has been actively developing and using techniques of this kind for 43 years, as indicated by the development and continual enhancement of its proprietary suite of algorithms and computer programs used to develop scoring algorithms.

The Company's products must also interface successfully with systems already in place. For example, they must accept data in various forms and in various media such as handwritten applications, video display terminal input, and telecommunications messages from credit bureaus. They must also provide output in diverse forms and media, such as video displays, printed reports, transactions on magnetic tape and printed letters. The Company's response to this interface requirement has been to develop a staff which is expert in both logical design of information systems and the various computer languages used for coding.

Markets and Customers

The Company's products for use in the area of consumer credit are marketed to banks, retailers, finance companies, oil companies, credit unions and credit card companies. The Company has over 600 users of products sold directly by the Company to end-users. These include about 75 of the 100 largest banks in the United States; several of the largest banks in Canada; approximately 40 banks in the United Kingdom; more than 70 retailers; 7 oil companies; major travel and entertainment card companies; and more than 40 finance companies. Custom algorithms and systems have generally been sold to larger credit grantors. The scoring, application processing and adaptive control services offered through credit bureaus and third-party processors are intended, in part, to extend usage of the Company's technology to smaller credit issuers and the Company believes that users of its products and services distributed through third-parties number in the thousands. As noted above, the Company also sells its products to utilities, tax authorities, and telecommunications and insurance companies.

The Company markets its services to a wide variety of businesses engaged in direct marketing. These include banks and insurance companies, catalog merchandisers, fund-raisers and others. Most of the DynaMark unit's revenues come from direct sales to the end user of its services, but in some cases the DynaMark unit acted as a subcontractor to advertising agencies or others managing a particular project for the end user. RMT markets to large financial institutions throughout the world. Its clients are typically large financial institutions with a wide range of products, investments and operational units and a sophisticated balance sheet.

No single end user customer accounted for more than 10% of the Company's revenues in fiscal 1999. Revenues generated through the Company's alliances with the three major credit bureaus in the United States, Equifax,

Experian Information Solutions, Inc. (formerly known as TRW Information Systems & Services) and Trans Union, each accounted for approximately eight to ten percent of the Company's total revenues in fiscal 1999.

The percentage of revenues derived from customers outside the United States was approximately 15% in fiscal 1999 and approximately 17% in each of fiscal 1998 and 1997. RMT derives less than half of its revenues from clients outside the United States. DynaMark had virtually no non-U.S. revenues prior to fiscal 1997. The United Kingdom and Canada are the largest international market segments. Mexico, South Africa, a number of countries in South America and almost all of the Western European countries are represented in the user base. The Company has delivered products to users in approximately 60 countries. The information set forth under the caption "Segment Information" in Note 12 to the Consolidated Financial Statements is incorporated herein by reference. The Company's foreign offices are primarily sales and customer service offices acting as agents on behalf of the U.S. production operations. Net identifiable assets, capital expenditures and depreciation associated with foreign offices are not material.

The Company has enjoyed good relations with the majority of its customers over extended periods of time, and a substantial portion of its revenue is derived from repeat customers. As noted above, the Company is actively pursuing new users, particularly in the marketing, insurance, telecommunications, retail and healthcare fields as well as those potential users in the consumer credit area not yet using the Company's products.

Contracts and Backlog

The Company's practice is to enter into contracts with several different kinds of payment terms. Scoring algorithms have historically been sold through one-time, fixed-price contracts. The Company will continue to sell scoring algorithms on this basis but has also entered into longer term contractual arrangements with some of its largest customers for the delivery of multiple algorithms. PC-ASAP ("CreditDesk") customers have the option to enter into contracts that provide for a one-time license fee or volume-sensitive monthly lease payments. The one-time and usage-based contracts contain a provision requiring monthly maintenance payments. Mainframe ASAP contracts include a one-time fee for the basic software license, plus monthly fees for maintenance and enhancement services. The Company also realizes maintenance and enhancement revenues from users of its line of Mid-Range ASAP systems. PreScore contracts call for usage or periodic license fees and there is generally a minimum charge. Contracts for the delivery of complete Adaptive Control Systems typically contain both fixed and variable elements in recognition of the fact that they extend over multiple years and must be negotiated in the face of substantial uncertainties. As noted above, the Company is also providing scoring algorithms and application processing on a service basis through credit bureaus, and credit account management services through third-party bankcard processors. Subscribers pay for these services and for the ScoreNet service based on usage. DynaMark, RMT and the Company's Healthcare unit employ a combination of fixed fee and volume-or usage-based pricing for their services.

As of September 30, 1999, the Company's backlog, which includes only firm contracts, was approximately \$55.9 million, as compared with approximately \$68.5 million as of September 30, 1998. This indicates that revenue in fiscal 2000 and later years may depend to a large extent on sales of newly developed products. Most usage-based revenues do not appear as part of the backlog. The Company believes that approximately 25 percent of the September 30, 1999 backlog will be delivered after the end of the current fiscal year ending September 30, 2000. Most DynaMark contracts include unit or usage charges, the total amount of which cannot be determined until the work is completed. DynaMark's and CRMA's backlog are not significant in amount, are not considered a significant indicator of future revenues, and are not included in the foregoing figures. RMT's backlog is included in the foregoing backlog figures.

Competition

The Company believes that its typical product development cycle, which in the past has extended as long as ten years, has tended to moderate the Company's growth rate. It also believes, however, that this long product development lead time provides a barrier to entry of competitive products. As credit scoring, automated application processing, and behavioral scoring algorithms, all of which were pioneered by the Company, have become standard tools for credit providers, competition has emerged from five sectors: scoring algorithm builders, providers of automated application processing services, data vendors, neural network developers and artificial intelligence system builders. It is likely that a number of new entrants will be attracted to the market, including both large and small companies. Many of the Company's present and potential competitors have substantially greater financial, managerial, marketing, and technological resources than the Company. The Company believes that none of its

competitors offer the same mix of products as the Company. However certain competitors may have larger shares of particular geographic or product markets. In-house analytic and systems developers are also a significant source of competition for the Company.

The Company believes that the principal factors affecting competition for scoring algorithms are product performance and reliability; expertise and knowledge of the credit industry; ability to deliver algorithms in a timely manner; customer support, training and documentation; ongoing enhancement of products; and comprehensiveness of product applications. It competes with both outside suppliers and in-house groups for this business. The Company's primary competitor among outside suppliers of scoring algorithms is Experian, formerly known as, C.C.N. Systems Limited ("CCN") of Nottingham, England, a subsidiary of Great Universal Stores plc, a large British retailer. Scores sold by credit bureaus in conjunction with credit reports, including scores computed by algorithms developed by the Company, provide potential customers with the alternative of purchasing scores on a usage-priced basis.

The Company believes that the principal factors affecting competition in the market for automated application processing systems (such as ASAP) are the same as those affecting scoring algorithms, together with experience in developing computer software products. Competitors in this area include outside computer service providers and in-house computer systems departments. The Company believes that its primary competitor in this area is American Management Systems, Incorporated ("AMS"). AMS also offers credit scoring algorithms.

The Company competes with data vendors in the market for its credit bureau scoring services including PreScore and ScoreNet. In the past several years, data vendors have expanded their services to include evaluation of the raw data they provide. All of the major credit bureaus offer competing prescreening and credit bureau scoring services developed, in some cases, in conjunction with the Company's primary scoring algorithm competitor, Experian.

Both AMS and Experian offer products intended to perform some of the same functions as the Company's Adaptive Control Systems. The Company believes that customers using its Adaptive Control Systems, in both custom end-user form and through third-party processors, significantly outnumber users of the competing AMS and Experian products.

Another source of emerging competition comes from companies developing artificial intelligence systems including those known as "expert systems" and "neural networks." An expert system is computer software that replicates the decision-making process of the best available human "experts" in solving a particular class of problem, such as credit approval, charge card authorization, or insurance underwriting. Scoring technology differs from expert systems in that scoring technology is based upon a large database of results, from which rules and algorithms are developed, as compared to expert systems, which are typically based primarily on the "expert's" judgment and less so upon a significant database. The Company believes its technology is superior to expert system technology where sufficient performance data are available. Neural networks, on the other hand, are an alternative method of developing scoring algorithms from a database but using mathematical techniques quite different from those used by the Company. For example, HNC Software, Inc. has developed systems using neural network technology which compete with some of the Company's products and services. The Company believes that analytical skill and knowledge of the business environment in which an algorithm will be used are generally more important than the choice of techniques used to develop the algorithm; and, further, that the Company has an advantage in these areas with respect to its primary markets as compared with neural network developers.

There are a large number of companies providing data processing and database management services in competition with DynaMark, some of which are considerably larger than DynaMark. The Company believes the market for such services will continue to expand rapidly for the foreseeable future. Competition in this area is based on price, service, and, in some cases, the ability of the processor to perform specialized tasks. DynaMark has concentrated on providing specialized types of data processing and database management services using proprietary tools which, it believes, give it an edge over its competition in these areas.

RMT is a provider of enterprise-wide risk management and performance-measurement solutions to major financial institutions. There are a number of companies offering enterprise-wide "solutions", or serving sub-segments of this market (such as trading operations of financial institutions), in competition with RMT.

Product Protection

The Company relies upon the laws protecting trade secrets and upon contractual non-disclosure safeguards, including its employee non-disclosure agreements and restrictions on transferability that are incorporated into its customer agreements, to protect its software and proprietary interests in its product methodology and know-how. The Company currently has one patent application pending but does not otherwise have patent protection for any of its programs or algorithms, nor does it believe that the law of copyrights affords any significant protection for its proprietary software. The Company instead relies principally upon such factors as the knowledge, ability, and experience of its personnel, new products, frequent product enhancements, and name recognition for its success and growth. The Company retains title to and protects the suite of algorithms and software used to develop scoring algorithms as a trade secret and has never distributed its source code.

In spite of these precautions, it may be possible for competitors or users to copy or reproduce aspects of the Company's software or to obtain information that the Company regards as trade secrets. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Due to recent changes in the case law and Patent and Trademark Office Guidelines with respect to the patentability of software, algorithms and "methods of doing business," the Company is currently reevaluating the possibility of obtaining patent protection for certain aspects of its technology.

Research and Development

Technological innovation and excellence have been goals of the Company since its founding. The Company devotes, and intends to continue to devote, significant funds to research and development to develop both new products and enhancements to its existing products. In addition, the Company has ongoing projects for improving its fundamental knowledge in the area of algorithm design, its capabilities to produce algorithms efficiently, and its ability to specify and code algorithm executing software. The information set forth in the line entitled "Research and development" in the Consolidated Statement of Income and the information set forth under the caption "Software costs" in Note 1 to the Consolidated Financial Statements is incorporated herein by reference.

In addition to the projects formally designated as Research and Development, many of the Company's activities contain a component that produces new knowledge. For example, an Adaptive Control System, by its nature and purpose, must be designed to match its environment and learn as it operates. In the areas in which the Company's products are useful, the "laboratory" is necessarily the site of the user's operations.

Personnel

As of September 30, 1999, the Company employed approximately 1,585 persons. None of its employees is covered by a collective bargaining agreement and no work stoppages have been experienced.

ITEM 2. PROPERTIES

The Company's principal office is located in San Rafael, California, approximately 15 miles north of San Francisco. The Company leases approximately 270,000 square feet of office space in four buildings at that location under leases expiring in 2001 or later. It also leases approximately 3,894 square feet of warehouse space in San Rafael for its hardware operations and for storage under month-to-month leases and 2,382 square feet for a telecommute center in Petaluma, California. In May 1998 the Company entered into a synthetic lease agreement for an office complex with approximately 406,000 square feet in San Rafael, California with an expected initial occupancy date in the year 2001. DynaMark leases approximately 167,000 square feet of office and data processing space in four buildings in Arden Hills, Minnesota under leases which expire in 2012. DynaMark also leases approximately 25,000 square feet of office and data processing space in New York City under a lease expiring in 2004 and approximately 14,800 square feet for offices in Brookings and Madison, South Dakota. RMT leases approximately 14,740 square feet of office space in Berkeley, California. The Company also leases a total of approximately 81,550 square feet of office space for offices in Baltimore, Maryland; Chicago, Illinois; New Castle, Delaware; Atlanta, Georgia; Toronto, Ontario; Birmingham, England; Tokyo, Japan; Paris, France; Mexico City, Mexico; Sao Paulo, Brazil; Milan, Italy; Johannesburg, South Africa; and Madrid, Spain. See Notes 5 and 11 in the Consolidated Financial Statements for information regarding the Company's obligations under leases. The Company believes that suitable additional space will be available to accommodate future needs.

ITEM 3. LEGAL PROCEEDINGS

No material legal proceedings are pending.

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

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name -----	Positions Held -----	Age ---
Thomas G. Grudnowski	President and Chief Executive Officer since joining the Company in December 1999. Became a Director of the Company in December 1999. Partner at Andersen Consulting from 1983-1999. Joined Andersen Consulting in 1972.	49
Larry E. Rosenberger	Executive Vice President since December 1999. President and Chief Executive Officer from March, 1991 to December 1999, Executive Vice President 1985-1991, Senior Vice President 1983-1985, Vice President 1977-1983. A Director from 1983-1999. Joined the Company in 1974.	53
John D. Woldrich	Executive Vice President since 1985, Senior Vice President 1983-1985, Vice President 1977-1983. Chief Operating Officer August 1995 to November 1999. A Director since 1983. Joined the Company in 1972.	56
Henk J. Evenhuis	Executive Vice President and Chief Financial Officer since joining the Company in October 1999. Executive Vice President and Chief Financial Officer of Lam Research Corporation 1987-1998.	56
Patrick G. Culhane	Executive Vice President since August 1995; Senior Vice President 1992-1995; Vice President 1990-1992; joined the Company in 1985.	45
H. Robert Heller	Executive Vice President since September 1996 and a Director since February 1994. President of International Payments Institute from December 1994 to September 1996; President and Chief Executive Officer of Visa U.S.A., Inc. 1991-1993, Executive Vice President of Visa International 1989-1991.	59
Sue Simon	Executive Vice President since December 1999; Senior Vice President since January 1999; Vice President 1997-1999. Joined the Company in 1996. Partner of The Spectrum Group from 1993-1996.	43
Kenneth M. Rapp	Executive Vice President since October 1999; Senior Vice President since August 1994, and President and Chief Operating Officer of DynaMark, Inc. (acquired by the Company as of December 1992) since it was founded in 1985.	53
Peter L. McCorkell	Executive Vice President since December 1999; Senior Vice President since August 1995; Vice President, Secretary and General Counsel since joining the Company in 1987.	53

The term of office for all officers is at the pleasure of the Board of Directors.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

As of May 6, 1996, the Company's common stock began trading on the New York Stock Exchange under the symbol: FIC. Prior to that date, it was traded over-the-counter on the NASDAQ Stock Market under the symbol: FICI. At December 3, 1999, Fair, Isaac had 335 shareholders of record of its common stock. The following table lists the high and low sales prices for the periods shown, as reported by the New York Stock Exchange and the NASDAQ Stock Market.

Stock Prices	High	Low
October 1 - December 31, 1997	46	30 1/4
January 1 - March 31, 1998	38 5/8	28 3/16
April 1 - June 30, 1998	40 9/16	31 1/2
July 1 - September 30, 1998	41 1/2	29 1/4
October 1 - December 31, 1998	46 1/2	28 9/16
January 1 - March 31, 1999	54 9/16	31 1/2
April 1 - June 30, 1999	37 1/16	32 1/2
July 1 - September 30, 1999	44 9/16	26 1/4

Dividends

On May 24, 1995, Fair, Isaac announced a 100 % stock dividend (equivalent to a two-for-one stock split) and its intention to pay quarterly dividends of 2 cents per share or 8 cents per year subsequent to issuance of the stock dividend. Quarterly dividends of that amount were paid throughout the 1997, 1998 and 1999 fiscal years. There are no current plans to change the cash dividend or to issue any further stock dividend.

Recent Sales of Unregistered Securities

On July 21, 1997, the Company acquired all the outstanding stock of RMT, a privately held California corporation, pursuant to a merger of a wholly owned subsidiary of the Company and RMT in which RMT became a wholly owned subsidiary of the Company (the "Merger"). The number of shares of the Company's common stock and option equivalents issued by the Company in connection with the Merger was 1,252,655.

At the time of the transaction, the issuance of the shares of the Company's common stock and the options to purchase the Company common stock to the former RMT security holders in the Merger was not registered under the Securities Act of 1933, as amended (the "1933 Act"), because the transaction involved a non-public offering exempt from registration under Section 4(2) of the 1933 Act and Regulation D promulgated thereunder.

ITEM 6. Selected Financial Data

Fiscal year ended September 30,	(dollars in thousands, except per share data)				
	1999	1998	1997	1996	1995
Revenues	\$276,931	\$245,545	\$199,009	\$155,913	\$117,089
Income from operations	46,375	40,432	37,756	29,518	19,828
Income before income taxes	50,600	42,105	35,546	28,704	21,390
Net income	29,980	24,327	20,686	17,423	12,753
Earnings per share:					
Diluted	\$2.09	\$1.68	\$1.46	\$1.25	\$.93
Basic	\$2.13	\$1.77	\$1.55	\$1.32	\$.99
Dividends per share *	\$.08	\$.08	\$.08	\$.08	\$.055
At September 30,	1999	1998	1997	1996	1995
Working capital	\$ 55,885	\$ 54,852	\$ 47,727	\$ 34,699	\$ 23,448
Total assets	210,353	189,614	145,228	118,023	91,009
Long-term capital lease obligations	364	789	1,183	1,552	1,930
Stockholders' equity	156,499	133,451	103,189	79,654	56,176

* Because the change to quarterly dividends was initiated in September 1995, the rate of dividends paid in fiscal 1995 does not reflect the current annual rate of 8 cents per share.

The financial data for the fiscal years ended September 30, 1995 through 1996 have been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated, and Risk Management Technologies, which has been accounted for under the pooling-of-interests method.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Fair, Isaac and Company, Incorporated, provides products and services designed to help a variety of businesses use data to make faster, more profitable decisions on their marketing, customers, operations and portfolios. Widely recognized for its pioneering work in predictive technology, the Company provides advanced decision-making solutions to the financial services, retail, telecommunications, healthcare and other industries.

In fiscal 1999, the Company was organized into business units that corresponded to its principal markets: consumer credit, insurance, direct marketing (DynaMark), enterprise-wide financial risk management (RMT) and healthcare. In October 1999 the Company formally adopted new organizational structure and business models to focus on growth opportunities in the retail and telecommunications markets and to implement its new strategic objective of becoming an eBusiness company.

The Company's products include statistically derived, rule-based analytical tools, software that automates strategy design and implementation, and consulting services to help clients use and track the performance of those tools. The Company also provides a range of credit scoring and credit account management services in conjunction with credit bureaus and credit card processing agencies.

The Company's DynaMark subsidiary provided data processing and database management services to businesses engaged in direct marketing activities, many of which are in the financial services and insurance industries. Effective October 1, 1999, DynaMark was merged into the Company as part of the Company's positioning to implement its new strategies. The Company's Risk Management Technologies subsidiary provides enterprise-wide risk management and performance measurement solutions to major financial institutions.

This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes. In addition to historical information, this report includes certain forward-looking statements regarding events and trends that may affect the Company's future results. Such statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially. Such factors include, but are not limited to, those described in this discussion and analysis.

RESULTS OF OPERATIONS

Revenues

In fiscal 1999 the Company's revenues and earnings were generated primarily from operations of its five business segments: Credit, DynaMark, RMT, Insurance and Healthcare strategic business units. The table that follows summarizes the results by segment for years 1997, 1998 and 1999. The following information should be read in conjunction with Note 12 of Notes to the Consolidated Financial Statements.

Sales to the consumer credit industry have traditionally accounted for the bulk of the Company's revenues. Products developed specifically for a single user in this market are generally sold on a fixed-price basis. Such products include application and behavior scoring algorithms (also known as "analytic products," "scorecards" or "models"), credit application processing systems (ASAP(TM), CreditDesk(R) and CreditCenter(TM)) and custom credit account management systems, including those marketed under the name TRIAD(TM). Software systems usually also have a component of ongoing maintenance revenue, and CreditDesk systems have also been sold under time- or volume-based price arrangements. Credit scoring and credit account management services sold through credit bureaus and third-party credit card processors are generally priced based on usage. Products sold to the insurance industry are generally priced based on the number of policies in force, subject to contract minimums. DynaMark, RMT and the Healthcare unit employ a combination of fixed-fee and usage-based pricing for their products.

The following table sets forth for the fiscal periods indicated (a) the percentage of revenues represented by fixed-price and usage-priced revenues from the Credit business unit, and the percentage of revenues contributed by the DynaMark, RMT, Insurance and Healthcare business units; and (b) the percentage change in revenues within each category from the prior fiscal year.

	Percentage of revenue			Period-to-period percentage changes	
	-----			-----	
	Years ended September 30,			1998 to 1999	1997 to 1998
	1999	1998	1997		
Credit:					
Fixed-price	23	25	29	3	9
Usage-priced	48	48	48	12	21
DynaMark	24	20	15	33	65
RMT 1	1	3	4	(57)	(26)
Insurance	3	4	3	3	58
Healthcare	1	<1	1	157	(4)
	-----	-----	-----		
Total Revenues	100	100	100	13	23
	====	====	====		

Fixed-price revenues in the Credit business unit include all revenues from custom models, software and consulting projects. Revenues from credit application scoring products decreased by 12% in fiscal 1998 compared with fiscal 1997, and increased by 19% in fiscal 1999 compared with fiscal 1998. The decrease in revenues in fiscal 1998 reflected the impact of bank consolidations and external market forces relating to Year 2000. The increase in fiscal 1999 was due primarily to the Company's sales of new products and increased sales of small business loan scoring products.

ASAP revenues increased by 14% in fiscal 1998 compared with fiscal 1997 primarily due to increased sales of PC-based ASAP products (CreditDesk) and sales of the StrategyWare(R) decision engine systems. During the quarter ended September 30, 1999, the Company elected to adopt AICPA statement of Position No. 98-9 (SOP 98-9) though adoption by the Company was not required for periods prior to October 1, 1999. ASAP revenues decreased by 22% in fiscal 1999 compared with fiscal 1998, due primarily to the impact of the adoption of SOP 98-9. If SOP 98-9 had not been adopted, ASAP revenues would have decreased by 2% in fiscal 1999. As a result of the early adoption of SOP 98-9, software revenues of approximately \$4.7 million were deferred in fiscal 1999. Had the Company implemented SOP 98-9 as of October 1, 1998, there would have been approximately \$7.4 million less in ASAP revenue for the year ended September 30, 1999, which would have been deferred to future periods.

Revenues from sales of credit account management systems (TRIAD) sold to end-users increased by 18% from fiscal 1997 to fiscal 1998 and by 12% from fiscal 1998 to fiscal 1999. The increase in fiscal 1998 and fiscal 1999 was due primarily to continuing sales of the then current version of TRIAD (TRIAD 5.0) which was released in November 1997. The Company's high degree of success in penetrating the U.S. bankcard industry with these

products has limited, and may continue to limit, the revenue growth in that market. However, the Company has added functionality for the existing base of TRIAD users and is actively marketing TRIAD for other types of credit products and in overseas markets.

The Company provides credit risk management consulting services primarily through its subsidiary, Credit & Risk Management Associates, Inc. (CRMA), the results of which are included in the Credit business unit. CRMA's revenues increased by 62% in fiscal 1998 compared with fiscal 1997 and by 45% in fiscal 1999 compared with fiscal 1998. The revenues of CRMA comprised approximately 3% of the Company's revenues in fiscal 1998 and 4% in fiscal 1999. On October 1, 1999, CRMA was merged into the Company to implement the Company's new business strategies.

Usage revenues are generated primarily by credit scoring services distributed through major credit bureaus and credit account management services distributed through third-party bankcard processors. In addition, some credit scorecards and software products are licensed under volume-based fee arrangements, and these are included in credit usage-priced revenues. Revenues from credit bureau-related services increased 22% in fiscal 1998 compared with fiscal 1997 and 14% in fiscal 1999 compared with fiscal 1998, and accounted for approximately 35% and 36% of revenues in fiscal 1998 and 1999, respectively. Revenues from services provided through bankcard processors also increased in each of these years, primarily due to increases in the number of accounts at each of the major processors.

Revenues derived from alliances with credit bureaus and credit card processors have accounted for much of the Company's revenue growth in the last three years. While the Company has been very successful in extending or renewing such agreements in the past, and believes it will generally be able to do so in the future, the loss of one or more such alliances or an adverse change in terms could have a significant impact on revenues and operating margin. Revenues generated through the Company's alliances with Equifax, Inc.; Experian Information Solutions, Inc. (formerly TRW Information Systems & Services); and Trans Union Corporation each accounted for approximately 8% to 10% of the Company's total revenues in fiscal 1997, approximately 7% to 10% in fiscal 1998 and approximately 8% to 10% in fiscal 1999.

On September 30, 1997, amendments to the federal Fair Credit Reporting Act became effective. The Company believes these changes to the federal law regulating credit reporting have been favorable to the Company and its clients. Among other things, the new law expressly permits the use of credit bureau data to prescreen consumers for offers of credit and insurance and allows affiliated companies to share consumer information with each other subject to certain conditions. There is also a seven-year moratorium on new state legislation on certain issues. However, the states remain free to regulate the use of credit bureau data in connection with insurance underwriting. The Company believes enacted or proposed state regulation of the insurance industry has had a negative impact on its efforts to sell insurance risk scores through credit reporting agencies.

The Financial Services Modernization Act of 1999 was enacted and signed into law on November 12, 1999. The statute contains several privacy provisions. The legislation also allows banks, securities firms, and insurance companies to affiliate and enter new business activities. The Company believes that this legislation will not have a material impact on its operations or revenues.

Revenues from the Company's DynaMark business unit increased from \$29.8 million in fiscal 1997 to \$49.1 million in fiscal 1998 and to \$65.3 million in fiscal 1999. These increases in DynaMark's revenues (which exclude intercompany revenues) were due primarily to increased revenues from customers in the financial services industry. Since its acquisition, DynaMark has taken on an increasing share of the mainframe batch processing requirements of the Company's other business units. Such intercompany revenue represented approximately 14% of DynaMark's total revenues in fiscal 1997, approximately 8% of DynaMark's total revenues in fiscal 1998, and approximately 4% of DynaMark's total revenues in fiscal 1999.

RMT's revenues for fiscal 1998 decreased by 26% compared with fiscal 1997, and in fiscal 1999 decreased by 57% compared with fiscal 1998, due primarily to the impact of bank consolidations and delay in releases of new products.

Increases in insurance revenues for fiscal 1997 and 1998, compared with the respective prior year, were due to strong growth in both insurance products sold to end-users and in the insurance scoring services offered through consumer reporting agencies. In fiscal 1999, increases in insurance revenues compared with fiscal 1998 were due to growth in insurance scoring services. The Company recorded its first revenues from its Healthcare business unit in fiscal 1997. In the quarter ended December 31, 1998, the Company signed its first revenue-generating contract for its receivables management system for hospitals and healthcare providers (introduced in December 1997) and derived revenues from this new product in fiscal 1999. In October 1999 the Company announced its intent to exit the

healthcare receivables management business to devote more resources to other opportunities. The Company is currently exploring its exit options and cannot now forecast the impact of its decision to exit this business. It is possible that the exit from this business may have an adverse effect on revenues, gross profit and results of operations in the period during which the exit is completed.

The Company's revenues derived from clients outside the United States increased from \$33.9 million in fiscal 1997 to \$42.9 million in fiscal 1998 and decreased to \$41.5 million in fiscal 1999. RMT contributed \$4.6 million, \$3.7 million and \$1.2 million to the Company's non-U.S. revenues for fiscal years 1997, 1998 and 1999, respectively. DynaMark has not had significant non-U.S. revenues. Sales of software products, including TRIAD and CreditDesk, increased usage of credit bureau scores in Canada, and an increase in the number of accounts using the Company's account management services at credit card processors in Europe and Latin America accounted for most of the increase in international revenues in fiscal 1997 and 1998. The decreases in international revenues in fiscal 1999 were principally the result of a decline in revenues from sales by RMT in the Asian market. Gains or losses due to fluctuations in currency exchange rates have not been significant to date but may become more important if, as expected, the proportion of the Company's revenues denominated in foreign currencies increases in the future.

Revenues from software maintenance and consulting services each accounted for less than 10% of revenues in each of the three years in the period ended September 30, 1999, and the Company does not expect revenues from either of these sources to exceed 10% of revenues in the foreseeable future.

During the period since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of the Company's largest institutional clients have merged and consolidated, the Company has generated most of its revenue growth from its bankcard-related scoring and account management business by deepening its penetration of large banks and other credit issuers. The Company believes much of its future growth prospects will rest on its ability to (a) develop new, high-value products, (b) increase its penetration of established or emerging credit markets outside the U.S. and Canada and (c) expand--either directly or through further acquisitions--into relatively undeveloped or underdeveloped markets for its products and services, such as direct marketing, insurance, small business lending, healthcare information management, retail, telecommunications and eBusiness. During fiscal 1998, the Company's backlog of orders for fixed-priced products declined slightly, and in fiscal 1999 this backlog declined an additional \$7.3 million. This indicates that revenue growth in fiscal 2000 and later years may depend to a large extent on sales of newly developed products.

Over the long term, in addition to the factors discussed above, the Company's rate of revenue growth--excluding growth due to acquisitions--is limited by the rate at which it can recruit and absorb additional professional staff. Management believes this constraint will continue to exist indefinitely. On the other hand, despite the high penetration the Company has already achieved in certain markets, the opportunities for application of its core competencies are much greater than it can pursue. Thus, the Company believes it can continue to grow revenues, within the personnel constraint, for the foreseeable future. At times management may forego short-term revenue growth in order to devote limited resources to opportunities that it believes have exceptional long-term potential. This is the basis for the Company's new strategic focus of becoming an eBusiness company and implementing new growth initiatives targeted at the retail and telecommunications markets. A similar longer-range strategic initiative occurred during the period from 1988 through 1990, when the Company devoted significant resources to developing the usage-priced services distributed through credit bureaus and third-party processors.

Expenses

The following table sets forth for the fiscal periods indicated (a) the percentage of total revenues represented by certain line items in the Company's Consolidated Statements of Income and Comprehensive Income and (b) the percentage change in the amount of each such line item from the prior fiscal year.

	Percentage of revenue			Period-to-period percentage changes	
	Years ended September 30,			1998 to	1997 to
	1999	1998	1997	1999	1998
Total revenues	100	100	100	13	23
Costs and expenses:					
Cost of revenues	38	35	36	24	17
Sales and marketing	15	15	15	14	28
Research and development	11	12	9	2	66
General and administrative	18	21	20	(2)	28
Amortization of intangibles	1	1	1	30	9
Total costs and expenses	83	84	81	12	27
Income from operations	17	16	19	15	7
Other income (expense)	1	1	(1)	153	NM*
Income before income taxes	18	17	18	20	18
Provision for income taxes	7	7	8	16	20
Net income	11	10	10	23	18

*Not meaningful

Cost of revenues

Cost of revenues consists primarily of personnel, travel and related overhead costs; costs of computer service bureaus; and the amounts paid by the Company to credit bureaus for scores and related information in connection with the ScoreNet(R) Service.

Cost of revenues, as a percentage of revenues, declined slightly in the period from fiscal 1997 to fiscal 1998 and increased in the period from fiscal 1998 to fiscal 1999. The decrease in fiscal 1998 was due primarily to the reassignment to research and development activities of certain personnel whose primary assignment had been production and delivery. In fiscal 1999 the increase was primarily due to the increasing percentage of revenues coming from DynaMark's products and services which generally have a lower gross margin than the Company's other products and services on average.

Sales and marketing

Sales and marketing expenses consist principally of personnel, travel, overhead, advertising and other promotional expenses. As a percentage of revenues, sales and marketing expenses have remained essentially unchanged since fiscal 1997.

Research and development

Research and development expenses include the personnel and related overhead costs incurred in product development, researching mathematical and statistical algorithms and developing software tools that are aimed at improving productivity, profitability and management control. Research and development, as a percentage of revenues, increased sharply from fiscal 1997 to fiscal 1998 and declined slightly from fiscal 1998 to fiscal 1999.

In fiscal 1998 and 1999, the Company continued to emphasize development of new technologies and new products. Research and development expenditures in fiscal 1998 were primarily related to new bankruptcy scoring products for Visa (Integrated Solutions Concepts) and Trans Union, new fraud-detection software products, joint product development projects with Deluxe Financial Services, Inc., healthcare receivables management and Year 2000 compliance work. Research and development expenditures in fiscal 1999 were primarily related to new fraud-detection software products, a new release of TRIAD software, Year 2000 readiness work, development of a new automated strategic application processing system for high-end users, next generation credit bureau risk scores and healthcare receivables management. In the last quarter of fiscal 1999, the Company began work on a number of

projects for clients in the eBusiness and telecommunications industries. The decrease in research and development expenses, as a percentage of revenues, in fiscal 1999 was due to a reduction in costs of Year 2000 compliance work and work related to the Deluxe development, and the replacement of relatively expensive consultants with regular employees. The Company expects that research and development expenses will increase in future periods for development of new products targeted for the telecommunications and retail markets and to implement its strategic focus on becoming an eBusiness company.

General and administrative

General and administrative expenses consist mainly of compensation expenses for certain senior management, corporate facilities expenses, the costs of administering certain benefit plans, legal expenses, expenses associated with the exploration of new business opportunities and the costs of operating administrative functions, such as finance and computer information systems. As a percentage of revenues, general and administrative expenses were essentially unchanged for fiscal 1997 and 1998 and declined in fiscal 1999, due primarily to emphasis on cost reduction measures resulting in slower personnel growth and to reassignment of personnel and related costs.

Amortization of intangibles

The Company is amortizing the intangible assets arising from various acquisitions over periods ranging from four to fifteen years. During the quarter ended June 30, 1999, the Company made the final additional contingent payment to the former shareholders of CRMA, which was acquired in 1996. The amount of the payment was approximately \$2.1 million, resulting in increased amortization expenses in fiscal 1999 and in future periods. See "Capital Resources and Liquidity."

Other income (expense)

The table in Note 13 to the Consolidated Financial Statements presents the detail of other income and expenses. Interest income is derived from the investment of funds surplus to the Company's immediate operating requirements. At September 30, 1999, the Company had approximately \$60.1 million invested in U.S. treasury securities and other interest-bearing instruments. Interest income increased in both fiscal 1998 and 1999 due to higher average cash balances in interest-bearing accounts and instruments.

The Company's share of operating losses in certain early-stage development companies that are accounted for using the equity method is charged to other expense. In the fiscal year ended September 30, 1998, the Company liquidated its share of a non-marketable security, which had been written off in fiscal 1997 as a loss in the amount of \$2 million. This liquidation resulted in a gain of \$165,000. The Company has no further financial commitments in connection with this investment. Note 4 to the Consolidated Financial Statements describes the Company's investment in such non-marketable securities. In fiscal 1998, the difference between the increase in operating income (7%) and the increase in net income (18%) was primarily due to the interest income derived from investments in U.S. treasury securities and other interest-bearing instruments, and the absence of losses from investments in start-ups.

In fiscal 1999, the Company realized a one-time gain in the amount of \$720,000 due to curtailment of the Company's pension plan, as described in Note 8 to the Consolidated Financial Statements. The Company also realized a gain of \$483,000 from the sale of marketable securities.

Provision for income taxes

The Company's effective tax rate was 41.8%, 42.2% and 40.8% in fiscal 1997, 1998 and 1999, respectively. The decrease to 40.8% in fiscal 1999 was due primarily to a decrease in the Company's effective state tax rate for fiscal 1999.

Capital Resources and Liquidity

Working capital increased from \$47,727,000 at September 30, 1997, to \$54,852,000 at September 30, 1998 and to \$55,885,000 at September 30, 1999. The increase in fiscal 1998 was due primarily to increases in short-term investments, unbilled work in progress and accounts receivable, which more than offset the increase in accounts payable and other accrued liabilities and accrued compensation and employee benefits.

The increase in fiscal 1999 was due primarily to increases in cash, cash equivalents, unbilled work in progress and decreases in other accrued liabilities, which more than offset the decreases in short-term investments, and accounts receivable and increases in accrued compensation and employee benefits.

The Company's exposure to collection risks is comprised of the sum of accounts receivable plus unbilled work in progress, less billings in excess of earned revenues. Changes in contract terms and product mix, along with variations in timing, may cause fluctuations in any or all of these items. During fiscal 1998, the increase in accounts receivable was proportionally much less than the increase in revenues due to improved collection efforts by the Company, and the increases in unbilled work in progress and billings in excess of earned revenues were proportional to the increase in revenues. During fiscal 1999, accounts receivable decreased compared with fiscal 1998 due to improved collection efforts. The increases in billings in excess of earned revenues were proportional to the increase in revenues. The increase in unbilled work in progress was due primarily to the timing of credit bureau revenues.

The Company capitalized \$263,000 as goodwill relating to amounts due to the former stockholders of CRMA under the CRMA purchase agreement, based upon its financial results in fiscal 1998. A final additional payment made in June 1999 to the former stockholders of CRMA in the approximate amount of \$2.1 million was capitalized in the third quarter of fiscal 1999. See Note 2 of Notes to the Consolidated Financial Statements.

In fiscal 1998, cash provided by operations resulted primarily from net income before depreciation and amortization, and increases in accounts payable and other accrued liabilities and accrued compensation and employee benefits, partially offset by the increases in accounts receivable, other assets and unbilled work in progress. Cash was used in investing activities primarily for additions to property and equipment, and purchases of marketable securities, partially offset by the maturities of marketable securities. Cash was provided by financing activities primarily from the exercise of stock options, partially offset by cash used for the payment of dividends and the reduction of capital lease obligations.

In fiscal 1999, cash provided by operations resulted primarily from net income before depreciation and amortization, decreases in accounts receivable and increases in accrued compensation and employee benefits, partially offset by the increases in unbilled work in progress and prepaid expenses and other assets and decreases in other accrued liabilities and accounts payable. Cash was used in investing activities primarily for additions to property and equipment and purchases of marketable securities, partially offset by proceeds from the sale of marketable securities and maturities of marketable securities. Cash was provided by financing activities primarily from the exercise of stock options, which was more than offset by cash used for the repurchases of Company stock, payment of dividends and the reduction of capital lease obligations.

Future cash flows will continue to be affected by operating results, contractual billing terms and collections, investment decisions and dividend payments, if any. At September 30, 1999, the Company had no significant capital commitments other than those obligations described in Notes 5 and 11 of the Consolidated Financial Statements.

In May 1998, the Company entered into a synthetic lease arrangement to construct an office complex intended to accommodate future growth, which will materially increase the Company's future operating lease expenses. Rental payments will commence upon completion of construction, which is expected to occur in fiscal 2001. With this external financing, the Company believes that the cash and marketable securities on hand, along with cash expected to be generated by operations, will be adequate to meet its capital and liquidity needs for both the current year and the foreseeable future.

In March 1999, the Company initiated a stock repurchase program under which the Company was authorized to purchase up to one million shares of its common stock, to be funded by cash on hand. Through September 30, 1999, the Company had repurchased 360,004 shares at a cost of approximately \$12.2 million.

Year 2000 Readiness

The Company has completed its Year 2000 remediation work and readiness testing on its software products marketed to customers. New products and updated versions of its software products currently being shipped to customers are Year 2000 compliant. Year 2000 remediation work, including readiness testing, for most earlier versions of the Company's software installed at customer sites is performed as part of the Company's normal upgrade and maintenance process. Prior to the end of calendar 1999, the Company will discontinue support for some software products that have been replaced by other products, and Year 2000 upgrades for these products will not be available. Revenues from such products are not significant. There can be no assurances that the Company's current products do not contain undetected errors or defects associated with Year 2000 date functions which may result in material costs to the Company.

In addition, the Company believes that Year 2000 issues have caused customers to slow down computer software purchases as they devote more time to preparing and testing their systems for Year 2000 readiness. Purchasing patterns of customers are expected to be impacted by Year 2000 issues through January 1, 2000, and beyond. The Company is also aware of a growing number of lawsuits against other software vendors arising out of Year 2000 readiness issues. Because of the unprecedented nature of such litigation, it is uncertain to what extent the Company may be affected by it. Based on its ongoing assessment of the impact of Year 2000 issues, the Company currently does not expect significant disruption of its revenues or operations from the Year 2000 issues associated with its products. This assessment process is continuing and the Company has developed contingency plans to address Year 2000 issues. As part of the implementation of its contingency plans the Company has put in place processes to address expected increases in requests by customers for greater customer support in late 1999 and early 2000 and has notified customers of this customer support availability.

The Company has determined that all of its business-critical internal information technology ("IT") systems have been thoroughly tested and are Year 2000 ready. For all IT applications supplied to the Company by third parties, appropriate available "patches" have been applied and the Company believes the applications are Year 2000 ready. For both IT and non-IT systems, readiness testing is ongoing and will continue through December 1999, with priority given to business-critical non-IT systems and applications. The most reasonably likely worst-case scenarios would include: (a) corruption of data contained in the Company's internal information systems, and (b) hardware/operating system failure. The Company has completed its contingency plans for business-critical IT and non-IT internal systems as an extension of its existing disaster recovery plan.

Through September 30, 1999, costs expended for Year 2000 remediation (including readiness testing) of products and internal systems and contingency planning are approximately \$4.8 million, and the Company currently does not expect such aggregate costs to exceed \$5 million. These costs principally consist of both internal staff costs and expenses for external consultants, software and hardware, which have been or will be expensed by the Company during the period they are incurred. Expected costs for the Year 2000 remediation work (including readiness testing) and projected completion dates are based on management's estimates and assumptions and actual results may vary materially from those anticipated.

The Company is working directly with parties on which it is dependent for essential services and for the distribution of its significant services to address any remaining Year 2000 issues, including in some cases, jointly developing contingency plans. Information received to date indicates that these parties are in the process of implementing and/or testing remediation strategies to ensure Year 2000 readiness of systems, services and/or products. However, the lack of resolution of Year 2000 issues by these parties--especially the credit bureaus and credit card processors through which the Company distributes credit scoring and account management services--could have a material adverse impact on the Company's future business operations, financial condition and results of operations.

The Company anticipates that the most reasonably likely worst-case scenarios involving third-party Year 2000 issues would include: (a) failure of infrastructure services provided by government agencies and third parties (e.g., transportation, electricity, telephone, Internet services, etc.) and (b) failure of one or more of the credit bureaus or credit card processors through which the Company distributes its credit scoring and account management services to achieve timely and successful Year 2000 readiness. Contingency plans to address these most reasonably likely worst-

case scenarios have been completed. At this time the Company cannot quantify the potential impact of third-party Year 2000 issues.

The Company believes it is taking reasonable steps consistent with standard industry practices to prevent major interruptions in business due to Year 2000 issues. Its Year 2000 program is monitored by the Audit Committee of the Board of Directors.

The foregoing information and statements regarding the Company's Year 2000 capabilities and readiness are "Year 2000 Information and Readiness Disclosures" in conformance with the Year 2000 Information and Readiness Disclosure Act of 1998 enacted on October 19, 1998.

European Economic and Monetary Union (EMU)

Under the European Union's plan for Economic and Monetary Union (EMU), the euro becomes the sole accounting currency of EMU countries on January 1, 2002. Its initial phase went into effect on January 1, 1999, in 11 participating countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. In this initial phase the EMU mandated that key financial systems be able to triangulate conversion rates so that any amount booked will be logged and processed simultaneously in both the local currency and euros. The Company believes that its computer systems and programs are euro-compliant. Costs associated with compliance were not material and were expensed by the Company as they were incurred. The Company also believes the conversion to the euro will not have a material impact on the Company's consolidated financial results.

Quarterly Results

The table in Note 16 to the Consolidated Financial Statements presents unaudited quarterly operating results for the last eight fiscal quarters. Management believes that all the necessary adjustments have been included in the amounts stated to present fairly the selected quarterly information, when read in conjunction with the financial statements included elsewhere in this report. This information includes all normal recurring adjustments that the Company considers necessary for a fair presentation thereof, in accordance with generally accepted accounting principles.

Quarterly results may be affected by fluctuations in revenue associated with credit card solicitations, by the timing of orders for and deliveries of certain software systems and by the seasonality of ScoreNet purchases. With the exception of the cost of ScoreNet data purchased by the Company, most of its operating expenses are not affected by short-term fluctuations in revenues; thus, short-term fluctuations in revenues may have a significant impact on operating results. However, in recent years these fluctuations were generally offset by the strong growth in revenues from services delivered through credit bureaus and third-party bankcard processors.

During the quarter ended September 30, 1999, the Company elected to adopt AICPA statement of Position No. 98-9 (SOP 98-9) though adoption by the Company was not required for periods prior to October 1, 1999. As a result of the early adoption of SOP 98-9, software revenues of approximately \$4.7 million were deferred in fiscal 1999. The one-time gain due to curtailment of the Company's pension plan, described under "Other income (expense)," was recognized in the fourth quarter of fiscal 1999.

Management believes that neither the quarterly variations in net revenues and net income nor the results of operations for any particular quarter are necessarily indicative of results of operations for full fiscal years. Accordingly, management believes that the Company's results should be evaluated on an annual basis.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures. The following discussion about the Company's market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company is exposed to market risk related to changes in interest rates, foreign currency exchange rates and equity security price risk. The Company does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity. The Company maintains an investment portfolio consisting mainly of income securities with an average maturity of less than five years. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. The Company has the ability to hold its fixed income investments until maturity, and therefore the Company would not expect its operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on its securities portfolio. The Company believes foreign currency and equity risk is not material.

The following table presents the principal amounts and related weighted-average yields for the Company's fixed rate investment portfolio:

	Carrying Amounts	Average Yield
Cash and cash equivalents:		
Commercial paper	\$ 2,377,500	5.4%
U.S. government obligations	9,565,597	5.3%
Money market funds	3,189,523	4.5%

	15,132,620	5.2%

Short-term investments:		
U.S. government obligations	5,216,158	5.1%
Long-term investments:		
U.S. government obligations	38,774,721	5.4%

Total	\$59,123,499	
	=====	

ITEM 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Fair, Isaac and Company, Incorporated:

We have audited the accompanying consolidated balance sheets of Fair, Isaac and Company, Incorporated, and subsidiaries as of September 30, 1999 and 1998, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fair, Isaac and Company, Incorporated, and subsidiaries as of September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1999, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of revenue recognition for certain products in 1999.

/s/ KPMG LLP

San Francisco, California
October 26, 1999

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended September 30,	(dollars in thousands, except per share data)		
	1999	1998	1997
<hr style="border-top: 1px dashed black;"/>			
Revenues	\$ 276,931	\$ 245,545	\$ 199,009
Costs and expenses:			
Cost of revenues	105,454	84,980	72,566
Sales and marketing	42,549	37,470	29,162
Research and development	29,720	29,136	17,572
General and administrative	51,020	52,132	40,679
Amortization of intangibles	1,813	1,395	1,274
	-----	-----	-----
Total costs and expenses	230,556	205,113	161,253
	-----	-----	-----
Income from operations	46,375	40,432	37,756
Other income (expense), net	4,225	1,673	(2,210)
	-----	-----	-----
Income before income taxes	50,600	42,105	35,546
Provision for income taxes	20,620	17,778	14,860
	-----	-----	-----
Net income	\$ 29,980	\$ 24,327	\$ 20,686
	=====	=====	=====
Net income	\$ 29,980	\$ 24,327	\$ 20,686
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on investments:			
Unrealized holding gains (losses)			
arising during period	(293)	383	220
Less: reclassification adjustment	(281)	--	--
	-----	-----	-----
Net unrealized gains (losses)	(574)	383	220
Foreign currency translation adjustments	(127)	138	(163)
	-----	-----	-----
Other comprehensive income (loss)	(701)	521	57
	-----	-----	-----
Comprehensive income	\$ 29,279	\$ 24,848	\$ 20,743
	=====	=====	=====
Earnings per share:			
Diluted	\$ 2.09	\$ 1.68	\$ 1.46
	=====	=====	=====
Basic	\$ 2.13	\$ 1.77	\$ 1.55
	=====	=====	=====
Shares used in computing earnings per share:			
Diluted	14,364,000	14,463,000	14,202,000
	=====	=====	=====
Basic	14,073,000	13,763,000	13,386,000
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

September 30,	(dollars in thousands)	
-----	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,715	\$ 14,242
Short-term investments	5,216	18,283
Accounts receivable, net of allowance (1999: \$1,274; 1998: \$1,163)	36,007	39,028
Unbilled work in progress	26,859	22,004
Prepaid expenses and other current assets	6,509	4,040
Deferred income taxes	6,021	5,016
	-----	-----
Total current assets	101,327	102,613
Investments	43,934	24,368
Property and equipment, net	39,353	36,893
Intangibles, net	10,730	10,458
Deferred income taxes	5,932	6,398
Other assets	9,077	8,884
	-----	-----
	\$ 210,353	\$ 189,614
	=====	=====
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 3,340	\$ 3,481
Accrued compensation and employee benefits	23,436	22,065
Other accrued liabilities	9,339	13,937
Billings in excess of earned revenues	8,898	7,862
Capital lease obligations	429	416
	-----	-----
Total current liabilities	45,442	47,761
Long-term liabilities:		
Accrued compensation and employee benefits	6,104	6,044
Other liabilities	1,944	1,569
Capital lease obligations	364	789
	-----	-----
	8,412	8,402
	-----	-----
Total liabilities	53,854	56,163
	-----	-----
Stockholders' equity:		
Preferred stock (\$0.01 par value; 1,000,000 authorized; none issued or outstanding)	--	--
Common stock (\$0.01 par value; 35,000,000 shares authorized; 14,313,616 and 13,992,126 shares issued, and 13,980,425 and 13,982,339 outstanding at September 30, 1999 and 1998, respectively)	143	140
Paid in capital in excess of par value	38,287	32,454
Retained earnings	129,530	100,678
Less treasury stock	(11,290)	(351)
Accumulated other comprehensive income (loss)	(171)	530
	-----	-----
Total stockholders' equity	156,499	133,451
	-----	-----
	\$ 210,353	\$ 189,614
	=====	=====

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended September 30, 1997, 1998 and 1999

(in thousands)

	Common stock		Paid in capital in excess of par value	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Par value					
Balances at September 30, 1996	13,270	\$ 133	\$ 21,628	\$ 58,009	\$ (68)	\$ (48)	\$ 79,654
Issuance of common stock	47	--	1,044	--	--	--	1,044
Vesting of restricted stock	--	--	289	--	--	--	289
Exercise of stock options	141	2	1,018	--	--	--	1,020
Tax benefit of exercised stock options	--	--	1,474	--	--	--	1,474
Contribution/sale to ESOP	41	--	504	--	105	--	609
Deferred compensation	--	--	68	--	--	--	68
Repurchase of company stock	(37)	--	--	--	(470)	--	(470)
Net income	--	--	--	20,686	--	--	20,686
Dividends declared	--	--	--	(1,028)	--	--	(1,028)
Charge to reflect change in RMT's fiscal year	--	--	--	(214)	--	--	(214)
Unrealized gains on investments	--	--	--	--	--	220	220
Cumulative translation adjustments	--	--	--	--	--	(163)	(163)
Balances at September 30, 1997	13,462	135	26,025	77,453	(433)	9	103,189
Issuance of common stock	33	--	1,468	--	--	--	1,468
Vesting of restricted stock	--	--	185	--	--	--	185
Exercise of stock options	487	5	2,726	--	--	--	2,731
Tax benefit of exercised stock options	--	--	1,660	--	--	--	1,660
Deferred compensation	--	--	472	--	--	--	472
Repurchase of company stock	(3)	--	(82)	--	(28)	--	(110)
Issuance of treasury stock	3	--	--	--	110	--	110
Net income	--	--	--	24,327	--	--	24,327
Dividends declared	--	--	--	(1,102)	--	--	(1,102)
Unrealized gains on investments	--	--	--	--	--	383	383
Cumulative translation adjustments	--	--	--	--	--	138	138
Balances at September 30, 1998	13,982	140	32,454	100,678	(351)	530	133,451
Issuance of common stock	44	--	1,455	--	--	--	1,455
Vesting of restricted stock	--	--	17	--	--	--	17
Exercise of stock options	277	3	3,203	--	--	--	3,206
Tax benefit of exercised stock options	--	--	1,285	--	--	--	1,285
Deferred compensation	--	--	255	--	--	--	255
Repurchase of company stock	(361)	--	--	--	(12,232)	--	(12,232)
Issuance of treasury stock	38	--	(382)	--	1,293	--	911
Net income	--	--	--	29,980	--	--	29,980
Dividends declared	--	--	--	(1,128)	--	--	(1,128)
Unrealized losses on investments	--	--	--	--	--	(574)	(574)
Cumulative translation adjustments	--	--	--	--	--	(127)	(127)
Balances at September 30, 1999	13,980	\$ 143	\$ 38,287	\$ 129,530	\$ (11,290)	\$ (171)	\$ 156,499

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 30,	(dollars in thousands)		
-----	1999	1998	1997
-----	-----	-----	-----
Cash flows from operating activities			
Net income	\$ 29,980	\$ 24,327	\$ 20,686
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	17,431	14,948	11,753
Deferred compensation	255	472	68
Gain on sale of investments	(483)	--	--
Deferred income taxes	(134)	(3,809)	(2,824)
Loss in equity investment	--	--	2,082
Investment write-off	--	--	773
Charge to reflect change in RMT's fiscal year	--	--	(214)
Other	223	--	--
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	3,024	(2,743)	(8,104)
(Increase) in unbilled work in progress	(4,855)	(3,828)	(7,611)
Decrease (increase) in prepaid expenses and other assets	(2,213)	473	2,945
Decrease (increase) in other assets	(194)	(4,963)	515
Increase (decrease) in accounts payable	(1,598)	1,070	(419)
Increase in accrued compensation and employee benefits	3,140	4,497	4,578
Increase (decrease) in other accrued liabilities	(1,862)	9,156	748
Increase in billings in excess of earned revenues	1,036	1,516	1,406
Increase (decrease) in other liabilities	(1,266)	152	(323)
	-----	-----	-----
Net cash provided by operating activities	42,484	41,268	26,059
	-----	-----	-----
Cash flows from investing activities			
Purchases of property and equipment	(16,799)	(15,669)	(21,313)
Payments for acquisition of subsidiaries	(1,454)	(3,347)	(78)
Purchases of investments	(80,319)	(33,491)	(9,658)
Proceeds from sale of investments	46,647	--	--
Proceeds from maturities of investments	26,437	11,030	7,568
	-----	-----	-----
Net cash used in investing activities	(25,488)	(41,477)	(23,481)
	-----	-----	-----
Cash flows from financing activities			
Principal payments of capital lease obligations	(413)	(387)	(378)
Proceeds from the exercise of stock options and issuance of treasury stock	3,250	2,841	1,020
Dividends paid	(1,128)	(1,102)	(1,028)
Repurchase of company stock	(12,232)	(110)	(470)
	-----	-----	-----
Net cash provided by (used in) financing activities	(10,523)	1,242	(856)
	-----	-----	-----
Increase in cash and cash equivalents	6,473	1,033	1,722
Cash and cash equivalents, beginning of year	14,242	13,209	11,487
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 20,715	\$ 14,242	\$ 13,209
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Summary of Significant Accounting Policies

Nature of business

Fair, Isaac and Company, Incorporated (the "Company"), is incorporated under the laws of the State of Delaware. The Company offers a variety of technological tools to enable users to make better decisions through data analysis. The Company is a world leader in developing predictive and risk assessment models for the financial services industry, including credit and insurance scoring algorithms. The Company also offers direct marketing and database management services, and enterprise-wide risk management and performance measurement solutions to major financial institutions through its wholly owned subsidiaries, DynaMark, Inc. (DynaMark) and Risk Management Technologies (RMT), respectively. Effective October 1, 1999, DynaMark merged into the Company, so it no longer exists as a separate entity.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated from the consolidated financial statements.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and investments with an original maturity of 90 days or less at time of purchase.

Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable and accounts payable are approximately equal to their carrying amounts because of the short-term maturity of these instruments. The fair values of the Company's investments are disclosed in Note 4. The carrying amount of capital lease obligations approximates fair value at September 30, 1999.

Investments

Investments in U.S. government obligations and marketable equity securities are classified as "available-for-sale" and are carried at market value. Other investments are carried at the lower of cost or net realizable method. Investments classified with remaining maturities over one year are classified as long-term investments due to the Company's current intent.

Credit and market risk

The Company invests a portion of its excess cash in U.S. government obligations and has established guidelines relative to diversification and maturities that maintain safety and liquidity. In addition, an allowance for doubtful accounts is maintained at a level which management believes is sufficient to cover potential credit losses for accounts receivable. Actual losses have been within management's expectations.

Depreciation and amortization

Depreciation and amortization on property and equipment including leasehold improvements and capitalized leases are provided using the straight-line method over estimated useful lives ranging from three to seven years or the term of the respective leases

Intangibles

The intangible assets consisting of goodwill and non-compete agreements arose principally from business acquisitions and are amortized on a straight-line basis over the period of expected benefit, which ranges from 4 to 15 years. The Company assesses the recoverability of goodwill by evaluating the undiscounted projected results of operations over the remaining amortization period.

Revenue recognition

Revenues from contracts for the development of custom scoring systems and software are recognized using the percentage-of-completion method of accounting based upon milestones that are defined using management's estimates of costs incurred at various stages of the project as compared to total estimated project costs. Revenues determined by the percentage-of-completion method in excess of contract billings are recorded as unbilled work in progress. Such amounts are generally billable upon reaching certain performance milestones that are defined by the individual contracts. Deposits billed and received in advance of performance under contracts are recorded as billings in excess of earned revenues.

Revenues from usage-priced products and services are recognized on receipt of usage reports from the third parties through which such products and services are delivered. Amounts due under such arrangements are recorded as unbilled work in progress until collected. Revenues from non-customized software licenses and shrink-wrapped products are recognized ratably over the contract period. Revenues from products and services sold on time-based pricing, including maintenance of computer and software systems, are recognized ratably over the contract period.

During the first quarter of fiscal year 1999, the Company adopted Statement of Position No. 97-2 (SOP 97-2), "Software Revenue Recognition," as amended by Statement of Position No. 98-4 "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition." SOP 97-2 provides guidance for software revenue recognition. The adoption of SOP 97-2 did not have a significant impact on the Company's financial position or results of operations.

In December 1998, the AICPA issued Statement of Position No. 98-9 (SOP 98-9), "Modifications of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 98-9 requires recognition of revenue using the "residual method" in a multiple-element software arrangement when fair value does not exist for one or more of the delivered elements in the arrangement. Under the "residual method," the total fair value of the undelivered elements is deferred and recognized in accordance with SOP 97-2. SOP 98-9 also extends the deferral of the application of SOP 97-2 to certain other multiple-element software arrangements to the Company's fiscal year ending September 30, 2000. The Company elected to implement SOP 98-9 in its fourth quarter effective July 1, 1999. Implementation of SOP 98-9 resulted in the Company deferring \$4.7 million in revenue from the fourth quarter of 1999 into fiscal year 2000.

Software costs

The Company follows one of two paths to develop software. One involves a detailed program design, which is used when introducing new technology; the other involves the creation of a working model for modification to existing technologies which has been supported by adequate testing. All costs incurred prior to the resolution of unproven functionality and features, including new technologies, are expensed as research and development. After the uncertainties have been tested and the development issues have been resolved, technological feasibility is achieved and subsequent costs such as coding, debugging and testing are capitalized.

When developing software using existing technology, the costs incurred prior to the completion of a working model are expensed. Once the product design is met, this typically concludes the software development process and is usually the point at which technological feasibility is established. Subsequent expenses, including coding and testing, if any, are capitalized. For the three-year period ending September 30, 1999, technological feasibility coincided with the completion process; thus, all design and development costs were expensed as research and development costs.

Purchased software costs are amortized over three to five years. For the years ended September 30, 1999, 1998 and 1997, amortization of capitalized software was \$416,000, \$528,000 and \$808,000, respectively. At September 30, 1999 and 1998, unamortized purchased computer software costs were \$6,382,000 and \$6,508,000, respectively.

In March 1998, the AICPA issued SOP No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. The SOP also requires that costs related to the preliminary project stage and the post-implementation/operations stage of an internal-use computer software development project be expensed as incurred. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1998. Beginning with fiscal year 2000, management intends to conform its consolidated financial statements to this pronouncement. The Company's management believes that the adoption of SOP 98-1 will not have a material impact on the Company's results of operations.

Income taxes

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

Foreign currency

The Company has determined that the functional currency of each foreign operation is the local currency. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate on the balance sheet date, while revenues and expenses are translated at average rates of exchange prevailing during the period. Translation adjustments are accumulated as a separate component of stockholders' equity.

Earnings per share

Diluted earnings per share are based on the weighted-average number of common shares outstanding and common stock equivalent shares. Common stock equivalent shares result from the assumed exercise of outstanding stock options that have a dilutive effect when applying the treasury stock method. Basic earnings per share are computed on the basis of the weighted average number of common stock shares outstanding.

New accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for all quarters of fiscal years beginning after June 15, 1999. SFAS No. 133 requires the recognition of all derivatives on the balance sheet at fair value. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, An Amendment of FASB Statement No.133." SFAS No. 137 defers the effective date of SFAS No. 133 by one year. SFAS No. 133 is now effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. Because the Company currently holds no derivative instruments and does not engage in hedging activities, management expects that the adoption of SFAS No. 133 will have no material impact on our financial position, results of operations or cash flows. Management intends to conform its consolidated statements to this pronouncement beginning July 1, 2000.

2. Mergers and Acquisitions

In July 1997, the Company issued 1,252,665 shares of its common stock (including 544,218 shares underlying options assumed by the Company) in connection with the merger with RMT. The acquisition has been accounted for under the pooling-of-interests method.

For the pre-merger period indicated, revenues and net income of the Company and RMT are as follows:

(dollars in thousands)	Nine-months ended June 30, 1997 (unaudited)

Revenues	
Fair, Isaac and Company, Incorporated	\$137,031
Risk Management Technologies	5,746

	\$142,777
	=====
Net Income	
Fair, Isaac and Company, Incorporated	\$ 13,732
Risk Management Technologies	630

	\$ 14,362
	=====

RMT previously used the fiscal year ended December 31 for its financial reporting. The statement of income's comparative 1997 results reflect the operations of the Company and RMT for the year ended September 30, 1997. Accordingly, the duplication of RMT's net income, for the three months ended December 31, 1996, has been adjusted by a \$214,000 charge to retained earnings in fiscal 1997.

In 1996, the Company acquired 100% of the stock of Credit & Risk Management Associates, Inc. (CRMA), a privately held consulting services company, which was accounted for as a purchase. The CRMA purchase agreement provides for additional contingent cash and Company stock payments to the former CRMA shareholders not to exceed \$5,499,000 based on specified financial performance of CRMA through September 1999. For the years ended September 30, 1999, 1998 and 1997, an additional \$2,085,000, \$265,000 and \$45,000, respectively, were capitalized as goodwill relating to the additional contingent cash and Company stock payments. The capitalized goodwill is being amortized on a straight-line basis through September 2003.

3. Cash Flow Statement

Supplemental disclosure of cash flow information:

(dollars in thousands)	Years ended September 30,		
	1999	1998	1997

Income tax payments	\$24,457	\$17,174	\$14,278
Interest paid	\$ 184	\$ 803	\$ 336
Non-cash investing and financing activities:			
Assets acquired through financing	\$ 1,641	\$ --	\$ --
Issuance of common stock to ESOP	\$ 1,455	\$ 1,323	\$ 969
Tax benefit of exercised stock options	\$ 1,285	\$ 1,660	\$ 1,474
Purchase of CRMA with common/treasury stock	\$ 631	\$ 145	\$ --
Contributions of treasury stock to ESOP	\$ 236	\$ --	\$ 609
Vesting of restricted stock	\$ 17	\$ 185	\$ 289

4. Investments

The following is a summary of available-for-sale securities and other investments at September 30, 1999 and 1998:

(dollars in thousands)	1999				1998			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Short-term investments:								
U.S. government obligations	\$ 5,228	\$ --	\$ (12)	\$ 5,216	\$ 18,049	\$ 234	\$--	\$ 18,283
Long-term investments:								
U.S. government obligations	\$ 39,462	\$ 21	\$ (709)	\$ 38,774	\$ 20,051	\$ 676	\$--	\$ 20,727
Marketable equity securities	3,751	913	--	4,664	2,978	281	--	3,259
Other	496	--	--	496	382	--	--	382
	\$ 43,709	\$ 934	\$ (709)	\$ 43,934	\$ 23,411	\$ 957	\$--	\$ 24,368

The long-term U.S. government obligations mature in one to five years.

For the year ended September 30, 1997, a non-marketable investment with an equity basis of \$773,000 in an overseas start-up venture, principally an Italian credit reporting agency, was written off due to the potential negative impact on the agency's operations from a new Italian privacy law. During the year ended September 30, 1998, the Company liquidated its share of this non-marketable security for a gain of \$165,000. The Company does not have any further financial commitments with respect to this investment. The Company also recognized its equity share of losses from this Italian venture of \$2,082,000 for the year ended September 30, 1997.

5. Property and Equipment

Property and equipment at September 30, 1999 and 1998, valued at cost, consist of the following:

(dollars in thousands)	1999	1998
Data processing equipment	\$ 51,530	\$ 42,995
Office furniture, vehicles and equipment	18,747	16,156
Leasehold improvements	16,660	13,777
Capitalized leases	2,841	2,841
Less accumulated depreciation and amortization	(50,425)	(38,876)
Net property and equipment	\$ 39,353	\$ 36,893

Depreciation and amortization charged to operations were \$15,618,000, \$13,553,000 and \$10,479,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

Capitalized leases consist primarily of one lease bearing an interest rate of 7% that matures in the year 2001. The following is a schedule, by years, of future minimum lease payments under capitalized leases, together with the present value of the net minimum lease payments, at September 30, 1999:

Years ended September 30,	(dollars in thousands)
2000	\$ 467
2001	375
	842
Less: Amount representing interest	(49)
Present value of net minimum lease payments	\$ 793

6. Intangibles

Intangibles at September 30, 1999 and 1998, consist of the following:

(dollars in thousands)	1999	1998
Goodwill	\$ 15,515	\$ 13,430
Other	2,470	2,470
Less accumulated amortization	(7,255)	(5,442)
	<u>\$ 10,730</u>	<u>\$ 10,458</u>

Amortization charged to operations was \$1,813,000, \$1,395,000 and \$1,274,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

7. Income Taxes

The provision for income taxes consists of the following:

(dollars in thousands)	1999	Years ended September 30,	
		1998	1997
Current:			
Federal	\$ 16,832	\$ 17,380	\$ 14,685
State	3,695	3,967	2,863
Foreign	227	240	136
	<u>20,754</u>	<u>21,587</u>	<u>17,684</u>
Deferred:			
Federal	(112)	(3,152)	(2,400)
State	(22)	(657)	(424)
	<u>(134)</u>	<u>(3,809)</u>	<u>(2,824)</u>
	<u>\$ 20,620</u>	<u>\$ 17,778</u>	<u>\$ 14,860</u>

Amounts for the current year are based upon estimates and assumptions as of the date of this report and could vary significantly from amounts shown on the tax returns as filed.

The tax effects of significant temporary differences resulting in deferred tax assets and liability at September 30, 1999 and 1998 are as follows:

(dollars in thousands)	1999	1998

Deferred tax assets:		
Employee benefit plans	\$ 2,183	\$ 1,594
Customer advances	1,819	2,198
Depreciation and amortization	1,708	2,350
Compensated absences	1,659	1,455
Deferred compensation	1,617	1,489
State taxes	1,313	1,388
Capital loss carryforward	1,009	1,245
Bad debt provision	504	464
Capital lease obligations	180	197
Warranty reserves	129	140
Other	928	630
	-----	-----
	13,049	13,150
Less valuation allowance	(1,009)	(1,245)
	-----	-----
	12,040	11,905
	-----	-----
Deferred tax liabilities:		
Tax on net unrealized gains on available-for-sale securities	(87)	(491)
	-----	-----
Deferred tax assets, net	\$ 11,953	\$ 11,414
	=====	=====

The valuation allowance for deferred tax assets at September 30, 1999 and 1998, was \$1,009,000 and \$1,245,000, respectively. The valuation allowance was needed to reduce the deferred tax assets since the Company does not meet the more-likely-than-not requirements for utilization of the capital loss carryforward.

Reconciliation between the federal statutory income tax rate and the Company's effective tax rate is shown below:

(dollars in thousands)	Years ended September 30,		
	1999	1998	1997

Income tax provision at federal statutory rates in 1999, 1998 and 1997	\$ 17,710	\$ 14,737	\$ 12,441
State income taxes, net of federal benefit	2,387	2,152	1,586
Increase (decrease) in valuation allowance	(236)	162	480
Other	759	727	353
	-----	-----	-----
	\$ 20,620	\$ 17,778	\$ 14,860
	=====	=====	=====

8. Employee Benefit Plans

Pension plan

The Company has a defined benefit pension plan that covers eligible full-time employees. The benefits are based on years of service and the employee's compensation during employment. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

In September 1999, the Company curtailed the pension plan so that no new participants are eligible for the plan, and no additional benefits will accrue to participants after October 1, 1999. The curtailment resulted in a gain of \$720,000. The pension plan is expected to be settled in the Company's fiscal year 2000 subject to governmental approval.

The following table sets forth the plan's funding status at September 30, 1999 and 1998:

(dollars in thousands)	1999	1998
Vested benefit obligation	\$ 14,140	\$ 9,524
Nonvested benefit obligation	--	1,457
Effect of projected future earnings	--	5,877
Projected benefit obligation	14,140	16,858
Fair value of plan assets	(11,885)	(10,413)
Projected benefit obligation in excess of plan assets	2,255	6,445
Unrecognized prior service cost	--	59
Unrecognized net loss	--	(5,895)
Unrecognized net obligation remaining to be amortized	--	(138)
Additional minimum liability	--	97
Accrued pension cost	\$ 2,255	\$ 568

The plan assets consist primarily of cash equivalents.

The projected benefit obligation includes an accumulated benefit obligation of \$14,140,000 and \$10,981,000 at September 30, 1999 and 1998, respectively. The projected benefit obligation exceeded the fair value of the pension plan assets for the years ended September 30, 1999 and 1998, respectively.

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0% at September 30, 1999. A rate of increase in future compensation levels for determining the actuarial present value of the projected benefit obligation is not applicable at September 30, 1999, due to the curtailment of the plan. The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 6.5% and 4.0%, respectively, at September 1998. The expected long-term rate of return on assets was 8.5% at September 30, 1999 and 1998.

The net pension cost for the fiscal years ended September 30, 1999 and 1998, included the following components:

(dollars in thousands)	1999	1998
Service costs	\$ 2,134	\$ 1,516
Interest cost on projected benefit obligation	1,048	943
Actual return on plan assets	(2,363)	(840)
Net amortization and deferral	1,682	132
Net periodic pension plan cost	\$ 2,501	\$ 1,751

Employee stock ownership plan

The Company has an Employee Stock Ownership Plan (ESOP) that covers eligible full-time employees. Contributions to the ESOP are determined annually by the Company's Board of Directors. Effective October 1, 1999, the Company no longer accepts new participants, and will no longer make provisions for contributions to the ESOP. In addition, the ESOP may purchase stock from the Company or its stockholders. Provisions for contributions to the ESOP were \$1,585,000, \$1,803,000 and \$1,534,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

At September 30, 1999 and 1998, the ESOP held 808,000 and 836,000 shares of Company stock, respectively. The amounts of dividends on ESOP shares were \$67,000, \$75,000 and \$81,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

Company stock held and paid for by the ESOP is allocated annually to participants based on employee compensation levels. While employed by the Company, participants vest in the allocated shares at rates ranging from 0% to 30% over a period of 1 to 7 years until fully vested, depending on the plan.

Defined contribution plans

The Company offers 401(k) plans for eligible employees. Eligible employees may contribute up to 15% of compensation. The Company also provides a matching contribution. The Company contributions to 401(k) plans were \$1,357,000, \$790,000 and \$673,000 for the years ended September 30, 1999, 1998 and 1997, respectively. Effective October 1, 1999 the 401(k) plan does not require a minimum service period, and all Company matching contributions will vest 100% immediately. Also, all Company contributions made prior to October 1, 1999, vested 100% at October 1, 1999.

The Company maintains a supplemental retirement and savings plan for certain officers and senior management employees. Company contributions to that plan were \$298,000, \$247,000 and \$132,000 for the years ended September 30, 1999, 1998 and 1997, respectively. Effective October 1, 1999, the Company will no longer make matching contributions to the supplemental retirement and savings plan.

Profit sharing plan

On October 1, 1999, the Company has established a profit sharing plan that covers eligible employees after six months of continuous employment. Contributions to the plan are determined annually by the company's Board of Directors based on company performance. Participants vest at varying rates over a five-year period until fully vested.

Officers' incentive plan

The Company has an executive compensation plan for the benefit of officers. Benefits are payable based on the achievement of financial and performance objectives, which are set annually by the Board of Directors, and the market value of the Company's stock. Total expenses under the plan were \$1,391,000, \$3,273,000 and \$3,842,000 for the years ended September 30, 1999, 1998 and 1997, respectively. The incentive earned each year is paid 50% currently, and the balance is payable over a four-year period, subject to certain adjustments, as defined in the plan, based on employment status and the market value of the Company's common stock. At September 30, 1999 and 1998, the long-term officers' incentive plan payable was \$2,353,000 and \$3,066,000, respectively.

Employee incentive plans

The Company has incentive plans for eligible employees not covered under the executive compensation plan. Awards under these plans are paid annually and are based on the achievement of certain financial and performance objectives. Total expenses under these plans were \$8,263,000, \$6,962,000 and \$6,490,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

9. Stock

Common

A total of 35,000,000 shares of common stock, \$.01 par value, are authorized, of which 14,313,616 shares (including 333,191 shares of treasury stock) were issued September 30, 1999, and 13,992,126 shares (including 9,787 shares of treasury stock) were issued September 30, 1998.

Preferred

A total of 1,000,000 shares of preferred stock, \$.01 par value, are authorized; no preferred stock has been issued.

10. Stock Option Plans

The Company has two stock option plans, one of which is for the granting of stock options, stock appreciation rights, restricted stock and common stock that reserve shares of common stock for issuance to officers, key employees and non-employee directors. The Company has elected to continue to apply the provisions of APB No. 25, and provide the pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation." Granted awards generally have a maximum term of ten years and vest over one to five years. Under this plan approved by the stockholders, a number of shares equal to 4% of the number of shares of the Company's common stock outstanding on the last day of the preceding fiscal year is added to the shares available under the plan each fiscal year, provided that the number of shares suitable for grants of incentive stock options for the remaining term of the plan shall not exceed 1,500,000 shares. The other plan is limited to the former employees of RMT, who, as of the merger date, held unexpired and unexercised stock option grants under the RMT stock option plans. Granted awards have a maximum term of ten years and vest over three years. The total number of issuable shares under the plan is 650,800.

The fair value of options at the date of grant was estimated using the Black-Scholes model with the following weighted-average assumptions for the years ended September 30:

	1999	1998	1997
Expected life (years)	5	5	5
Interest rate	5.3%	5.5%	6.5%
Volatility	42%	43%	45%
Dividend yield	0%	0%	0%

The following information regarding these option plans for the years ended September 30 is as follows:

	1999		1998		1997	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at beginning of year	1,796,000	\$ 29.11	1,843,000	\$ 20.63	1,388,000	\$ 12.21
Granted	1,009,000	\$ 35.38	526,000	\$ 38.02	613,000	\$ 36.82
Exercised	(277,000)	\$ 11.53	(487,000)	\$ 5.61	(141,000)	\$ 7.19
Forfeited	(158,000)	\$ 38.66	(86,000)	\$ 34.43	(17,000)	\$ 28.96
Outstanding at end of year	2,370,000	\$ 33.21	1,796,000	\$ 29.11	1,843,000	\$ 20.63
Options exercisable at year end	614,000	\$ 23.63	541,000	\$ 11.80	782,000	\$ 5.33

The weighted-average fair value of options granted for the years ended September 30, 1999, 1998 and 1997, was \$15.74, \$17.30 and \$17.47, respectively.

The following table summarizes information about significant fixed-price stock option groups outstanding September 30, 1999:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number outstanding	Weighted-average exercise price
\$.92 to \$30.06	282,000	2.94	\$ 10.26	266,000	\$ 9.73
\$30.63 to \$34.75	687,000	8.09	\$ 32.23	245,000	\$ 31.57
\$35.06 to \$40.00	1,277,000	7.30	\$ 37.66	61,000	\$ 38.17
\$40.56 to \$49.44	124,000	7.32	\$ 45.06	42,000	\$ 44.61
	-----			-----	
\$.92 to \$49.44	2,370,000	7.01	\$ 33.21	614,000	\$ 23.63
	=====			=====	

Stock-based compensation under SFAS No. 123 would have had the following pro forma effects for the years ended September 30:

(in thousands, except per share data)	1999	1998	1997
Net income, as reported	\$ 29,980	\$ 24,327	\$ 20,686
	=====	=====	=====
Pro forma net income	\$ 25,440	\$ 20,655	\$ 18,091
	=====	=====	=====
Earnings per share, as reported:			
Diluted	\$ 2.09	\$ 1.68	\$ 1.46
	=====	=====	=====
Basic	\$ 2.13	\$ 1.77	\$ 1.55
	=====	=====	=====
Pro forma earnings per share:			
Diluted	\$ 1.77	\$ 1.43	\$ 1.27
	=====	=====	=====
Basic	\$ 1.81	\$ 1.50	\$ 1.35
	=====	=====	=====

The pro forma effect on net income for each of the years ended September 30, 1999, 1998 and 1997, may not be representative of the effects on reported net income in future years.

11. Commitments and Contingencies

The Company conducts certain of its operations in facilities occupied under non-cancelable operating leases with lease terms in excess of one year. The leases generally provide for annual increases based upon the Consumer Price Index or fixed increments.

In May 1998, the Company entered into a synthetic lease agreement to lease land in San Rafael, California, and improvements comprising the first phase of an office complex facility to be constructed on the land. A synthetic lease is asset-based financing structured to be treated as a lease for accounting purposes but as a loan for tax purposes. The office complex facility is intended to accommodate the future growth of the Company.

The Company had an option (the "Option") to purchase the undeveloped land in December 1997, and the Option was assigned to the lessor in connection with the synthetic lease transaction. The lessor under the synthetic lease has committed to spend up to \$55 million for the purchase of the land and construction of this first phase of the facility, and the Company will act as construction agent for the lessor. At September 30, 1999, the lessor's total accumulated cost for land and construction of the facility was \$22.1 million. The lease term began in May 1998 and continues thereafter for five years for the land and, when they are constructed, will incorporate the buildings and other improvements that will comprise the first phase of the facility. Rental payments will commence on completion of construction, and at that time the rental payments will be based on the total construction costs for the facility and the one month LIBOR rate plus 0.75% or 1.00%. The completion of construction is expected to occur in November 2001.

With the approval of lessor, the Company may extend the lease term for up to three one-year periods or one three-year period. The Company has the option to: purchase the entire facility at a purchase price approximating lessor's then-accumulated total costs; to purchase only certain portions of the facility, at a pre-set price, at any time during the term; or, at the expiration of the lease term, to cause the facility to be sold to a third party.

The synthetic lease requires the Company to maintain specified financial covenants, all of which the Company was in compliance with at September 30, 1999. Future minimum lease payments under the synthetic lease are not included in the schedule below.

Minimum future rental commitments under operating leases are as follows:

Year ending September 30,	(dollars in thousands)

2000	\$ 11,179
2001	10,697
2002	8,867
2003	5,907
2004	4,342
Thereafter	43,161

	\$ 84,153
	=====

Rent expense under operating leases, including month-to-month leases, was \$9,161,000, \$8,298,000 and \$6,413,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial condition.

12. Segment Information

The Company adopted Statement of Financial Accounting No. 131, "Disclosures about Segments of an Enterprise and Related Information" for the annual consolidated financial statements for the year ended September 30, 1999. This statement establishes standards for publicly held entities to follow in reporting information about operating segments in annual financial statements and requires that those entities report selected information about operating segments in interim financial statements. This statement also establishes standards for related disclosures about products and services, geographic areas and major customers. Operating segments are defined by SFAS No. 131 as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company's Chief Executive and Operating Officers evaluate financial performance based on measures of business segment revenues and operating profit or loss. Intercompany revenues between business segments are accounted for on a cost basis. Unallocated corporate expenses consist mainly of cost associated with marketing, computer information systems, human resources, legal and finance. Unallocated other income (expense) consists mainly of interest revenues and an equity loss in an investment. The Company does not evaluate the financial performance of each segment based on its assets or capital expenditures.

The Company has identified two reportable operating segments based on the criteria of SFAS No. 131, which include the Credit and DynaMark strategic business units. The Credit business segment provides a wide variety of products and services to lending and payment system institutions, worldwide, to help them make more profitable decisions regarding prospects, customers and portfolios. The DynaMark business segment processes, develops and manages marketing databases for industries engaged in direct marketing.

(dollars in thousands)	Credit	DynaMark	Year ended September 30, 1999 Other	September 30, 1999 Total
Revenues:				
External	\$ 196,442	\$ 68,194	\$ 15,150	\$ 279,786
Intercompany eliminations	--	(2,855)	--	(2,855)
	-----	-----	-----	-----
	\$ 196,442	\$ 65,339	\$ 15,150	\$ 276,931
	=====	=====	=====	=====
Segment income (loss) from operations:				
External	\$ 94,173	\$ 10,210	\$ (3,131)	\$ 101,252
Intercompany eliminations	2,855	(2,855)	--	--
	-----	-----	-----	-----
	\$ 97,028	\$ 7,355	\$ (3,131)	101,252
	=====	=====	=====	-----
Unallocated corporate expenses				(54,877)

				46,375
Unallocated other income, net				4,225

				\$ 50,600
				=====

(dollars in thousands)	Credit	DynaMark	Year ended September 30, 1998 Other	September 30, 1998 Total
Revenues:				
External	\$ 179,857	\$ 53,237	\$ 16,564	\$ 249,658
Intercompany eliminations	--	(4,113)	--	(4,113)
	-----	-----	-----	-----
	\$ 179,857	\$ 49,124	\$ 16,564	\$ 245,545
	=====	=====	=====	=====
Segment income (loss) from operations:				
External	\$ 84,140	\$ 6,792	\$ (2,997)	\$ 87,935
Intercompany eliminations	4,113	(4,113)	--	--
	-----	-----	-----	-----
	\$ 88,253	\$ 2,679	\$ (2,997)	87,935
	=====	=====	=====	-----
Unallocated corporate expenses				(47,503)

				40,432
Unallocated other income, net				1,673

				\$ 42,105
				=====

(dollars in thousands)	Credit	DynaMark	Year ended September 30, 1997 Other	September 30, 1997 Total
Revenues:				
External	\$ 153,734	\$ 34,589	\$ 15,442	\$ 203,765
Intercompany eliminations	--	(4,756)	--	(4,756)
	-----	-----	-----	-----
	\$ 153,734	\$ 29,833	\$ 15,442	\$ 199,009
	=====	=====	=====	=====
Segment (loss) from operations:				
External	\$ 74,630	\$ 7,146	\$ (1,253)	\$ 80,523
Intercompany eliminations	4,756	(4,756)	--	--
	-----	-----	-----	-----
	\$ 79,386	\$ 2,390	\$ (1,253)	80,523
	=====	=====	=====	-----
Unallocated corporate expenses				(42,767)

				37,756
Unallocated other expense, net				(2,210)

				\$ 35,546
				=====

The Company's international operations consist primarily of providing products and services principally to the financial services industry. International revenues are principally derived from sales through subsidiaries in the United Kingdom and Canada for the year ended September 30, 1999, and through subsidiaries in the United Kingdom, Canada and Japan for the years ended September 30, 1998 and 1997. The Company's revenues from customers outside the United States were \$41,526,000, \$42,894,000 and \$33,879,000 for the years ended September 30, 1999, 1998 and 1997, respectively.

13. Other Income (Expense)

Other income (expense) consists of the following:

(dollars in thousands)	Years ended September 30,		
	1999	1998	1997
Interest income	\$ 3,145	\$ 2,403	\$ 2,040
Pension curtailment gain	720	--	--
Gain on sale of investments	483	--	--
Interest expense	(184)	(803)	(336)
Foreign currency loss	(183)	(278)	(677)
Equity loss in investment	--	--	(2,082)
Investment write-off	--	--	(773)
Acquisition expenses	--	--	(558)
Other	244	351	176
	-----	-----	-----
	\$ 4,225	\$ 1,673	\$(2,210)
	=====	=====	=====

14. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss) Balance

In fiscal 1999, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in financial statements. SFAS No. 130 requires classification of other comprehensive income (loss) in a financial statement and display of accumulated other comprehensive income (loss) separately from retained earnings and additional paid-in capital. Other comprehensive income (loss) includes unrealized gains (losses) on investments and foreign currency translation adjustments.

Supplemental disclosure of other comprehensive income (loss) information:

(dollars in thousands)	Year ended September 30, 1999		
	Before-tax amount	Tax amount	Net-of-tax amount
Unrealized losses on investments:			
Unrealized holding losses arising during period	\$ (494)	\$ (201)	\$ (293)
Less: reclassification adjustment	(474)	(193)	(281)
	-----	-----	-----
Net unrealized loss	(968)	(394)	(574)
Foreign currency translation adjustments	(214)	(87)	(127)
	-----	-----	-----
Other comprehensive loss	\$(1,182)	\$ (481)	\$ (701)
	=====	=====	=====

(dollars in thousands)	Year ended September 30, 1998		
	Before-tax amount	Tax amount	Net-of-tax amount
Unrealized gains on investments:			
Unrealized holding gains arising during period	\$ 663	\$ 280	\$ 383
Foreign currency translation adjustments	238	100	138
	-----	-----	-----
Other comprehensive income	\$ 901	\$ 380	\$ 521
	=====	=====	=====

(dollars in thousands)	Year ended September 30, 1997		
	Before-tax amount	Tax amount	Net-of-tax amount
Unrealized gains on investments:			
Unrealized holding gains arising during period	\$ 378	\$ 158	\$ 220
Foreign currency translation adjustments	(280)	(117)	(163)
Other comprehensive income	\$ 98	\$ 41	\$ 57

Supplemental disclosure of accumulated comprehensive income (loss) balance:

Period from September 30, 1997, to September 30, 1999	(dollars in thousands)		
	Unrealized gains (losses) on investments	Foreign currency translation adjustments	Accumulated other comprehensive income (loss)
Balances at September 30, 1997	\$ 317	\$(308)	\$ 9
Current period change	383	138	521
Balances at September 30, 1998	700	(170)	530
Current period change	(574)	(127)	(701)
Balances at September 30, 1999	\$ 126	\$(297)	\$(171)

15. Earnings Per Share

The following reconciles the numerators and denominators of diluted and basic earnings per share (EPS):

(dollars in thousands, except per share data)	Years ended September 30,		
	1999	1998	1997
Numerator - Net income	\$ 29,980	\$ 24,327	\$ 20,686
Denominator - Shares:			
Diluted weighted-average shares and assumed conversions of stock options	14,364	14,463	14,202
Effect of dilutive securities - employee stock options	(291)	(700)	(816)
Basic weighted-average shares	14,073	13,763	13,386
Earnings per share:			
Diluted	\$ 2.09	\$ 1.68	\$ 1.46
Basic	\$ 2.13	\$ 1.77	\$ 1.55

The computation of diluted EPS for the years ended September 30, 1999, 1998 and 1997, respectively, excludes stock options to purchase 813,000, 930,000 and 474,000 shares of common stock. The shares were excluded because the exercise prices for the options were greater than the respective average market price of the common shares and their inclusion would be antidilutive.

16. Supplementary Financial Data (Unaudited)

The following table presents selected unaudited consolidated financial results for each of the eight quarters in the two-year period ended September 30, 1999. In the Company's opinion, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the consolidated financial information for the period presented.

(dollars in thousands, except per share data)	Dec. 31, 1998	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999
Revenues	\$ 67,977	\$ 68,874	\$ 67,241	\$ 72,839
Cost of revenues	25,071	26,941	25,196	28,246
Gross profit	\$ 42,906	\$ 41,933	\$ 42,045	\$ 44,593
Net income	\$ 7,048	\$ 7,464	\$ 6,973	\$ 8,495
Earnings per share:				
Diluted	\$.49	\$.51	\$.49	\$.60
Basic	\$.50	\$.53	\$.50	\$.61
Shares used in computing earnings per share:				
Diluted	14,354,000	14,578,000	14,301,000	14,212,000
Basic	14,014,000	14,177,000	14,081,000	14,020,000

(dollars in thousands, except per share data)	Dec. 31, 1997	Mar. 31, 1998	June 30, 1998	Sept. 30, 1998
Revenues	\$ 53,511	\$ 59,655	\$ 64,642	\$ 67,737
Cost of revenues	19,865	21,206	21,946	21,963
Gross profit	\$ 33,646	\$ 38,449	\$ 42,696	\$ 45,774
Net income	\$ 3,967	\$ 5,488	\$ 6,399	\$ 8,473
Earnings per share:				
Diluted	\$.28	\$.38	\$.45	\$.59
Basic	\$.29	\$.40	\$.46	\$.61
Shares used in computing earnings per share:				
Diluted	14,346,000	14,304,000	14,359,000	14,449,000
Basic	13,489,000	13,707,000	13,894,000	13,964,000

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The required information regarding Directors of the registrant is incorporated by reference from the information under the caption "Election of Directors - Nominees" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on February 1, 2000.

The required information regarding Executive Officers of the registrant is contained in Part I of this Form 10-K.

The required information regarding compliance with Section 16(a) of the Securities Exchange Act is incorporated by reference from the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on February 1, 2000.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the information under the captions "Compensation of Directors and Executive Officers," "Compensation Committee Interlocks and Insider Participation," and "Director Consulting Arrangements" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on February 1, 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the information under the caption "Stock Ownership" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on February 1, 2000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the information under the captions "Director Consulting Arrangements" and "Compensation Committee Interlocks and Insider Participation" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on February 1, 2000.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

	Reference Page Form 10-K
(a) 1. Consolidated financial statements:	
Report of Independent Auditors.....	27
Consolidated statements of income and comprehensive income for each of the years in the three-year period ended September 30, 1999.....	28
Consolidated balance sheets at September 30, 1999 and September 30, 1998.....	29
Consolidated statements of stockholders' equity for each of the years in the three-year period ended September 30, 1999.....	30
Consolidated statements of cash flows for each of the years in the three-year period ended September 30, 1999.....	31
Notes to consolidated financial statements.....	32
2. Financial statement schedule:	
Independent Auditor's Report on Financial Statement Schedule.....	56
II Valuation and qualifying accounts at September 30, 1998, 1997 and 1996.....	57
3. Exhibits:	
2.1 Lease dated December 2, 1998, by and between DynaMark, Inc., and CSM Corporation filed as Exhibit 2.1 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.	
2.2 Agreement and Plan of Reorganization, dated June 12, 1997, among the Company, FIC Acquisition Corporation, Risk Management Technologies ("RMT"), and the shareholders and optionholders of RMT, filed as Exhibit 2.2 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference. Pursuant to Item 601(b)(2) of Regulation S-K, certain schedules were omitted but will be furnished supplementally to the Commission on request.	
2.3 First Amendment to Agreement and Plan of Merger and Reorganization effective as of May 17, 1999, by and among Fair, Isaac and Company, Incorporated; Credit & Risk Management Associates, Inc.; and Donald J. Sanders, Paul A. Makowski, and Lawrence E. Dukes.	
2.4 Amendment To Lease, dated December 2, 1998, by and between CSM Corporation (assignee) and DynaMark, Inc. amending lease dated May 1, 1995 between DynaMark, Inc. and Control Data Systems Inc. filed as Exhibit 2.4 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.	
3.1 Restated Certificate of Incorporation of the Company, filed as Exhibit 3.1 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.	
3.2 Restated By-laws of the Company(as amended effective November 19, 1999).	

- 4.1 Registration Rights Agreement, dated June 23, 1997, among the Company, David LaCross and Kathleen O. LaCross, Trustees U/D/T dated April 2, 1997, Jefferson Braswell, Software Alliance LLC, Robert Ferguson, James T. Fan and Leland Prussia, filed as Exhibit 4.1 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.*
- 4.2 Registration Rights Agreement, dated September 30, 1996, among the Company, Donald J. Sanders, Paul A. Makowski and Lawrence E. Dukes, filed as Exhibit 4.2 to the Company's report on Form 10-K for the fiscal year ended September 30, 1995, and incorporated herein by reference.
- 10.1 Certificate of Resolution Changing Officers' Incentive Plan, Exempt Employees Bonus Plan and other Company Plan Parameters.*
- 10.2 Fair, Isaac and Company, Inc. 1999 Employee Stock Purchase Plan.*
- 10.3 Lease dated April 28, 1995, between CSM Investors, Inc., and DynaMark, Inc. filed as Exhibit 10.3 to the Company's report on Form 10-K for the fiscal year ended September 30, 1995, and incorporated herein by reference.
- 10.4 Fair, Isaac and Company, Inc. Officers' Incentive Plan (effective October 1, 1992), originally filed as Exhibit 10.4 to the Company's report on Form 10-K for the fiscal year ended September 30, 1994.*
- 10.5 Lease, dated October 30, 1983, between S.R.P. Limited Partnership and the Company, as amended, originally filed as Exhibit 10.7 to the Registration Statement filed as Exhibit 10.5 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.6 Stock Option Plan for Non-Employee Directors, originally filed as Exhibit 10.8 to the Company's report on Form 10-K for the fiscal year ended September 30, 1988, filed as Exhibit 10.6 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.*
- 10.7 Lease dated July 1, 1993, between The Joseph and Eda Pell Revocable Trust and the Company and the First through Fifth Addenda thereto filed as Exhibit 10.7 to the Company's report on Form 10-K for the fiscal year ended September 30, 1995, and incorporated herein by reference.
- 10.8 Amendment No. 3 to the Company's 1992 Long-Term Incentive Plan (as amended and restated effective November 19, 1999).*
- 10.9 First Amendment to the Company's Stock Option Plan for Non-Employee Directors, originally filed as Exhibit 10.12 to the Company's report on Form 10-K for the fiscal year ended September 30, 1989, filed as Exhibit 10.9 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.*
- 10.10 Amendment No.1 to the Company's 1992 Long-Term Incentive Plan (as amended and restated effective November 21, 1995), filed as Exhibit 10.10 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997 and incorporated herein by reference.*
- 10.11 Addendum Number Seven to lease between S.R.P. Limited Partnership and the Company, originally filed as Exhibit 10.15 to the Company's report on Form 10-K for the fiscal year ended September 30, 1990 filed as Exhibit 10.11 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.12 Addenda Numbers Eight and Nine to lease between SRP Limited Partnership and the Company filed as Exhibit 10.12 to the Company's report on Form 10-K for the fiscal year ended September 30, 1995, and incorporated herein by reference.

- 10.13 Lease, dated September 5, 1991, between 111 Partners, a California general partnership, and the Company originally filed as Exhibit 10.20 to the Company's report on Form 10-K for the fiscal year ended September 30, 1991 filed as Exhibit 10.13 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.14 Construction Loan Agreement, dated September 5, 1991, between 111 Partners and the Company originally filed as Exhibit 10.21 to the Company's report on Form 10-K for the fiscal year ended September 30, 1991 filed as Exhibit 10.14 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.15 Amendment No.2 to the Company's 1992 Long-Term Incentive Plan (as amended and restated effective November 21, 1995) filed as Exhibit 10.15 to the Company's report on Form 10K for the fiscal year ended September 30, 1997 and incorporated herein by reference.*
- 10.16 The Company's 1992 Long-Term Incentive Plan as amended and restated effective November 21, 1995, filed as Exhibit 10.16 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.*
- 10.17 Amendment No.3 to the Company's Stock Option Plan for Non-Employee Directors, filed as Exhibit 10.17 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.*
- 10.18 Lease dated May 1, 1995, between Control Data Corporation and DynaMark, Inc. filed as Exhibit 10.18 to the Company's report on Form 10-K for the fiscal year ended September 30, 1995, and incorporated herein by reference.
- 10.19 First Amendment to Participation Agreement dated April 5, 1999 by and between Company, Lease Plan North America, Inc., ABN Amro Bank N.V. and other participants named therein.
- 10.20 Fair, Isaac Supplemental Retirement and Savings Plan and Trust Agreement effective November 1, 1994, filed as Exhibit 10.20 to the Company's report on Form 10-K for the fiscal year ended September 30, 1994, and incorporated herein by reference.*
- 10.21 Lease dated July 10, 1993, between the Joseph and Eda Pell Revocable Trust and the Company filed as Exhibit 10.21 to the Company's report on Form 10-K for the fiscal year ended September 30, 1995, and incorporated herein by reference.
- 10.22 Lease dated October 11, 1993, between the Joseph and Eda Pell Revocable Trust and the Company and the First through Fourth Addenda thereto filed as Exhibit 10.22 to the Company's report on Form 10-K for the fiscal year ended September 30, 1995, and incorporated herein by reference.
- 10.23 Second Amendment to Lease dated December 2, 1998, between CSM Corporation and DynaMark, Inc. amending lease between the parties dated March 11, 1997 filed as Exhibit 10.23 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.24 Exchange Agreement and Plan of Reorganization, dated July 19, 1996, among DynaMark, Inc., Printronic Corporation of America, Inc., Leo R. Yochim, and Susan Keenan, filed as Exhibit 10.24 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.
- 10.25 Agreement and Plan of Merger and Reorganization, dated September 30, 1996, among the Company, FIC Acquisition Corporation, Credit & Risk Management Associates, Inc., Donald J. Sanders, Paul A. Makowski and Lawrence E. Dukes, filed as Exhibit 10.25 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.

- 10.26 Contract between the Company and Dr. Robert M. Oliver, dated April 2, 1996, filed as Exhibit 10.26 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.*
- 10.27 Letter of Intent dated July 15, 1996, between the Company and Village Properties, and the First Amendment thereto dated July 18, 1996, filed as Exhibit 10.27 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.
- 10.28 Office Building Lease, dated November 14, 1996, between the Company and Regency Center, filed as Exhibit 10.28 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.
- 10.29 Sixth and Seventh Addenda to the Lease, dated July 1, 1993, between the Company and the Joseph and Eda Pell Revocable Trust, filed as Exhibit 10.29 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.
- 10.30 First and Second Addenda to the Lease dated July 10, 1993, between the Company and the Joseph and Eda Pell Revocable Trust, filed as Exhibit 10.30 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.
- 10.31 Fifth Addendum to the Lease, dated October 11, 1993, between the Company and the Joseph and Eda Pell Revocable Trust, filed as Exhibit 10.31 to the Company's report on Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference.
- 10.32 First Addendum to Lease, dated August 13, 1997, by and between the Company and Regency Center, filed as Exhibit 10.32 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.
- 10.33 Option Agreement, dated November 26, 1997, by and between the Company and Village Builders, L.P., filed as Exhibit 10.33 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.
- 10.34 Leasehold Improvements Agreement, dated November 26, 1997, by and between the Company and Village Builders, L.P., filed as Exhibit 10.34 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.
- 10.35 Lease, dated March 11, 1997, by and between DynaMark, Inc. and CSM, filed as Exhibit 10.35 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.
- 10.36 First Amendment to Lease, dated September 24, 1997, by and between DynaMark, Inc. and CSM, filed as Exhibit 10.36 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference.
- 10.37 Chase Database Agreement, dated October 29, 1997, by and among DynaMark, Inc. and Chase Manhattan Bank USA, National Association, filed as Exhibit 10.37 to the Company's report on Form 10-K for the fiscal year ended September 30, 1997, and incorporated herein by reference. Confidential treatment has been requested for certain portions of this document. Such portions have been omitted from the filing and have been filed separately with the Commission.
- 10.38 Participation Agreement, dated May 15, 1998, between Company, Lease Plan North America, Inc., ABN Amro Bank N.V. and other participants named therein filed as Exhibit 10.38 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.39 Lease Agreement, Construction Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated May 15, 1998, between Company and Lease Plan North America, Inc. filed

as Exhibit 10.39 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.

- 10.40 Purchase Agreement dated May 15, 1998, between Company and Lease Plan North America, Inc. filed as Exhibit 10.40 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.41 Third Amendment to Lease Dated December 2, 1998, by and between CSM Corporation and DynaMark, Inc. amending lease between the parties dated April 28, 1995 filed as Exhibit 10.41 to the Company's report on Form 10-K for the fiscal year ended September 30, 1998, and incorporated herein by reference.
- 10.42 Employment Agreement entered into effective as of August 23, 1999, by and between Fair, Isaac and Company, Inc. and Thomas G. Grudnowski.*
- 10.43 First Amendment to Employment Agreement entered into effective as of December 3, 1999, by and between Fair, Isaac and Company, Inc. and Thomas G. Grudnowski.*
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of KPMG, LLP (see page 58 of this Form 10-K).
- 24.1 Power of Attorney (see page 54 of this Form 10-K).
- 27 Financial Data Schedule.

* Management Contract or Compensatory Plan or Arrangement

(b) Reports on Form 8-K:

One report on Form 8-K was filed with the Securities and Exchange Commission during the fiscal quarter ended September 30, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAIR, ISAAC AND COMPANY, INCORPORATED

DATE: December 21, 1999

By /S/PETER L. MCCORKELL

Peter L. McCorkell
Executive Vice President, Secretary
and General Counsel

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints PETER L. MCCORKELL his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ THOMAS G. GRUDNOWSKI ----- Thomas G. Grudnowski	President, Chief Executive Officer (Principal Executive Officer) and Director	December 21, 1999
/S/ HENK J. EVENHUIS ----- Henk J. Evenhuis	Executive Vice President and Chief Financial Officer	December 21, 1999
/S/ A. GEORGE BATTLE ----- A. George Battle	Director	December 21, 1999
/S/ H. ROBERT HELLER ----- H. Robert Heller	Director	December 21, 1999
/S/ GUY R. HENSHAW ----- Guy R. Henshaw	Director	December 21, 1999
/S/ DAVID S. P. HOPKINS ----- David S. P. Hopkins	Director	December 21, 1999
/S/ ROBERT M. OLIVER ----- Robert M. Oliver	Director	December 21, 1999
/S/ ROBERT D. SANDERSON ----- Robert D. Sanderson	Director	December 21, 1999
/S/ JOHN D. WOLDRICH ----- John D. Woldrich	Director	December 21, 1999

The Board of Directors
Fair, Isaac and Company, Incorporated:

Under date of October 26, 1999, we reported on the consolidated balance sheets of Fair, Isaac and Company, Incorporated and subsidiaries as of September 30, 1999 and 1998, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1999, which are included in the 1999 annual report on form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule in the 1999 annual report on form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of revenue recognition for certain products in 1999.

/s/ KPMG LLP

San Francisco, California
October 26, 1999

Schedule II

Fair, Isaac and Company, Incorporated
 VALUATION AND QUALIFYING ACCOUNTS
 September 30, 1999, 1998 and 1997

Description -----	Balance at Beginning of Period -----	Charged to Expense -----	Charged to Revenues -----	Write-offs -----	Balance at End of Period -----
September 30, 1999:					
Allowance for Doubtful Accounts	\$1,163,000	\$ 123,000	\$ 441,000	\$ (453,000)	\$1,274,000
September 30, 1998:					
Allowance for Doubtful Accounts	\$ 758,000	\$ 677,000	\$ 271,000	\$ (543,000)	\$1,163,000
September 30, 1997:					
Allowance for Doubtful Accounts	\$ 485,000	\$ 438,000	--	\$ (165,000)	\$ 758,000

Consent of Independent Auditors

The Board of Directors
Fair, Isaac and Company, Incorporated:

We consent to incorporation by reference in the registration statements (Nos. 33-20349, 33-26659, 33-63428, 333-02121, 333-32309, 333-65179 and 333-83905) on Form S-8 and the registration statements (Nos. 333-20537 and 333-42475) on Form S-3 of Fair, Isaac and Company, Incorporated and subsidiaries of our reports dated October 26, 1999, relating to the consolidated balance sheets of Fair, Isaac and Company, Incorporated and subsidiaries as of September 30, 1999 and 1998, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows and related financial statement schedule for each of the years in the three-year period ended September 30, 1999, which reports appear in the September 30, 1999 annual report on Form 10-K of Fair, Isaac and Company, Incorporated, and subsidiaries. Our reports dated October 26, 1999 contain an explanatory paragraph that states that the Company changed its method of revenue recognition for certain products in 1999.

/s/ KPMG LLP

San Francisco, California
December 22, 1999

EXHIBIT INDEX
TO FAIR, ISAAC AND COMPANY, INCORPORATED
REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999

Exhibit No.	Exhibit
2.3	First Amendment to Agreement and Plan of Merger and Reorganization effective as of May 17, 1999, by and among Fair, Isaac and Company, Incorporated, a Delaware corporation; Credit & Risk Management Associates, Inc.; and Donald J. Sanders, Paul A. Makowski, and Lawrence E. Dukes.
3.2	Restated By-laws of the Company (as amended effective November 19, 1999).
10.1	Certificate of Resolution Changing Officers' Incentive Plan, Exempt Employees Bonus Plan and other Company Plan Parameters.
10.2	Fair, Isaac and Company, Inc. 1999 Employee Stock Purchase Plan.
10.8	Amendment No. 3 to the Company's 1992 Long-Term Incentive Plan (as amended and restated effective November 19, 1999).
10.19	First Amendment to Participation Agreement dated April 5, 1999 by and between Company, Lease Plan North America, Inc., ABN Amro Bank N.V. and other participants named therein.
10.42	Employment Agreement entered into effective as of August 23, 1999, by and between Fair, Isaac and Company, Inc. and Thomas G. Grudnowski.
10.43	First Amendment to Employment Agreement entered into effective as of December 3, 1999, by and between Fair, Isaac and Company, Inc. and Thomas G. Grudnowski.
21.1	Subsidiaries of the Company.
23.1	Consent of KPMG, LLP.
24.1	Power of Attorney.
27	Financial Data Schedule.

FIRST AMENDMENT TO
AGREEMENT AND PLAN OF MERGER AND REORGANIZATION
AND
EMPLOYMENT AND NON-COMPETITION AGREEMENT

THIS FIRST AMENDMENT TO AGREEMENT AND PLAN OF MERGER AND REORGANIZATION and EMPLOYMENT AND NON-COMPETITION AGREEMENT (hereinafter this "Amendment Agreement") is made and entered into effective as of May 17, 1999 (the "Effective Date"), by and among Fair, Isaac and Company, Incorporated ("Fair, Isaac"), a Delaware corporation; Credit & Risk Management Associates, Inc. ("CRMA"), a Delaware corporation; and Donald J. Sanders ("Sanders"), Paul A. Makowski ("Makowski"), and Lawrence E. Dukes ("Dukes") (collectively, the "former CRMA Shareholders").

RECITALS:

- A. Fair, Isaac, as buyer, entered into that certain Agreement and Plan of Merger and Reorganization dated as of September 30, 1996 (the "Merger Agreement") to acquire by forward subsidiary merger all of the assets and business of Credit & Risk Management Associates, Inc., as seller; and the former CRMA Shareholders, as the owners of all of the issued and outstanding capital stock of CRMA (the "Merger"), disposed of their interests in CRMA upon the terms and conditions set forth therein. CRMA is now a wholly-owned subsidiary of Fair, Isaac.
- B. The Merger Agreement provided for Earnout Payments to the former CRMA Shareholders for each of the fiscal years ending September 30, 1997, September 30, 1998 and September 30, 1999.
- C. The parties desire to amend the terms of the Merger Agreement governing such Earnout Payments to provide for termination of the Earnout Payments, on the terms and conditions set forth below.
- D. In connection with the Merger, each of the former CRMA Shareholders entered into a five-year Employment and Non-Competition Agreement with Fair, Isaac as of September 30, 1996 (the "Employment Agreement") and now desire to amend that Agreement as to Sanders and Dukes and terminate that Agreement as to Makowski, as set forth herein.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties mutually agree as follows

1. Meaning of Terms: Effective Date.

Except as otherwise stated in this Amendment Agreement, (a) all capitalized terms in this Amendment Agreement will have the respective defined meanings as stated in the Merger Agreement, and (b) the terms and provisions of this Amendment Agreement will be considered to be effective as of the date of this Amendment Agreement.

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EXHIBIT 2.3

2. Termination of Earnout Payments; Amendment of Employment Agreement.

(a) For and in consideration of the sum of \$2,108,402.00 (the "Consideration"), the former CRMA Shareholders agree as follows: (i) Any and all obligations relating to Earnout Payments including but not limited to those arising under Sections 2.2, 2.8 and 5.9 of the Merger Agreement are terminated as of the Effective Date; and the parties' rights and obligations thereunder are hereby replaced and superseded by the terms of this Agreement.

(ii) On the Effective Date, Sanders and Dukes shall execute and deliver an amendment to the Employment Agreement for each such individual in the form attached hereto as Exhibit A.

(iii) On the Effective Date, Makowski shall execute and deliver the termination of the Employment Agreement in the form attached hereto as Exhibit B.

(b) The Consideration shall be paid thirty-one percent (31%) in the form of Buyer Common Stock valued at their Average Market Price as of the Effective Date in proportion to their holdings of Seller Shares (such holdings are defined in the Merger Agreement to be 500 shares each of 1500 shares total). The Buyer Common Stock issued hereunder shall be subject to the Registration Rights Agreement described in Section 2.2 of the Merger Agreement. The balance of the Consideration (69%) will be paid in cash and made by delivery of certified or cashier's check or equivalent instruments or funds in proportion to their holdings of Seller Shares within ten (10) business days of receipt by Fair, Isaac of the Amendment Agreement and Exhibits fully executed by the CRMA Shareholders.

3. General Release and Waiver of Claims.

Except as expressly set forth in this Amendment Agreement, each former CRMA

Shareholder releases, remises and forever discharges CRMA and Fair, Isaac, and Fair, Isaac and CRMA release, remise and forever discharge the former CRMA Shareholders, from any and all claims, counterclaims, liabilities, demands and causes of action of any nature whatsoever whether known or unknown, fixed or contingent, matured or unmatured, arising out of, connected with or incidental to, the Earnout Payments determined under Section 2.2, and 2.8 (including but not limited to those under Section 5.9) of the Merger Agreement up to and as of the Effective Date, including but not limited to claims that may have existed or were pending or threatened before the Effective Date of this Agreement (all of which are referred to collectively as the "Claims"). The provisions, waivers, releases of this Section 3 shall inure to the benefit of the parties, including without limitation, their agents, employees, attorneys, representatives, officers, directors, divisions, participants, subsidiaries, Affiliates, assigns, heirs, successors in interests and shareholders. The provisions herein shall survive the full performance of all the terms of this Amendment Agreement and the Merger Agreement

This is intended as a full settlement and compromise of each, every and all Claims. The parties acknowledge that they may have claims against each other of which they have no knowledge at the time of execution of this Amendment Agreement. The parties agree that the waivers and releases in this Section 3, are specifically intended to and do extend to claims, demands, or causes of action of which they have no knowledge. The parties specifically waive the benefit of Section 1542 of the California Civil Code, which provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF

EXECUTING THE RELEASE WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

4. Incorporation by Reference.

The Recitals and Exhibits A and B to this Amendment Agreement are hereby incorporated by reference.

5. Construction.

Except as explicitly modified by this Amendment Agreement no other changes to the Merger Agreement are being made and all provisions of the Merger Agreement shall remain in full force and effect. This Agreement does not constitute a renewal or novation of the Merger Agreement.

The headings and captions of this Amendment Agreement are provided for convenience only and are intended to have no effect on construing or interpreting this Amendment Agreement. The language in all parts of this Amendment Agreement shall be in all cases construed according to its fair meaning and not strictly for out against any party.

6. Counterparts.

This Amendment Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Execution and delivery of this Amendment Agreement be exchange of facsimile copies bearing facsimile signature of a party hereto shall constitute a valid and binding execution and delivery of this Amendment Agreement by such party. Such facsimile copy shall constitute enforceable original documents.

In Witness Whereof, this Amendment Agreement has been executed as of the date first set forth above.

FAIR, ISAAC AND COMPANY, INCORPORATED
By _____
Its _____

CREDIT & RISK MANAGEMENT ASSOCIATES, INC.
By _____
Its _____

Donald J. Sanders

Paul A. Makowski

B Y - L A W S
OF
FAIR, ISAAC AND COMPANY, INCORPORATED

(as amended and restated effective November 19, 1999)

ARTICLE I

Offices

Section 1.1. Registered Office. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 1.2. Additional Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

Stockholders

Section 2.1. Annual Meetings. An annual meeting of stockholders shall be held for the election of directors on the last Tuesday of December of each year, at 10:00 A.M. or, should such day fall upon a legal holiday, at the same time on the next business day thereafter that is not a legal holiday, or at such other date and time as may be designated by the Board of Directors from time to time. The annual meeting of stockholders shall be held at such place either within or without the State of Delaware as may be designated by the Board of Directors from time to time; in the absence of any such designation, the annual meeting shall be held at the principal executive offices of the Corporation. At such meeting, the stockholders shall elect directors and transact such other business as may be properly brought before the meeting.

To be properly brought before the annual meeting, business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder of record. In addition to any other applicable requirements, for business to be properly brought before the annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received at the principal executive offices of the Corporation, addressed to the attention of the Secretary of the Corporation, not less than 60 days nor more than 90 days prior to the scheduled date of the meeting (regardless of any postponements, deferrals or adjournments of that meeting to a later date); provided, however,

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EXHIBIT 3.2

that in the event that less than 70 days' notice or prior public disclosure of the date of the scheduled meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the earlier of (a) the close of business on the 10th day following the day on which such notice of the date of the scheduled annual meeting was mailed or such public disclosure was made, whichever first occurs, and (b) two days prior to the date of the scheduled meeting. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class, series and number of shares of the Corporation that are owned beneficially by the stockholder, and (iv) any material interest of the stockholder in such business. Notwithstanding anything in these by-laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 2.1; provided, however, that nothing in this Section 2.1 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting.

The Chairman of the Board of Directors (or such other person presiding at the meeting in accordance with Section 2.6 of these by-laws) shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 2.1, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 2.2. Special Meetings. Special meetings of stockholders may be called at any time only by the Chairman of the Board, if any, the Vice Chairman of the Board, if any, the President or the Board of Directors, to be held at such date, time and place either within or without the State of Delaware as may be stated in the notice of the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice of the meeting.

Section 2.3. Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the

case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 2.4. Adjournments. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice

need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.5. Quorum. At each meeting of stockholders, except where otherwise provided by law or the certificate of incorporation or these by-laws, the holders of a majority of the outstanding shares of each class of stock entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum. For purposes of the foregoing, two or more classes or series of stock shall be considered a single class if the holders thereof are entitled to vote together as a single class at the meeting. In the absence of a quorum the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided by Section 2.4 of these by-laws until a quorum shall attend. Shares of its own capital stock belonging on the record date for the meeting to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

Section 2.6. Organization. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in the absence of the Chairman of the Board by the President, or in the absence of the President by a Vice President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary by an Assistant Secretary, or in their absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.7. Voting; Proxies. Unless otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an

instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy at such meeting shall so determine. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. With respect to other matters, unless otherwise provided by law or by the certificate of incorporation or these by-laws, the affirmative vote of the holders of a majority of the shares of all classes of stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, provided that (except as otherwise required by law or by the certificate of incorporation) the Board of Directors may require a larger vote upon any such matter. Where a separate vote by class is required, the affirmative vote of the holders of a majority of the shares of each class present in person or represented by proxy at the meeting shall be the act of such class, except as otherwise provided by law or by the certificate of incorporation or these by-laws.

Section 2.8. Fixing Date for Determination of Stockholders of Record.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (2) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board is necessary, shall be the day on which the first written consent is expressed; and (3) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

Section 2.9. List of Stockholders Entitled To Vote. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any

stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

Section 2.10. Consent of Stockholders in Lieu of meeting. Unless otherwise provided in the certificate of incorporation, any action required by law to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III

Board of Directors

Section 3.1. Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the certificate of incorporation. The number of directors which shall constitute the Board of Directors shall be ten (10). Directors need not be stockholders.

Section 3.2. Election; Term of Office; Resignation; Removal; Vacancies; Nominations. Each director shall hold office until the annual meeting of stockholders next succeeding his or her election and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any director may resign at any time upon written notice to the Board of Directors or to the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. Unless otherwise provided in the certificate of incorporation or these by-laws, vacancies and newly created directorships resulting from any increase in the authorized number of directors or from any other cause may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director.

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors at the annual meeting, by or at the direction of the Board of Directors, may be made by any Nominating Committee or person appointed by the Board of Directors; nominations may also be made by any stockholder of record of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 3.2. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received at the principal executive offices of the Corporation addressed to the attention of the Secretary of the Corporation not less than 60 days nor more than 90 days prior to the scheduled date of the meeting (regardless of any postponements, deferrals or adjournments of that meeting to a later date); provided, however, that, in the case of an annual meeting and in the event that less than 70 days' notice or prior public disclosure of the date of the scheduled meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the earlier of (a) the close of business on the 10th day following the day on which such notice of the date of the scheduled meeting was mailed or such public disclosure was made, whichever first occurs, or (b) two days prior to the date of the scheduled meeting. Such stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class, series and number of shares of capital stock of the Corporation that are owned beneficially by the person, (iv) a statement as to the person's citizenship, and (v) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice, (i) the name and record address of the stockholder and (ii) the class, series and number of shares of capital stock of the Corporation that are owned beneficially by the stockholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein.

In connection with any annual meeting, the Chairman of the Board of Directors (or such other person presiding at such meeting in accordance with Section 2.6 of these by-laws) shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 3.3. Regular meetings. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board may from time to time determine, and if so determined notice thereof need not be given.

Section 3.4. Special Meetings. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by the Chairman of the Board, if any, by the Vice Chairman of the Board, if any, by the President or by any two directors. Reasonable notice thereof shall be given by the person or persons calling the meeting.

Section 3.5. Participation in Meetings by Conference Telephone Permitted. Unless otherwise restricted by the certificate of incorporation or these by-laws, members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this by-law shall constitute presence in person at such meeting.

Section 3.6. Quorum; Vote Required for Action. At all meetings of the Board of Directors one third of the entire Board, but not less than two shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board unless the certificate of incorporation or these by-laws shall require a vote of a greater number. In case at any meeting of the Board a quorum shall not be present, the members of the Board present may adjourn the meeting from time to time until a quorum shall attend.

Section 3.7. Organization. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, if any, or in the absence of the Chairman of the Board by the Vice Chairman of the Board, if any, or in the absence of the Vice Chairman of the Board by the President, or in their absence by a chairman chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, shall act as secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 3.8. Action by Directors Without a Meeting. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 3.9. Compensation of Directors. The Board of Directors shall have the authority to fix the compensation of directors.

ARTICLE IV

Committees

Section 4.1. Executive Committee. The Board of Directors may, by resolution approved by at least a majority of the authorized number of Directors, establish and appoint one or more members of the Board of Directors to constitute an Executive Committee (the "Executive Committee"), with such powers as may be expressly delegated to it by resolution of the Board of Directors. The Executive Committee shall act only in the intervals between meetings of the Board of Directors and shall be subject at all times to the control of the Board of Directors.

Section 4.2. Committees. In addition to the Executive Committee, the Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more other committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have power or authority in reference to amending the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the General Corporation Law of Delaware fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of dissolution, removing or indemnifying directors or amending these by-laws; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock or adopt a certificate of ownership and merger.

Section 4.3. Committee Rules. Unless the Board of Directors otherwise provides, the committee designated by the Board may adopt, amend and repeal rules for the conduct of its business. In the absence of a provision by the Board or a provision in the rules of such committee to the contrary, a majority of the entire authorized number of members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article III of these by-laws.

ARTICLE V

Officers

Section 5.1. Officers; Election. As soon as practicable after the annual meeting of stockholders in each year, the Board of Directors shall elect a President and a Secretary, and it may, if it so determines, elect from among its members a Chairman of the Board. The Board may also elect one or more Vice Presidents, one or more Assistant Vice Presidents, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers and such other officers as the Board may deem desirable or appropriate and may give any of them such further designations or alternate titles as it considers desirable. Any number of offices may be held by the same person; provided, however, that the offices of President and Secretary shall not be held by the same person.

Section 5.2. Term of Office; Resignation; Removal; Vacancies. Except as otherwise provided in the resolution of the Board of Directors electing any officer, each officer shall hold office until the first meeting of the Board after the annual meeting of stockholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board or to the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board at any regular or special meeting.

Section 5.3. Powers and Duties. The officers of the Corporation shall have such powers and duties in the management of the Corporation as shall be stated in these by-laws or in a resolution of the Board of Directors which is not inconsistent with these by-laws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board. The Board may require any officer, agent or employee to give security for the faithful performance of his or her duties.

Section 5.4. Chairman of the Board. The Chairman of the Board, if there shall be such an officer, shall, if present, preside at all meetings of the Board of Directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by the By-laws.

Section 5.5. President. The President shall be the chief executive officer of the Corporation. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there be such an officer, and subject to the provisions of these by-laws and to the direction of the Board of Directors, the President shall have supervision over and may exercise general executive powers of the business and affairs of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of chief executive or which are delegated to him by the Board of Directors. He shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision and direction of all of the other officers, employees and agents of the Corporation. The President shall be ex officio, a member of all the standing committees, including the Executive Committee. In the absence of the Chairman of the Board, the President shall preside at all meetings of the Board of Directors.

Section 5.6. Vice President. In the absence of the President or in his inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 5.7. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or president, under whose supervision he shall be. He shall have custody of the corporate seal of the Corporation and he, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his signature or by the signature of such Assistant

Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature.

Section 5.8. Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 5.9. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

Section 5.10. Assistant Treasurer. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

ARTICLE VI

Stock

Section 6.1. Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman or Vice Chairman of the Board of Directors, if any, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation, certifying the number of shares owned by such holder in the Corporation. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be

issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Upon the face or back of each stock certificate issued to represent any partly paid shares, or upon the books and records of the Corporation in the case of uncertificated partly paid shares, shall be set forth the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 6.2. Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 6.3. Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertified shares such uncertified shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation.

Section 6.4. Fixing Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change,

conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6.5. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII

Miscellaneous

Section 7.1. Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

Section 7.2. Seal. The Corporation may have a corporate seal which shall have the name of the Corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board of Directors. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 7.3. Waiver of Notice of Meetings of Stockholders, Directors and Committees. Whenever notice is required to be given by law or under any provision of the certificate of incorporation or these by-laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice unless so required by the certificate of incorporation or these by-laws.

Section 7.4. Interested Directors; Quorum. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one

or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or her or their votes are counted for such purpose, if: (1) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

Section 7.5. Amendment of By-Laws. These by-laws may be amended or repealed, and new by-laws adopted, by the Board of Directors, but the stockholders entitled to vote may adopt additional by-laws and may amend or repeal any by-law whether or not adopted by them.

CERTIFICATE

I, Peter L. McCorkell, the duly elected and acting Secretary of Fair, Isaac and Company, Incorporated, a Delaware corporation ("the Company"), do hereby certify that the following resolutions are true and correct copies of resolutions which were duly adopted by the Board of Directors of the Company at a meeting held on October 6, 1999:

RESOLVED, for fiscal 2000, the revenue and profit factors for the Company's Officers' Incentive Plan, the Exempt and Non-Exempt Employees' Bonus Plans and other plans using said factors shall be as follows:

[] Incentive Plan Profit Margin results:

- 14% margin Minimum (P = 0.0)
- 16% margin On Target (P = 0.5)
- 18% margin Maximum (P= 1.0)

[] Incentive Plan Revenue Growth results:

- 15% growth Minimum (P = 0.0)
- 20% growth On Target (P = 0.5)
- 25% growth Maximum (P= 1.0)

The multiplier formula shall be changed to:

$$\text{Multiplier} = P + R$$

I further certify that the foregoing resolutions have not been rescinded, modified or amended since their adoption and are currently in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Company this 20th day of December, 1999.

/s/ Peter L. McCorkell

Peter L. McCorkell
Secretary

FAIR, ISAAC AND COMPANY, INCORPORATED

1999 Employee Stock Purchase Plan

EXHIBIT 10.2

FAIR, ISAAC AND COMPANY, INCORPORATED

1999 Employee Stock Purchase Plan

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FAIR, ISAAC AND COMPANY, INCORPORATED

1999 Employee Stock Purchase Plan

1. Purpose. The purpose of this 1999 Employee Stock Purchase Plan (the "Plan") is to provide employees of Fair, Isaac and Company, Incorporated (the "Company") and its Designated Subsidiaries with an opportunity to purchase Stock of the Company through accumulated payroll deductions, enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company's stockholders. It will also provide a benefit that will assist the Company in competing to attract and retain employees of high quality. It is the intention of the Company that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. Accordingly, the provisions of the Plan shall be construed in a manner consistent with the requirements of that Section of the Code.

2. Definitions. For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms as defined in Section 1 hereof:

- (a) "Account" means the account maintained on behalf of the participant by the Custodian for the purpose of investing in Stock and engaging in other transactions permitted under the Plan.
- (b) "Administrator" means the person or persons designated to administer the Plan under Section 13(a).
- (c) "Board" means the Company's Board of Directors.
- (d) "Code" means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.
- (e) "Committee" means the Compensation Committee of the Company's Board of Directors.
- (f) "Compensation" means all gross earnings and commissions, including payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other cash compensation, but excluding grants of options, restricted stock, stock appreciation rights and payments for severance.
- (g) "Custodian" means a custodian or any successor thereto as appointed by the Board from time to time.
- (h) "Designated Subsidiaries" means the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to have their Employees participate in the Plan.

- (i) "Employee" means any individual who is a common law employee of the Company or a Designated Subsidiary.
- (j) "Enrollment Date" means the first day of the next Offering Period.
- (k) "Exercise Date" means the last day of each Offering Period.
- (l) "Fair Market Value" means the fair market value of a share of Stock as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any given date shall be the last trade price of a share of Stock reported on a consolidated basis for securities listed on the New York Stock Exchange for trades on the date as of which such value is being determined or, if that day is not a Trading Day, then on the latest previous Trading Day.
- (m) "Offering Period" means the approximately six-month periods commencing (a) on the first Trading Day on or after January 1 and terminating on the last Trading Day in the following June, and (b) on the first Trading Day on or after July 1 and terminating on the last Trading Day in the following December. The beginning and ending dates and duration of Offering Periods may be changed pursuant to Section 4 of the Plan.
- (n) "Purchase Price" means an amount equal to 85% of the Fair Market Value of a share of Stock on the Enrollment Date or 85% of the Fair Market Value of a share of Stock on the Exercise Date, whichever is lower.
- (o) "Reserves" means the number of shares of Stock covered by all options under the Plan which have not yet been exercised and the number of shares of Stock which have been authorized for issuance under the Plan but which have not yet become subject to options.
- (p) "Stock" means the Company's Common Stock, and such other securities as may be substituted (or resubstituted) for Stock pursuant to Section 18 hereof.
- (q) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.
- (r) "Trading Day" means a day on which the New York Stock Exchange is open for trading.

3. Eligibility.

- (a) All Employees (as determined in accordance with Section 2(i) hereof) of the Company or a Designated Subsidiary on a given Enrollment Date shall be eligible to participate in the Plan.
- (b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose Stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock and/or hold outstanding options to purchase such stock possessing 5% or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its Subsidiaries accrue at a rate which exceeds \$25,000 worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.
- (c) All participants in the Plan shall have equal rights and privileges (subject to the terms of the Plan) with respect to options outstanding during any given Offering Period.

4. Offering Periods. The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after January 1 and July 1 of each year following the initial Offering Period, or on such other date as the Committee shall determine, and continuing thereafter until terminated in accordance with Section 19 hereof. The Committee shall have the power to change the beginning date, ending date, and duration of Offering Periods with respect to future offerings without stockholder approval if such change is announced at least five days prior to the scheduled beginning of the first Offering Period to be affected thereafter, provided that Offering Periods will in all cases comply with applicable limitations under Section 423(b)(7) of the Code.

5. Participation.

- (a) Any person who will be an eligible Employee on a given Enrollment Date may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions and filing it with the Administrator at least 15 days prior to such Enrollment Date.
- (b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

- (a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount from 1% to 10% of the Compensation which he or she receives for each pay period during the Offering Period.
- (b) All payroll deductions made for a participant shall be credited to his or her Account under the Plan. Payroll deductions shall be withheld in whole percentages only, unless otherwise determined by the Committee. A participant may not make any additional payments into such Account.
- (c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may decrease the rate of his or her payroll deductions during the Offering Period, by completing and filing with the Administrator a new subscription agreement authorizing a change in payroll deduction rate. Unless otherwise authorized by the Committee, a participant may not change his or her payroll deduction rate more than once during any Offering Period. The change in rate shall be effective with the first payroll period following 10 business days after the Administrator's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.
- (d) The foregoing notwithstanding, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be terminated at such time during any Offering Period which is scheduled to end during the current calendar year (the "Current Offering Period") that the aggregate of all payroll deductions accumulated with respect to the Current Offering Period equal \$21,250 (or such other limit as may apply under Code Section 423(b)(8)). Payroll deductions shall recommence at the rate provided in such participant's subscription agreement (as previously on file or as changed prior to the commencement date in accordance with Section 6(c)) at the beginning of the next Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.
- (e) The Company or any Designated Subsidiary is authorized to withhold from any payment to be made to a participant, including any payroll and other payments not related to the Plan, amounts of withholding and other taxes due in connection with any transaction under the Plan, including any disposition of shares acquired under the Plan, and a participant's enrollment in the Plan will be deemed to constitute his or her consent to such withholding. At the time of a participant's exercise of an option or disposition of shares acquired under the Plan, the Company may require the participant to make other arrangements to meet tax withholding obligations as a condition to exercise of rights or distribution of shares or cash from the participant's Account. In addition, a Participant may be required to advise the Company of sales and other

dispositions of Stock acquired under the Plan in order to permit the Company to comply with tax laws and to claim any tax deductions to which the Company may be entitled with respect to the Plan.

7. Grant of Options. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on the Exercise Date of such Offering Period, at the applicable Purchase Price, up to a number of shares of Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's Account as of the Exercise Date by the applicable Purchase Price; provided that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. To the extent not exercised, the option shall expire on the last day of the Offering Period.

8. Exercise of Option. Participant's option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. Shares purchased shall include fractional shares calculated to at least three decimal places, unless otherwise determined by the Committee. If fractional shares are not to be purchased for a participant's Account, any payroll deductions accumulated in a participant's account not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery of Shares; Participant Accounts.

- (a) At or as promptly as practicable after the Exercise Date for an Offering Period, the Company will deliver the shares of Stock purchased to the Custodian for deposit into the participant's Account.
- (b) Cash dividends on any Stock credited to a participant's Account will be automatically reinvested in additional shares of Stock; such amounts will not be available in the form of cash to participants. All cash dividends paid on Stock credited to participants' Accounts will be paid over by the Company to the Custodian at the dividend payment date. The Custodian will aggregate all purchases of Stock in connection with the Plan for a given dividend payment date. Purchases of Stock for purposes of dividend reinvestment will be made as promptly as practicable (but not more than 30 days) after a dividend payment date. The Custodian will make such purchases, as directed by the Committee, either (i) in transactions on any securities exchange upon which Stock is traded, otherwise in the over-the-counter market, or in negotiated transactions, or (ii) directly from the Company at 100% of the Fair Market Value of a share of Stock on the dividend payment date. Any shares of Stock distributed as a dividend or distribution in respect of shares of Stock or in connection with a split of the Stock credited to a participant's Account will be credited to such Account. In the event of any other non-cash dividend or distribution in respect of Stock credited to a participant's Account, the Custodian will, if reasonably practicable and at the direction of the Committee, sell any property received in

such dividend or distribution as promptly as practicable and use the proceeds to purchase additional shares of Common Stock in the same manner as cash paid over to the Custodian for purposes of dividend reinvestment.

- (c) Each participant will be entitled to vote the number of shares of Stock credited to his or her Account (including any fractional shares credited to such Account) on any matter as to which the approval of the Company's stockholders is sought. If a participant does not vote or grant a valid proxy with respect to shares credited to his or her Account, such shares will be voted by the Custodian in accordance with any stock exchange or other rules governing the Custodian in the voting of shares held for customer accounts. Similar procedures will apply in the case of any consent solicitation of Company stockholders.

10. Withdrawal of Payroll Deductions or Shares; Termination of Employment.

- (a) If a participant decreases his or her payroll deduction rate to zero during an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Administrator a new subscription agreement.
- (b) Upon a participant's ceasing to be an Employee for any reason (including upon the participant's death), he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's Account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 14 hereof, and such participant's option shall be automatically terminated.
- (c) Following the completion of two years from the first day of an Offering Period, a participant may elect to withdraw shares of Stock acquired during such Offering Period from his or her Account in certificated form or to transfer such shares from his or her Account to an account of the participant maintained with a broker-dealer or financial institution. During the first two years from the first day of the Offering Period, all sales and transfers shall only be effectuated by the Custodian on the participant's behalf. If a participant elects to withdraw shares, one or more certificates for whole shares shall be issued in the name of, and delivered to, the participant, with such participant receiving cash in lieu of fractional shares based on the Fair Market Value of a share of Stock on the date of withdrawal. If shares of Stock are transferred from a participant's Account to a broker-dealer or financial institution that maintains an account for the participant, only whole shares shall be transferred and cash in lieu of any fractional share shall be paid to such participant based on the Fair Market Value of a share of Stock on the date of transfer. A Participant seeking to withdraw or transfer shares of Stock must give instructions to the Custodian in such manner and form as may be prescribed by the Committee and the Custodian, which instructions will be acted upon as promptly as practicable. Withdrawals and transfers will be subject to any fees imposed in accordance with Section 10(e) hereof.

- (d) Upon termination of employment of a participant for any reason, the Custodian will continue to maintain the participant's Account until the earlier of such time as the participant withdraws or transfers all Stock in the Account or two years after the participant ceases to be employed by the Company and its Subsidiaries. At the expiration of such two-year period, the assets in Participant's account shall be withdrawn or transferred as elected by the Participant or, in the absence of such election, as determined by the Committee.
- (e) Costs and expenses incurred in the administration of the Plan and maintenance of Accounts will be paid by the Company, including annual fees of the Custodian and any brokerage fees and commissions for the purchase of Stock upon reinvestment of dividends and distributions. The foregoing notwithstanding, the Custodian may impose or pass through a reasonable fee for the withdrawal of Stock in the form of stock certificates (as permitted under Section 10(c)), and reasonable fees for other services unrelated to the purchase of Stock under the Plan, to the extent approved in writing by the Company and communicated to participants. In no circumstance shall the Company pay any brokerage fees and commissions for the sale of Stock acquired under the Plan by a participant.

11. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan

12. Stock.

- (a) The maximum number of shares of Stock which shall be made available for sale under the Plan shall be 1.5 million shares, subject to adjustment as provided in Section 18 hereof. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable. Any shares of Stock delivered by the Company under the Plan may consist, in whole or in part, of authorized and unissued shares or shares acquired by the Company in the open market. Shares acquired in the open market through dividend reinvestment will not count against the Reserves.
- (b) The participant shall have no interest or voting right in shares purchasable upon exercise of his or her option until such option has been exercised.

13. Administration.

- (a) The Plan shall be administered by the Committee except to the extent the Board elects to administer the Plan, in which case references herein to the "Committee" shall be deemed to include references to the "Board." The Committee shall have full and final authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. The Committee may, in its discretion, delegate authority to the Administrator. Every finding, decision and determination made by the Committee or Administrator shall, to the full extent permitted by law, be final

and binding upon all parties (except for any reserved right of the Committee to review a finding, decision or determination of the Administrator). The Committee, Administrator, and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any executive officer, other officer or employee of the Company or any Designated Subsidiary, the Company's independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Committee or Administrator and any officer or employee of the Company or any Designated Subsidiary acting at the direction or on behalf of the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

- (b) The Custodian will act as custodian under the Plan, and will perform such duties as are set forth in the Plan and in any agreement between the Company and the Custodian. The Custodian will establish and maintain, as agent for each Participant, an Account and any subaccounts as may be necessary or desirable for the administration of the Plan.

14. Designation of Beneficiary.

- (a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's Account under the Plan in the event of (i) such participant's death subsequent to an Exercise Date on which the option is exercised but prior to a distribution to such participant of shares or cash then held in the participant's Account or (ii) such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.
- (b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, any shares or cash otherwise deliverable under Section 14(a) shall be delivered to the participant's estate.

15. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 14 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect.

16. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. Reports. An individual Account shall be maintained by the Custodian for each participant in the Plan. Statements of Account shall be given to each participant at least semi-annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased, any remaining cash balance, and other information deemed relevant by the Committee.

18. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.

- (a) Changes in Capitalization. The Committee shall proportionately adjust the Reserves, and the price per share and the number of shares of Stock covered by each option under the Plan which has not yet been exercised, for any increase or decrease in the number of issued shares of Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Stock, or other extraordinary corporate event which affects the Stock in order to prevent dilution or enlargement of the rights of participants. The determination of the Committee with respect to any such adjustment shall be final, binding and conclusive.
- (b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee.
- (c) Asset Sale or Merger. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Committee shall shorten the Offering Period then in progress by setting a new Exercise Date (the "New Exercise Date"). The New Exercise Date shall be before the date of the Company's proposed asset sale or merger. The Committee shall notify each participant in writing, at least ten business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

19. Amendment or Termination.

- (a) The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors by shortening the Offering Period and accelerating the Exercise Date to a date not prior to the date of such Board action if the Board determines that termination of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 18 and this Section 19, no amendment may make any change in any option theretofore granted which materially adversely affects the rights of any participant, and any amendment will be subject to the approval of the Company's stockholders not later than one year after Board approval of such amendment if such stockholder approval is

required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, or if such stockholder approval is necessary in order for the Plan to continue to meet the requirements of Section 423 of the Code, and the Board may otherwise, in its discretion, determine to submit any amendment to stockholders for approval.

- (b) Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Committee shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Committee determines in its sole discretion are advisable and consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions. Upon Issuance of Shares. The Company shall not be obligated to issue shares with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or automated quotation system upon which the shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

22. Plan Effective Date and Stockholder Approval. The Plan has been adopted by the Board on November 19, 1999, but shall become effective upon approval by the Company's stockholders by a vote sufficient to meet the requirements of Section 423(b)(2) of the Code within 12 months after the date the Plan was adopted and prior to the first Exercise Date. In the event stockholders fail to so approve the Plan, all options granted under the Plan shall be canceled, all payroll deductions shall be refunded, and the Plan shall be terminated.

Amendment 3

FAIR, ISAAC AND COMPANY, INCORPORATED
1992 LONG-TERM INCENTIVE PLAN
(Effective November 19, 1999)

Effective as of November 19, 1999, the Fair, Isaac and Company, Incorporated 1992 Long-Term Incentive Plan is hereby amended as follows:

1. A new Section 3.4 is added to Article 3 of the Plan as follows:

3.4 Outside Director Option Limitations. Notwithstanding the limitations set forth in Section 3.1 above, effective February 1, 2000, there shall be an additional 150,000 aggregate number of Options available for awards under the Plan to Outside Directors as further described in Section 4.2 below.

2. Section 4.2 of the Plan is amended in its entirety as follows:

4.2 Outside Directors. Any other provision of the Plan notwithstanding, the participation of Outside Directors in the Plan shall be subject to the following restrictions:

(a) Outside Directors shall receive no Awards other than the NSOs described in this Section 4.2.

(b)(i) Each person who first becomes an Outside Director on or after the date of the Company's 2000 annual meeting of stockholders shall, upon becoming an Outside Director, receive an NSO covering 20,000 Common Shares (subject to adjustment under Article 10), hereinafter referred to as an "Initial Grant". Such Initial Grant shall become exercisable in increments of 4,000 shares (subject to adjustment under Article 10) on each of the first through fifth anniversaries of the date of grant.

(ii) Each Outside Director who was acting as an Outside Director prior to the Company's 2000 annual meeting of stockholders shall be entitled to receive an NSO grant of Common Shares in an amount sufficient to increase his or her Initial Grant to 20,000 Common Shares effective as of the date of such annual meeting.

(iii) On the date of each annual meeting of stockholders of the Company held on or after January 1, 2000, each Outside Director who has been an Outside Director at least since the prior annual meeting shall receive an NSO covering 5,000 Common Shares (subject to adjustment under Article 10), hereinafter referred to as an "Annual Grant." Such Annual Grants shall be exercisable in full on the date of grant.

(iv) On the date of each annual meeting of stockholders of the Company held on or after January 1, 2000, each Outside Director who chairs a standing committee at the direction of the Chairman of the Board shall receive an NSO covering an additional 1,000 Common Shares (subject to Adjustment under Article 10) hereinafter referred to as a "Committee Grant". Such Committee Grant shall be exercisable in full on the date of grant.

EXHIBIT 10.8

(c) All NSOs granted to an Outside Director under this Section 4.2 shall also become exercisable in full in the event of the termination of such Outside Director's service for any reason.

(d) The Exercise Price under all NSOs granted to an Outside Director under this Section 4.2 shall be equal to 100% of the Fair Market Value of a Common Share on the date of grant, payable in one of the forms described in Sections 6.1, 6.2, 6.3 and 6.4.

(e) All Initial Grants granted to an Outside Director under this Section 4.2 shall terminate on the earliest of (i) the 10th anniversary of the date of grant or (ii) the date 12 months after the termination of such Outside Director's service for any reason. All Annual Grants granted to an Outside Director under this Section 4.2 shall terminate on the earliest of (i) the fifth anniversary of the date of grant or (ii) the date 12 months after the termination of such Outside Director's service for any reason.

3. This Amendment 3 shall only become effective if approved by the Company's stockholders at the Company's next annual meeting of stockholders. If not approved, the provisions of Section 4.2 of the Plan in effect immediately prior to November 19, 1999, shall remain in effect.

To record the adoption of this amendment to the Fair, Isaac and Company, Incorporated Stock Option Plan for Non-Employee Directors by an

Executive Committee of the Board on November 19, 1999, the Corporation has caused its authorized officers to affix the corporate name hereto.

Fair, Isaac and Company, Incorporated

By /s/ PETER L. MCCORKELL

Peter L. McCorkell
Senior Vice President and Secretary

EXHIBIT 10.8

FIRST AMENDMENT TO PARTICIPATION AGREEMENT

THIS FIRST AMENDMENT TO PARTICIPATION AGREEMENT (this "Amendment"), dated as of April 5, 1999, is entered into by and among:

- (1) FAIR, ISAAC AND COMPANY, INC., a Delaware corporation ("Lessee");
- (2) LEASE PLAN NORTH AMERICA, INC., an Illinois corporation ("Lessor");
- (3) Each of the financial institutions listed in Schedule I to the Participation Agreement referred to in Recital A below (collectively, the "Participants"); and
- (4) ABN AMRO BANK, N.V., acting through its San Francisco International Branch, as agent for the Participants (in such capacity, "Agent").

RECITALS

A. Lessee, Lessor, the Participants and Agent are parties to a Participation Agreement dated as of May 15, 1998 (the "Participation Agreement").

B. Lessee has requested Lessor, the Participants and Agent to amend the Participation Agreement to change the covenant limiting Lessee's repurchase of its Equity Securities.

C. Lessor, the Participants and Agent are willing so to amend the Participation Agreement upon the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Lessee, Lessor, the Participants and Agent hereby agree as follows:

1. Definitions, Interpretation. All capitalized terms defined above and elsewhere in this Amendment shall be used herein as so defined. Unless otherwise defined herein, all other capitalized terms used herein shall have the respective meanings given to those terms in the Participation Agreement, as amended by this Amendment. The rules of construction set forth in Schedule 1.02 to the Participation Agreement shall, to the extent not inconsistent with the terms of this Amendment, apply to this Amendment and are hereby incorporated by reference.

2. Amendment to Participation Agreement. Subject to the satisfaction of the conditions set forth in Paragraph 4 below, Clause (iii) of Subparagraph 5.02(f) of the Participation Agreement is hereby amended to read in full as follows:

EXHIBIT 10.19

(iii) Lessee may repurchase its Equity Securities, provided that the cost of any such repurchase, when added to the aggregate cost of all other repurchases made pursuant to this clause (iii) since the date of this Agreement, does not exceed the greater of \$25 million or five percent (5%) of Lessee's Tangible Net Worth on the last day of the immediately preceding fiscal year.

3. Representations and Warranties. Lessee hereby represents and warrants to Agent and the Participants that the following are true and correct on the date of this Amendment and that, after giving effect to the amendment set forth in Paragraph 2 above, the following will be true and correct on the Effective Date (as defined below):

(a) The representations and warranties of Lessee set forth in Paragraph 4.01 of the Participation Agreement and in the other Operative Documents are true and correct in all material respects as if made on such date (except for representations and warranties expressly made as of a specified date, which shall be true as of such date);

(b) No Default has occurred and is continuing; and

(c) All of the Operative Documents are in full force and effect.

(Without limiting the scope of the term "Operative Documents," Lessee expressly acknowledges in making the representations and warranties set forth in this Paragraph 3 that, on and after the date hereof, such term includes this Amendment.)

4. Effective Date. The amendments effected by Paragraph 2 above shall become effective April, 5, 1999 (the "Effective Date") so long as Lessor, Agent and the Participants have received on or prior to the effective Date this Amendment duly executed by Lessor, Lessee, each Participant and Agent.

5. Effect of this Amendment. On and after the Effective Date, each reference in the Participation Agreement and the other Operative Documents to the Participation Agreement shall mean the Participation Agreement as amended hereby. Except as specifically amended above, (a) the Participation Agreement and the other Operative Documents shall remain in full force and effect and are hereby ratified and affirmed and (b) the execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of the Participants or Agent, nor constitute a waiver of any provision of the Participation Agreement or any other Operative Document.

6. Miscellaneous.

(a) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

(b) Headings. Headings in this Amendment are for convenience of reference only and are not part of the substance hereof.

(c) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules.

[Signature pages follow]

IN WITNESS WHEREOF, Lessee, Lessor, Agent and the Participants have caused this Amendment to be executed as of the day and year first above written.

LESSEE: FAIR, ISAAC AND COMPANY, INC.

By: _____
Name: _____
Title: _____

LESSOR: LEASE PLAN NORTH AMERICA, INC.

By: _____
Name: _____
Title: _____

AGENT: ABN AMRO BANK N.V.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

PARTICIPANTS: ABN AMRO BANK N.V.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

KEYBANK NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

BANQUE NATIONALE de PARIS

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

FLEET NATIONAL BANK

By: _____
Name: _____
Title: _____

THE DAI-ICHI KANGO BANK, LIMITED
Los Angeles Agency

By: _____
Name: _____
Title: _____

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into and effective as of the 23rd day of August, 1999, (the "Effective Date") by and between Fair, Isaac and Company, Inc., a Delaware Corporation, having its principal office at 120 North Redwood Drive, San Rafael, California 94903 (the "Company") and Thomas G. Grudnowski ("Employee").

RECITALS

1. The Company provides customer and operational data management and modeling, information analysis, strategy design and software to a variety of industries, worldwide.
2. The Company desires to employ Employee and Employee desires to become employed by the Company, pursuant to the terms and conditions of this Agreement.

Section 1.0 EMPLOYMENT, DUTIES AND TERM

1.1 Employment. Upon the terms and conditions set forth in this Agreement, the Company hereby employs Employee and Employee accepts such employment as Chief Executive Officer of the Company.

1.2 Election to Board of Directors. Upon the Effective Date of this Agreement, the Company's Board of Directors shall elect Employee to fill a position as a member of the Company's Board of Directors as of December 2, 1999. Thereafter, it is understood and agreed by the Company and Employee that the Board of Directors of the Company shall thereafter, so long as Employee is the Chief Executive Officer of the Company, nominate the Employee for election to a position on the Board of Directors of the Company.

1.3 Duties. During the term of this Agreement, and excluding any periods of vacation, sick leave, disability leave, or other leave to which Employee is entitled, the Employee shall have reporting responsibilities to the Board of Directors of the Company and shall have such duties as are assigned by the Board of Directors of the Company and agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to such extent necessary, to discharge the responsibilities assigned to the Employee hereunder as Chief Executive Officer of the Company.

1.4 Employment Relationship. Company and Employee agree that they have an "at will" employment relationship, which means that either Party has the right to terminate the employment relationship at any time and for any reason subject to Section 1.6 and Section 3.0 of this Agreement.

1.5 Commencement of Employment. Employee shall make himself available to the Company for the purposes of familiarization and orientation commencing no later than October 8, 1999, and the term of employment shall commence on December 2, 1999, with compensation

EXHIBIT 10.42

and benefits payable to Employee as set forth in this Agreement due and owing effective December 2, 1999, and thereafter.

1.6 Term of Agreement. This Agreement shall remain in force from the Effective Date through December 1, 2003.

Section 2.0 COMPENSATION, BENEFITS AND EXPENSES

2.1 Compensation For December 2, 1999 to September 30, 2000. It is understood and agreed by the Company and Employee that for the period December 2, 1999 to, and including, September 30, 2000, ("First Year Employment"), that the Company shall pay Employee a first year employment salary ("First Year Employment Salary") of Six Hundred Sixty-six Thousand Six Hundred Sixty-six Dollars (\$666,666.00), i.e. at the rate of Eight Hundred Thousand Dollars (\$800,000.00) per annum, which shall be payable in accordance with the Company's regular payroll practices; but in any event, the Company shall pay the First Year Employment Salary in at least ten (10) equal monthly installments.

2.2 One Time First Year Bonus. Company agrees to pay to Employee, in addition to the compensation set forth at Section 2.1, a one time first year employment bonus ("First Year Employment Bonus") in the amount of One Hundred Thirty Three Thousand Three Hundred Thirty Three Dollars (\$133,333.00) payable in full to Employee on December 2, 1999.

2.3 Base Salary-October 1, 2000. Subject to Section 3.0 of this Agreement, commencing October 1, 2000 and thereafter during the term of Employee's employment under this Agreement and for as long thereafter as required pursuant to Section 3.0 of this Agreement, the Company shall pay Employee a base salary ("Base Salary") at an annual rate of Four Hundred Thousand Dollars (\$400,000.00) which Base Salary shall be paid in accordance with the Company's regular payroll practices, but in any event Company shall pay to Employee, Employee's Base Salary in at least twelve (12) equal monthly installments. If Employee's Base Salary is increased from time to time during the term of Employee's employment under this Agreement, the increased amount shall become the Base Salary for the remainder of the term of the Employee's employment under this Agreement, and for

as long thereafter as required pursuant to Section 3.0 subject to any subsequent increases.

2.4 Incentive Awards. Commencing on October 1, 2000, and thereafter during the term of Employee's employment under this Agreement, in addition to the Base Salary payable pursuant to Section 2.1, Employee shall be eligible to receive an annual bonus ("Incentive Award") with a target amount of Four Hundred Thousand Dollars (\$400,000.00) to be paid if Employee's achievements are "at plan." The actual amount of such Incentive Award for each fiscal year may range from \$0 to \$800,000, based on the achievement of certain strategic, business and financial objectives that the Employee and the Company's Board of Directors will mutually determine in good faith not later than ninety (90) days after the beginning of each fiscal year of the Company.

Such Incentive Award shall be due and payable to Employee, in full, no later than November 15th of each year of the term of Employee's employment and so long as Employee is eligible for the Incentive Award and subject to Section 3.0 of this Agreement.

2.5 Other Benefits. Health, Disability, and Group Term Life Insurance equal to two (2) times Employee's annual Base Salary, up to a maximum coverage of Five Hundred Thousand Dollars (\$500,000.00), shall be provided by the Company to the Employee and as provided generally to other employees of the Company, and Employee shall be entitled to purchase participation in any other employee benefit plan which exists as of December 2, 1999, or which may be established in the future by the Company for its employees. In addition to the foregoing, Employee shall be entitled to and the Company shall provide to Employee Director's and Officer's ("D and O") indemnification insurance.

2.6 Business Expenses. The Company shall reimburse the Employee for any and all ordinary, necessary and reasonable business expenses that Employee incurs in connection with the performance of Employee's duties under this Agreement, including entertainment, telephone, travel and miscellaneous expenses, provided that Employee provides the Company with documentation for such expenses in a form acceptable to the Company.

2.7 Vacation. For each fiscal year during the term of the Employee's employment under this Agreement, Employee shall be entitled to four (4) weeks of paid vacation.

2.8 Stock Options and Restricted Stock.

2.8.1 Grant of Options. The Company shall grant to Employee options ("Options") to acquire Four Hundred Twenty Thousand (420,000) shares of the Company's Common Stock pursuant to the Stock Option Agreement to be entered into between Employee and Company simultaneously with the execution of this Agreement.

2.8.2 Vesting and Term of Options. When Employee completes one (1) continuous year of employment with the Company after the date of which the Options are granted, Employee may exercise the Option for One Hundred Five Thousand (105,000) shares of the Company's Common Stock. Thereafter, Options for Eight Thousand Seven Hundred Fifty (8,750) shares of the Company's Common Stock shall vest on the last day of each calendar month during the term for which Employee is employed with the Company. (All vesting dates hereinafter collectively "Vesting Date"). All of the Options herein are subject to Section 3.0. All such options shall expire ten (10) years after the Effective Date of this Agreement (the "Expiration Date").

2.8.3 Exercise Price. The Exercise Price ("Exercise Price") for all Options shall be equal to the closing price of the Company's Common Stock as quoted by the New York Stock Exchange on the Effective Date of this Agreement.

2.8.4 Restricted Stock. The Company hereby grants to employee Ten Thousand (10,000) shares of restricted stock (the "Restricted Stock") which shall vest on January 1, 2000, provided Employee is employed by the Company on such date.

By law, the Employee must pay the par value of the stock (\$.01 per share) in order to receive such Restricted Stock.

2.8.5 Vesting: Change of Control and Termination. The foregoing Vesting Dates notwithstanding Employee's Restricted Stock and Options shall vest and be fully exercisable on the following dates:

- a. Termination "Without Cause." In the event of termination by the Company of Employee's employment prior to the termination of this Agreement "without cause" (other than by death or disability), those shares of Restricted Stock and Options vesting within twelve (12) months of the date of such termination shall immediately vest, such Options shall become exercisable in full, and Employee shall be required to exercise the Options within ninety (90) days after the effective date of the termination.
- b. Termination Due to Disability or Death. In the event of Employee's termination due to death or disability while an employee or director of the Company, all of Employee's Restricted Stock and Options shall immediately vest, and such Options shall become exercisable in full, and the Options shall be exercised within twelve (12) months after the event of death or disability.
- c. Change in Control. In the event the Company is subject to a "Change in Control" (as defined in Section 3.3 below) during the term of this Agreement and while Employee is an employee or director of the Company, Employee's entire Restricted Stock and Options shall immediately vest, and such Options shall become fully exercisable up to the Expiration Date of the Options.

Section 3.0 PAYMENTS UPON TERMINATION

3.1 Severance. If the Company terminates Employee's "at will" employment "without cause," Employee shall be paid (i) a sum equal to two (2) times Employee's then Base Salary or if termination occurs during the Employee's first year of employment, Employee shall be paid the sum of One Million Six Hundred Thousand Dollars (\$1,600,000.00), either sum payable in one lump sum no later than ninety (90) days after termination; (ii) Employee's accrued but unpaid time-off (including but not limited to vacation for the year in which such termination occurs, prorated to the date of such termination; (iii) any unpaid business expense reimbursements; (iv) a sum equal to two (2) times Employee's Incentive Award granted by the Company for the period immediately preceding the date of termination, (v) Employee's other accrued benefits, if any, under any of the Company's other employee benefit plans subject to the terms and conditions of those plans, and (vi) Employee shall be entitled to the Restricted Stock and to exercise the Options at the times and pursuant to Section 2.8.5(a).

3.2 With/Without Cause. For the purposes of this Agreement, "without cause" shall be any reason other than "cause" and "cause" for the purposes of this Agreement shall mean: (i) an act

or acts of personal dishonesty taken by Employee and intended to result in substantial personal enrichment of Employee at the expense of the Company; (ii) Employee's material breach of any of Employee's obligations under this Agreement or Employee's repeated failure or refusal to perform or observe Employee's duties, responsibilities and obligations as an Employee of the Company for reasons other than disability or incapacity; (iii) the existence of any Court Order or settlement agreement prohibiting Employee's continued employment with the Company; (iv) if Employee has signed and/or entered into a written or oral non-competition agreement, confidentiality agreement, proprietary information agreement, trade secret agreement or any other agreement which would prevent Employee from working for the Company and/or from performing Employee's duties at the Company; or (v) the willful engaging by Employee in illegal conduct that is materially and demonstrably injurious to the Company. For the purposes of this Section 3.2(v), no act or failure to act on Employee's part shall be considered "dishonest," "willful" or "deliberate" unless done or omitted to be done by Employee in bad faith and without reasonable belief that Employee's action or omission was in, or not opposed, to the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Employee in good faith and in the best interests of the Company.

3.3 Change of Control. For purposes of this Agreement, a "Change of Control" shall be deemed to occur upon the occurrence of both (A): (i) the sale, lease, conveyance or other disposition of all or substantially all of the Company's assets as an entirety or substantially as an entirety to any person, entity or group of persons acting in concert; (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities; or (iii) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; and (B): (i) a material adverse change in the Employee's position with the Company which materially reduces his responsibility, without "cause" and without his written consent; (ii) a material reduction in the Employee's compensation without his written consent; or (iii) a relocation of Employee's place of employment outside of the seven (7) San Francisco Bay Area counties, without his written consent.

Section 4.0 CONFIDENTIAL INFORMATION

4.1 Confidential Information Obtained During Employment. As an employee of the Company, Employee will have access to certain confidential information of the Company and its clients; and, Employee may, during the course of his employment, develop certain information or inventions that will be the property of the Company. In order to protect the interest of the Company, Employee shall, contemporaneously with the execution of this Agreement, execute the Company's Standard Employee confidentiality and Inventions Agreement.

4.2 Information Obtained from Prior Employment. In addition to the foregoing Section 4.1, Employee shall not provide to the company nor use confidential or proprietary information of any former employer or clients in violation of any obligation Employee may have to such former employer or clients.

Section 5.0 RELOCATION BENEFITS

In addition to all other compensation specified herein, the Company agrees that upon the execution of this Agreement and thereafter it will reimburse the Employee for all reasonable costs of relocating Employee's family and household to the San Francisco, California, Bay Area from Deephaven, Minnesota. The relocation benefits shall include the costs of moving household goods and personal and recreational vehicles. It shall also include travel expenses, to include food and lodging, for up to five (5) round trips by Employee and Employee's spouse to San Francisco, California, Bay Area from Minnesota prior to actual relocation; and real estate commissions and other out-of-pocket costs of selling Employee's current residence, together with temporary living expenses up to six (6) months in the event Employee reports for employment with the Company prior to relocation of employee's family and household.

Section 6.0 GENERAL PROVISIONS

6.1 Disputes. In the event of any dispute, controversy, or claim for damages arising under or in connection with this Agreement, including, but not limited to, claims for wages or compensation due; claims for breach of any contract or covenant (expressed or implied); tort claims; claims for discrimination; claims for benefits (except where an employee benefit or profit sharing plan specifies that its claims procedures shall culminate in an arbitration procedure) and claims for violation of any Federal, State or other governmental law, statute, regulation, or ordinance, except claims for workers' compensation or unemployment compensation benefits, Employee and Company mutually agree to in good faith consider the use of forms of alternative dispute resolution, including, but not limited to, arbitration and/or mediation.

6.2 Remedies. Any remedies which the Parties hereto may have pursuant to this Agreement or by law shall be cumulative. The Parties hereto agree that if a Party fails to comply with the terms and conditions hereof, the harm to the other Party may not be fully compensable in money damages, and accordingly, the Parties hereby agree that either Party may seek specific performance of any and all provisions hereafter to the full extent lawfully warranted or the enjoining of the breaching Party from continuing to commit any breach of the terms and conditions contained herein.

6.3 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of any successor of the Company ("Successor") and any such successor shall absolutely and unconditionally assume all of the Company's obligations hereunder. On Employee's written request, the Company will seek to have any Successor, by agreement in form and substance satisfactory to Employee, assent to fulfillment by the such Successor of its obligations under this Agreement.

6.4 No Offsets. In no event shall any amount payable to Employee pursuant to this Agreement be reduced for purposes of offsetting either directly or indirectly any indebtedness or liability of Employee to the Company.

6.5 Severability. To the extent a provision of this Agreement shall be invalid or unenforceable, it shall be considered deleted from this Agreement and the remainder of this Agreement shall be unaffected and shall continue in full force and effect. Notwithstanding the foregoing, in the event that a provision of this Agreement is unenforceable, because it is overbroad, then such provision shall be limited to the extent necessary to make it enforceable under applicable law and enforced as so limited. Employee acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement be given the construction which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

6.6 Governing Law. The validity, interpretation, construction, performance, enforcement and remedies of or relating to this Agreement, and the rights and obligations of the Parties hereunder shall be governed by the substantive laws of the State of California (without regard to the conflict-of-laws rules or statutes of any jurisdiction), and any and every legal proceeding arising out of or in connection with this Agreement shall be brought in the appropriate courts of the State of California if the parties are unable to agree to alternative dispute resolution as set forth at Section 6.1. Each of the Parties hereby consents to the exclusive jurisdiction of said courts for this purpose.

6.7 Waivers. No failure on the part of either Party to exercise, and no delay in exercising a right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of the right of any remedy granted hereby or by any related document or by law.

6.8 Modification. This Agreement may not be modified or amended except by written instruments signed by the Parties hereto.

6.9 Entire Agreement This Agreement constitutes the entire Agreement and understanding between the Parties hereto with respect to all the matters herein referenced and agreed upon.

6.10 Survival. The Parties expressly acknowledge and agree that the provisions of this Agreement which by their expressed or implied terms extend beyond the termination of Employee's employment hereunder, including, but without limitation, the obligations incurred under Sections 2.0, 3.0 and 4.0, shall continue in full force and effect notwithstanding the Employee's termination of employment hereunder or the termination of this Agreement respectively.

6.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF the Company has caused this Agreement to be executed by its duly authorized Officer and Employee has executed this Agreement as of the day and year first above written:

FAIR, ISAAC AND COMPANY, INC.

BY: _____

ITS: _____

EMPLOYEE

Thomas G. Grudnowski

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment to Employment Agreement (the "Amendment") is entered into effective as of December 3, 1999, by and between Fair, Isaac and Company, Inc. ("Company") and Thomas G. Grudnowski ("Employee").

WHEREAS, Company and Employee entered into an Employment Agreement dated August 23, 1999 (the "Agreement"); and

WHEREAS, pursuant to the Agreement, Company has issued 10,000 shares of its Common Stock to Employee subject to certain restrictions (the "Restricted Stock"), and

WHEREAS, Company and Employee desire to amend the Agreement as set forth herein;

THEREFORE they have agreed as follows:

1. Section 2.8.4 of the Agreement is hereby amended to read as follows:

Additional Option Grant. The Company hereby grants Employee options to acquire an additional 40,000 shares of the Company's Common Stock pursuant to a Stock Option Agreement to be entered into between Company and Employee simultaneously with the execution of this Amendment. The Exercise Price for the options granted pursuant to this Paragraph shall be equal to the closing price of the Company's Common Stock as quoted by the New York Stock Exchange on the date of this Amendment, i.e. December 3, 1999. All such options shall vest on January 1, 2000, and shall expire on December 3, 2009.

2. The Restricted Stock previously issued by the Company to Employee shall be cancelled. Employee shall not be liable for the par value of such Restricted Stock and no dividends have been or shall be paid on such Restricted Stock.

Except as expressly amended hereby, the Agreement shall remain in full force and effect.

EXHIBIT 10.43

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

Page 2 of 2

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized officer and Employee has executed this Amendment as of the day and year first above written:

FAIR, ISAAC AND COMPANY, INC.

By: _____

Its: Senior Vice President and Secretary

EMPLOYEE:

Thomas G. Grudnowski

Subsidiaries of
Fair, Isaac and Company, Incorporated
Effective 10-1-99

Name of Company and Name under which it Does Business -----	Jurisdiction of Incorporation or Organization -----
Fair, Isaac International Corporation(1)	California
Data Research Technologies(1)	Minnesota
Risk Management Technologies(1)	California
Lindaro Office Park, Inc. (1)	California
Fair, Isaac International Germany Corporation(2)	California
Fair, Isaac International Canada Corporation(2)	California
Fair, Isaac International UK Corporation(2)	California
Fair, Isaac International Japan Corporation(2)	California
Fair, Isaac International Ltd(2)	England
Fair, Isaac International France Corporation(2)	California
Fair, Isaac International Mexico Corporation(2)	California
Fair, Isaac International Spain Corporation(2)	California
Fair, Isaac Brazil, LLC(2)	Delaware
Radar International, Inc. (3)	Virgin Islands
Fair, Isaac Do Brasil Ltda. (4)	Brazil

Footnotes:

- (1) 100% owned by Fair, Isaac and Company, Incorporated.
(2) 100% owned by Fair, Isaac International Corporation.

EXHIBIT 21.1

- (3) 100% owned by Risk Management Technologies
(4) 99% owned by Fair, Isaac International Corporation and 1% owned by Fair, Isaac Brazil, LLC

The 3 organizations listed below are former subsidiaries of Fair, Isaac, which were merged into the Company as of 9-30-99:

DynaMark, Inc.(1)	Minnesota
Credit & Risk Management Associates, Inc. (1)	Delaware
Prevision, Inc.(1)	Oregon

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS IN THE COMPANY'S 1999 ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS

	SEP-30-1999	
	OCT-01-1998	
	SEP-30-1999	20,715
		5,216
		37,281
		1,274
		0
	101,327	89,778
	50,425	
	210,353	
45,442		364
0		0
		143
	156,356	
210,353		0
	276,931	0
	105,454	
	42,549	
	123	
	184	
	50,600	
	20,620	
29,980		
	0	
	0	
		0
	29,980	
	2.13	
	2.09	