

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1995

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

For the transition period from \_\_\_\_\_ to  
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Commission File Number  
0-16439

FAIR, ISAAC AND COMPANY, INCORPORATED  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

94-1499887  
(I.R.S. Employer  
Identification No.)

120 North Redwood Drive, San Rafael, California 94903  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (415) 472-2211

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Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes x No .

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The number of shares of Common Stock, \$0.01 par value per share,  
outstanding on August 11, 1995, was 12,238,070.

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PART I - FINANCIAL INFORMATION  
ITEM 1. Financial Statements.  
FAIR, ISAAC AND COMPANY, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
June 30, 1995 and September 30, 1994

(dollars in thousands)

	June 30	September 30
	----- (unaudited)	----- (audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$7,603	\$10,990
Short-term investments.....	4,940	3,938
Accounts receivable, net.....	11,785	14,242
Unbilled work in progress.....	11,116	6,590
Deferred income taxes.....	1,821	1,379
Prepaid expenses and other current assets.....	4,914	1,188
	-----	-----
Total current assets.....	42,179	38,327
Noncurrent assets:		
Long-term investments.....	9,879	10,461
Note receivable.....	2,902	2,915
Property and equipment, net.....	17,487	12,334
Intangibles, net.....	4,464	3,406
Deferred income taxes and other assets.....	2,734	3,492
	-----	-----
	\$79,645	\$70,935
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and other accrued liabilities.....	\$5,831	\$6,006
Accrued compensation and employee benefits .....	8,263	10,051
Billings in excess of earned revenues .....	4,682	4,027
Income taxes payable .....	583	1,753
	-----	-----
Total current liabilities .....	19,359	21,837
Deferred income taxes and other liabilities.....	5,374	3,826
Capital leases.....	2,050	2,333
Commitments and contingencies.....	-	-
	-----	-----
Total liabilities.....	26,783	27,996
	-----	-----
Stockholders' equity:		
Common stock.....	123	60
Paid-in capital in excess of par value.....	14,384	13,210
Retained earnings.....	38,404	30,010
Treasury stock (51,792 shares at 6/30/95; 101,822 shares at 9/30/94).....	(182)	(341)
Net realized gain on investments.....	156	-
Cumulative translation adjustment.....	(23)	-
	-----	-----
Total stockholders' equity.....	52,862	42,939
	-----	-----
	\$79,645	\$70,935
	=====	=====

See accompanying notes to the consolidated financial statements.

## FAIR, ISAAC AND COMPANY, INCORPORATED

## CONSOLIDATED STATEMENTS OF INCOME

For the nine- and three-month periods ended June 30, 1995 and 1994  
(in thousands except per share data)

	Nine Months Ended June 30		Three Months Ended June 30	
	(Unaudited)		(Unaudited)	
	1995	1994	1995	1994
Revenues.....	\$ 80,690	\$ 64,767	\$ 28,675	\$ 22,636
Costs and expenses:				
Cost of revenues.....	30,706	24,221	10,812	8,258
Sales and marketing.....	16,068	13,084	5,772	4,855
Research and development.....	3,138	3,025	995	996
General and administrative.....	16,693	12,640	6,104	4,238
Amortization of intangibles.....	544	595	168	211
Total costs and expenses.....	67,149	53,565	23,851	18,558
Income from operations.....	13,541	11,202	4,824	4,078
Interest and other income (net).....	1,281	465	347	155
Income before income taxes.....	14,822	11,667	5,171	4,233
Income tax provision .....	5,942	4,637	2,041	1,680
Net income .....	\$ 8,880	\$ 7,030	\$ 3,130	\$ 2,553
Earnings per share.....	\$ .70	\$ .56	\$ .25	\$ .20
Shares used in computing earnings per share.....	12,710	12,486	12,754	12,488

See accompanying notes to the consolidated financial statements.

## FAIR, ISAAC AND COMPANY, INCORPORATED

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine-month periods ended June 30, 1995 and 1994  
(dollars in thousands)

(UNAUDITED)

	1995 ----	1994 ----
Cash flows from operating activities:		
Net income.....	\$ 8,880	\$ 7,030
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization.....	4,324	3,614
Non-current liabilities.....	1,548	2,601
(Increase) decrease in accounts receivable and unbilled work in progress.....	(2,069)	791
Decrease in prepaid expenses and other assets.....	(720)	(62)
Increase (decrease) in accrued compensation and employee benefits.....	(932)	435
Decrease in accounts payable and other liabilities.....	(1,756)	(2,357)
Decrease in income taxes payable.....	(4,109)	(1,585)
Increase in billings in excess of earned revenues.....	655	1,747
	-----	-----
Net cash provided by operating activities.....	5,821	12,214
	-----	-----
Cash flows from investing activities:		
Additions to property and equipment.....	(8,463)	(3,635)
Additions to other assets.....	(349)	(63)
Purchases of investments.....	(6,775)	(5,407)
Proceeds from maturities/sales of investments.....	6,614	5,484
	-----	-----
Net cash used in investing activities.....	(8,973)	(3,621)
	-----	-----
Cash flows from financing activities:		
Reduction of capital lease obligations.....	(302)	(363)
Issuance of stock.....	489	428
Payment on note receivable.....	13	14
Dividends paid.....	(425)	(411)
Repurchase of company stock.....	(10)	-
	-----	-----
Net cash used in financing activities.....	(235)	(332)
	-----	-----
Increase (decrease) in cash and cash equivalents.....	(3,387)	8,261
Cash and cash equivalents, beginning of period.....	10,990	5,240
	-----	-----
Cash and cash equivalents, end of period.....	\$ 7,603	\$ 13,501
	=====	=====

See accompanying notes to the consolidated financial statements.

FAIR, ISAAC AND COMPANY, INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Investments available for sale

Effective October 1, 1994, the Company adopted Statement of Financial Accounting Standards #115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, the Company's investments are recorded at fair market value at June 30, 1995.

Note 2 Income taxes paid

Cash payments for income taxes during the nine-month periods ended June 30, 1995, and 1994 were \$9,985,000 and \$4,450,000 respectively.

Note 3 Non-cash transactions

The Company contributed treasury stock having a market value of \$856,000 and \$661,000 to the Company's Employee Stock Ownership Plan during the second fiscal quarters of 1995 and 1994, respectively.

Note 4 Stock split

In June 1995, the Company effected a two-for-one split in the form of a 100% common stock dividend. All previously reported per share and share data have been restated.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Fair, Isaac and Company, Incorporated, provides products and services designed to help a variety of businesses use data to make better decisions on their customers and prospective customers. The Company's products include statistically derived, rule-based analytical tools, software designed to implement those analytical tools, 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. Its DynaMark subsidiary provides data processing, database management and personalized printing services to businesses engaged in direct marketing.

The Company is organized into business units which correspond to its principal markets: consumer credit, insurance and direct marketing (DynaMark). 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" or "scorecards"), credit application processing systems (ASAP and CreditDesk) and custom credit account management systems including those marketed under the name TRIAD. Software systems usually also have a component of ongoing maintenance revenue, and CreditDesk systems have 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 employs a combination of fixed-fee and usage-based pricing.

Results of Operations

Revenues

The following table sets forth for the fiscal periods indicated (a) the percentage of revenues contributed by DynaMark, and the percentage of revenues represented by fixed-price and usage-priced revenues other than from DynaMark; and (b) the percentage change in revenues within each category from the corresponding period in the prior fiscal year. Fixed-price revenues include all revenues from application processing software, custom scorecard development and consulting projects for credit and insurance. Virtually all usage revenues are generated through third-party alliances such as those with credit bureaus and third-party credit card processors.

	Revenue					
	Three Months Ended June 30,		Percentage Change	Nine Months Ended June 30,		Percentage Change
	1995	1994		1995	1994	
DynaMark	16%	15%	29%	16%	16%	26%
Fixed-price	31%	32%	23%	30%	35%	10%
Usage-priced	53%	53%	28%	54%	49%	35%
Total revenues	100%	100%	27%	100%	100%	25%

Products and services sold to the insurance industry accounted for less than three percent of revenues in each of the three- and nine-month periods ended June 30, 1995, and June 30, 1994.

The increase in usage revenues in the quarter and nine months ended June 30, 1995, compared with the same periods in the prior year, was due to continuing growth in (a) usage of the Company's scoring services distributed through the three major credit bureaus in the United States including the PreScore (R) and ScoreNet (SM) services, and (b) the number of bankcard accounts being managed by the Company's account management services delivered through third-party processors. Revenues for the credit bureau scoring services in the nine months ended June 30, 1995, were approximately 32 percent higher than in the first nine months of fiscal 1994. Revenues from credit account management services delivered through third-party processors in the most recent nine months were 41% higher than in the corresponding period of fiscal 1994.

Revenues from credit bureau-related services have increased rapidly in each of the last three fiscal years and accounted for approximately 38 percent of revenues in fiscal 1994. Revenues from services provided through bankcard processors also increased in each of these years, due primarily to increases in the number of accounts at each of the major processors. While the Company has been very successful in extending or renewing its agreements with credit bureaus and bankcard processors in the past, and believes it will generally be able to do so in the future, the loss of one or more such alliances could have a significant impact on revenues and operating margin. Revenues generated through the Company's alliances with Equifax, Inc., TRW, Inc. and Trans Union Corporation each accounted for approximately ten to twelve percent of the Company's total revenues in fiscal 1994.

Potential new government regulation of the use of credit bureau data could have an impact on the use of any of the Company's credit bureau scoring services including PreScore and ScoreNet. Bills which would substantially amend the Fair Credit Reporting Act were introduced in each of the last three Congresses and at least two such bills have been introduced in the new Congress. These bills would impose new restrictions on the use of credit bureau data to prescreen solicitation lists. Bills and regulations have also been introduced, and, in some cases enacted, at the state level that affect the use of credit bureau data in various ways, including restricting the use of such data in making insurance underwriting decisions. State regulation of credit bureau data, particularly regulations imposing requirements on the credit bureaus or users of credit bureau information which differ from those existing under federal law, may also have an adverse impact on bureau scoring services. The Company believes certain enacted or pending state legislation and regulation of credit bureau data in connection with insurance underwriting has had a negative impact on its efforts to sell insurance risk scores through credit reporting agencies. However, the Company cannot predict whether any other particular federal or state legislation affecting credit bureau information or credit scoring is likely to be enacted in the foreseeable future, or the extent to which the passage of such legislation might affect the Company's business.

Sales of credit application scorecards, credit application processing software, and credit account management systems all contributed to the increase in fixed-price revenues in the quarter and nine months ended June 30, 1995. Revenues from sales of credit application scorecards and credit application processing software increased by approximately 23 percent in the quarter and nine percent in the nine months ended June 30, 1995, compared with the same periods of fiscal 1994. Revenues from end-user credit account management systems (OTRIADO) in the three and nine month periods ended June 30, 1995 were 17 percent and eight percent higher respectively than in the same periods of 1994.

Revenues derived from outside of the United States represented approximately 14 and 12 percent, respectively, of total revenues in the quarter and nine months ended June 30, 1995, compared with 14 and 13 percent, respectively, of total revenues in the same periods a year earlier. Fluctuations in foreign currency exchange rates have not had a material impact on the results of operations.

Over the past six years, while the rate of account growth in the U.S. bankcard industry was slowing and many of the Company's largest institutional clients were merging and consolidating, the Company has generated above-average growth in revenues - even after correcting for the effect of the DynaMark acquisition - from its bankcard-related scoring and account management business by deepening its penetration of large banks and other credit issuers. Since the bottoming out of the industry recession in 1992, there has been a sharp resurgence in bankcard marketing and account activity, which has further benefited this core segment of our business. However, in view of the Company's dominant market share and the likelihood that the current rate of industry growth cannot be sustained indefinitely, the Company expects revenue growth to slow from the rates experienced in fiscal 1993 and 1994, and it believes much of its future growth prospects will rest on its ability (1) to develop new, high value products and services for its present client base of major U.S. consumer credit issuers; (2) to increase its penetration of established or emerging credit markets outside the U.S. and Canada; and (3) to expand - either directly or through further acquisitions - into relatively undeveloped or underdeveloped markets for its products and services such as direct marketing, insurance, and small business lending.

## Costs and Expenses

The Company has entered into an agreement to lease approximately 30,000 square feet of additional office space near its headquarters in San Rafael, California, which commenced late in calendar 1994. It has also opened additional branch offices and expanded existing branches during 1995. In addition, it has significantly increased the number of employees during fiscal 1995. The costs of these facilities and personnel are, for the most part, allocated to the functions which they service. Late in June 1995, the Company conducted a major customer conference in Paris. Expenses associated with this Conference are being charged to several expense line items during the quarters ended June 30 and September 30, 1995. Accordingly, total operating expenses, as a percentage of revenues, were slightly higher in the quarter ended June 30, 1995, than in immediately prior periods and are expected to be higher for the remainder of the current fiscal year than in the final quarter of fiscal 1994.

The following table sets forth for the periods indicated (a) the percentage of revenues represented by certain line items in the Company's consolidated statement of income and (b) the percentage change in such items from the same quarter in the prior fiscal year.

	Three Months Ended June 30,		Percentage Change	Nine Months Ended June 30,		Percentage Change
	1995	1994		1995	1994	
Revenues	100%	100%	27%	100%	100%	25%
Costs and expenses:						
Cost of revenues	38	36	31%	38	37	27%
Sales and marketing	20	21	19%	20	20	23%
Research and development	3	4	--	4	5	4%
General and administrative	21	19	44%	20	20	32%
Amortization of intangibles	1	1	(20%)	1	1	(9%)
	---	---		---	---	
Total costs and expenses	83	82	28%	83	83	25%
	---	---		---	---	
Income from operations	17	18	18%	17	17	21%
Interest and other income	1	1	124%	1	1	175%
	---	---		---	---	
Income before income taxes	18	19	22%	18	18	27%
Provision for income taxes	7	8	21%	7	7	28%
	---	---		---	---	
Net income	11%	11%	23%	11%	11%	26%
	---	---		---	---	

## 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 Service. The cost of revenues, as a percentage of revenues, increased slightly in the quarter and nine months ended June 30, 1995, as compared with the same periods a year earlier, due primarily to expansion of production facilities in the Company's office in the United Kingdom and also to increased personnel costs.

## Sales and Marketing

Sales and marketing expenses consist principally of personnel, travel, overhead, advertising and other promotional expenses. For the quarter ended June 30, 1995, these expenses, as a percentage of revenues, decreased slightly from the same quarter in the previous year. For the nine months ended June 30, 1995, these expenses, as a percentage of revenues, were essentially the same as in the corresponding period of fiscal 1994.

## 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 and management control. Research and development expenses, in absolute dollars, were essentially unchanged for the three and nine month periods ended June 30, 1995 compared with the same periods of fiscal 1994. However, during the quarter and nine months ended June 30, 1994 there were significant expenses associated with the development of a marketing segmentation product. There were no corresponding research and development expenses in fiscal 1995 since development work on this product was essentially completed in fiscal 1994. Research and development expenses have remained relatively constant during the past three years.

## 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, and the costs of operating administrative functions such as finance and computer information systems. As a percentage of revenues these expenses were essentially unchanged for the nine months ended June 30, 1995, but were significantly higher for the three months ended June 30, 1995, compared with the same periods in fiscal 1994. The increase in the most recent quarter was due to the increase in office space noted above, expenditures made to improve the Company's information systems and technology infrastructure, and increases in human resources staffing associated with higher recruiting levels.

## Financial Condition

Working capital increased from \$16,490,000 at September 30, 1994 to \$22,820,000 at June 30, 1995; and cash and interest bearing investments decreased from \$25,389,000 at September 30, 1994, to \$21,603,000 at June 30, 1995. The Company has no long-term debt other than capital lease and employee incentive obligations. The Company expended approximately \$8.5 million in additions to property and equipment and \$10.0 million in income tax payments in the nine months ended June 30, 1995. The Company believes that cash and marketable securities on hand or cash generated by operations will be adequate to meet its capital and liquidity needs for the foreseeable future.

## Interim Periods

The Company believes that all the necessary adjustments have been included in the amounts shown in the consolidated financial statements contained in Item 1 above for the three and nine month periods ended June 30, 1995 and 1994 to state fairly the results for such interim periods. This includes all normal recurring adjustments that the Company considers necessary for a fair statement thereof, in accordance with generally accepted accounting principles. This report should be read in conjunction with the Company's 1994 Form 10-K.

Quarterly results may be affected by fluctuations in revenues associated with credit card solicitations, by the timing of orders for and deliveries of certain ASAP and TRIAD 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 revenue, and thus such revenue fluctuations 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.

Management believes that neither the quarterly variation in 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.

## PART II - OTHER INFORMATION

### ITEM 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits:

11.1 Computation of Earnings per Share.

24.1 Power of Attorney (see page 11 of this Form 10-Q).

#### (b) Reports on Form 8-K:

A Report on Form 8-K dated June 16, 1995, was filed during the quarter which reported the appointment of a new Chief Operation Officer effective August 1, 1995.

SIGNATURES

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

FAIR, ISAAC AND COMPANY, INCORPORATED

DATE: August 11, 1995

By PETER L. MC CORKELL

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the 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-Q 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, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the date indicated.

DATE: August 11, 1995

By GERALD DE KERCHOVE

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Gerald de Kerchove  
Executive Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

EXHIBIT INDEX  
TO FAIR, ISAAC AND COMPANY, INCORPORATED  
REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1995

Exhibit No.	Exhibit	Sequentially Numbered Page
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11.1	Computation of earnings per share.	13
27	Financial Data Schedule	14

FAIR, ISAAC AND COMPANY, INCORPORATED  
 COMPUTATION OF EARNINGS PER SHARE  
 (IN THOUSANDS EXCEPT PER SHARE DATA)

	9 months		3 months	
	6/30/95	6/30/94	6/30/95	6/30/94
<b>Primary Earnings Per Share:</b>				
Weighted Average Common Shares Outstanding	12,205	11,792	12,237	11,880
Shares Issuable Upon Exercise of Stock Options	760	920	793	922
Less Shares Assumed to be Repurchased	(255)	(226)	(276)	(314)
Weighted Average Common Shares, as Adjusted	12,710	12,486	12,754	12,488
Net Income	\$ 8,880	\$ 7,030	\$ 3,130	\$ 2,553
Primary Earnings per Share	\$ .70	\$ .56	\$ .25	\$ .20
<b>Fully Diluted Earnings Per Share:</b>				
Weighted Average Common Shares Outstanding	12,205	11,792	12,237	11,880
Shares Issuable Upon Exercise of Stock Options	760	976	793	922
Less Shares Assumed to be Repurchased	(207)	(292)	(250)	(292)
Weighted Average Common Shares, as Adjusted	12,758	12,476	12,780	12,510
Net Income	\$ 8,880	\$ 7,030	\$ 3,130	\$ 2,553
Fully Diluted Earnings Per Share	\$ .70	\$ .56	\$ .25	\$ .20

1,000

9-MOS  
SEP-30-1994  
JUN-30-1995  
7,603  
4,940  
12,061  
276  
0  
42,179  
30,333  
12,846  
79,645  
19,359  
0  
123  
0  
52,739  
79,645  
80,690  
80,690  
30,859  
67,149  
0  
0  
152  
14,825  
5,945  
8,880  
0  
0  
0  
8,880  
.70  
.70