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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

[X]	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended June 30, 2004
[ ]	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **[NO FEE REQUIRED]**

For the transition period from to

Commission File Number 0-16439

Fair Isaac Corporation

(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.)*
901 Marquette Avenue, Suite 3200 **Minneapolis, Minnesota** *(Address of principal executive offices)*	**55402-3232** *(Zip Code)*

Registrant's telephone number, including area code:
612-758-5200

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

The number of shares of common stock outstanding on July 30, 2004 was 70,315,901 (excluding 18,541,032 shares held by the Company as treasury stock).

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PART 1 – FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value data)
(Unaudited)

	June 30, 2004	September 30, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 280,909	$ 249,458
Marketable securities available for sale, current portion	172,755	255,893
Receivables, net	135,905	138,712
Prepaid expenses and other current assets	16,119	16,981
Deferred income taxes, current portion	8,766	6,828
Total current assets	614,454	667,872
Marketable securities available for sale, less current portion	69,410	155,312
Other investments	1,561	8,942
Property and equipment, net	52,698	50,706
Goodwill	703,778	457,842
Intangible assets, net	127,572	93,930
Deferred income taxes, less current portion	37,166	40,738
Other assets	15,624	19,831
	$1,622,263	$1,495,173
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 16,341	$ 15,267
Consideration payable to London Bridge stockholders	9,117	—
Accrued compensation and employee benefits	25,489	25,839
Other accrued liabilities	59,309	25,672
Deferred revenue	39,517	31,584
Total current liabilities	149,773	98,362
Senior convertible notes	400,000	400,000
Convertible subordinated notes, net of discount	142,510	141,364
Other liabilities	8,423	5,905
Total liabilities	700,706	645,631
Stockholders' equity:		
Preferred stock ($0.01 par value; 1,000 shares authorized; none issued and outstanding)	—	—
Common stock ($0.01 par value; 200,000 shares authorized, 88,857 and 87,378 shares issued and 70,264 and 69,868 shares outstanding at June 30, 2004 and September 30, 2003, respectively)	703	699
Paid-in-capital	1,055,109	1,019,614
Treasury stock, at cost (18,593 and 17,510 shares at June 30, 2004 and September 30, 2003, respectively)	(533,714)	(486,477)
Unearned compensation	(2,235)	(3,710)
Retained earnings	404,194	319,341
Accumulated other comprehensive (loss) income	(2,500)	75
Total stockholders' equity	921,557	849,542
	$1,622,263	$1,495,173

See accompanying notes to condensed consolidated financial statements.

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Revenues	$173,197	$163,000	$515,784	$468,330
Operating expenses:				
Cost of revenues (1)	61,361	62,209	184,179	186,904
Research and development	19,096	16,959	49,830	51,325
Selling, general and administrative (1)	45,384	31,277	127,652	95,175
Amortization of intangible assets (1)	4,597	3,461	12,728	10,142
Restructuring and merger-related	751	(36)	751	2,580
Total operating expenses	131,189	113,870	375,140	346,126
Operating income	42,008	49,130	140,644	122,204
Interest income	3,137	1,542	8,213	5,904
Interest expense	(4,393)	(2,333)	(13,153)	(6,981)
Other income, net	5,641	101	6,833	595
Income before income taxes	46,393	48,440	142,537	121,722
Provision for income taxes	17,624	18,407	54,164	46,254
Net income	$ 28,769	$ 30,033	$ 88,373	$ 75,468
Earnings per share:				
Basic	$ 0.41	$ 0.42	$ 1.26	$ 1.04
Diluted	$ 0.39	$ 0.40	$ 1.20	$ 0.99
Shares used in computing earnings per share:				
Basic	70,008	71,233	70,046	72,787
Diluted	73,050	79,436	77,656	76,453

(1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 4 to the accompanying condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Common Stock								
	Shares	Par Value	Paid-In-Capital	Treasury Stock	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income
Balance at September 30, 2003	**69,868**	**$699**	**$1,019,614**	**$(486,477)**	**$(3,710)**	**$319,341**	**$ 75**	**$849,542**	
Exercise of stock options	1,976	19	23,026	14,061	—	—	—	37,106	
Tax benefit from exercised stock options	—	—	12,685	—	—	—	—	12,685	
Amortization of unearned compensation	—	—	—	—	1,259	—	—	1,259	
Forfeitures of stock options exchanged in acquisition	—	—	(66)	—	66	—	—	—	
Forfeitures of restricted stock issued to employees	(7)	—	7	(157)	150	—	—	—	
Repurchases of common stock	(1,835)	(18)	—	(68,716)	—	—	—	(68,734)	
Issuance of ESPP shares from treasury	268	3	(157)	7,575	—	—	—	7,421	
Dividends paid	—	—	—	—	—	(3,278)	—	(3,278)	
Cash paid in lieu of fractional shares in effecting stock split	(6)	—	—	—	—	(242)	—	(242)	
Net income	—	—	—	—	—	88,373	—	88,373	$88,373
Unrealized losses on investments	—	—	—	—	—	—	(1,183)	(1,183)	(1,183)
Cumulative translation adjustments	—	—	—	—	—	—	(1,392)	(1,392)	(1,392)
Balance at June 30, 2004	**70,264**	**$703**	**$1,055,109**	**$(533,714)**	**$(2,235)**	**$404,194**	**$(2,500)**	**$921,557**	**$85,798**

See accompanying notes to condensed consolidated financial statements.

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended June 30,	
	2004	**2003**
Cash flows from operating activities:		
Net income	$ 88,373	$ 75,468
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,216	33,882
Share of equity in loss (earnings) of investment	19	(43)
Gain on sales of marketable securities	(7,596)	(685)
Amortization of unearned compensation	1,259	2,299
Tax benefit from exercised stock options	12,685	16,582
Net (accretion) amortization of (discount) premium on marketable securities	(1,352)	2,863
Provision for doubtful accounts	642	3,825
Amortization of discount on convertible subordinated notes	1,146	1,074
Net (gain) loss on sales of property and equipment	(134)	27
Changes in operating assets and liabilities, net of acquisition effects:		
Receivables	18,684	(7,870)
Prepaid expenses and other assets	3,893	(1,106)
Accounts payable	(2,123)	4,795
Accrued compensation and employee benefits	(3,641)	(4,849)
Other liabilities	12,285	(7,534)
Deferred revenue	4,127	6,788
Net cash provided by operating activities	162,483	125,516
Cash flows from investing activities:		
Purchases of property and equipment	(14,749)	(12,554)
Cash proceeds from sale of product line	—	3,000
Collections of notes receivable from sale of product lines	2,200	—
Cash paid in acquisitions, net of cash acquired	(274,545)	(7,150)
Purchases of marketable securities	(564,548)	(264,948)
Proceeds from sales of marketable securities	626,484	284,182
Proceeds from maturities of marketable securities	121,788	72,915
Investment in cost-method investee	(466)	(500)
Net cash provided by (used in) investing activities	(103,836)	74,945
Cash flows from financing activities:		
Proceeds from issuances of common stock under employee stock option and purchase plans	44,527	63,717
Dividends paid	(3,278)	(2,928)
Repurchases of common stock	(68,734)	(221,969)
Cash paid in lieu of fractional shares in effecting stock split	(242)	—
Net cash used in financing activities	(27,727)	(161,180)
Effect of exchange rate changes on cash	531	—
Increase in cash and cash equivalents	31,451	39,281
Cash and cash equivalents, beginning of period	249,458	96,834
Cash and cash equivalents, end of period	$ 280,909	$ 136,115
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds of $1,151 and $280 during the nine months ended June 30, 2004 and 2003, respectively	$ 25,872	$ 17,479
Cash paid for interest	$ 7,088	$ 3,938
Non-cash financing activities:		
Consideration payable to London Bridge Stockholders	$ 9,117	—

See accompanying notes to condensed consolidated financial statements.

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Business

Fair Isaac Corporation

Incorporated under the laws of the State of Delaware, Fair Isaac Corporation is a provider of analytic, software and data management products and services that enable businesses to automate and improve decisions. Fair Isaac Corporation provides a range of analytical solutions, credit scoring and credit account management products and services to banks, credit reporting agencies, credit card processing agencies, insurers, retailers, telecommunications providers, healthcare organizations and government agencies.

In these condensed consolidated financial statements, Fair Isaac Corporation is referred to as “we,” “us,” “our,” and “Fair Isaac.”

Principles of Consolidation and Basis of Presentation

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q. Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the fiscal year ended September 30, 2003. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

The condensed consolidated financial statements include the accounts of Fair Isaac and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

On February 2, 2004, our Board of Directors declared a three-for-two stock split in the form of a 50% common stock dividend with cash payment in lieu of fractional shares, paid on March 10, 2004 to shareholders of record on February 18, 2004. The share and per share amounts within the accompanying condensed consolidated financial statements and notes have been restated to reflect this stock split.

On February 2, 2004, our shareholders ratified an amendment to our Restated Certificate of Incorporation to increase the total authorized shares of common stock from 100,000,000 to 200,000,000, which has been reflected in the accompanying condensed consolidated balance sheets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include, but are not limited to, assessing the following: the recoverability of accounts receivable, goodwill, intangible assets, software development costs and deferred tax assets; the ability to estimate hours in connection with fixed-fee service contracts, the ability to estimate transactional-based revenues for which actual transaction volumes have not yet been received, and the determination of whether fees are fixed or determinable and collection is probable or reasonably assured.

Certain Condensed Financial Statement Caption Detail

Income taxes payable totaled $31.0 million and $9.0 million as of June 30, 2004 and September 30, 2003, respectively, and is recorded in other accrued current liabilities within the accompanying condensed consolidated balance sheets.

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Stock-Based Compensation

We measure compensation expense for our employee stock-based compensation awards using the intrinsic value method and provide pro forma disclosures of net income and earnings per share as if a fair value method had been applied. Therefore, compensation cost for fixed employee stock awards is measured as the excess, if any, of the quoted market price of our common stock at the grant date over the amount an employee must pay to acquire the stock and is amortized over the related service periods using the straight-line method. Compensation cost for variable employee stock awards is measured as the excess, if any, of the quoted market price of our common stock at the end of the reporting period over the amount an employee must pay to acquire the stock, and the compensation cost is amortized over the related service periods for each vesting date using a graded vesting schedule as required under the provisions of Financial Accounting Standards Board Interpretation ("FIN") No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Compensation expense previously recorded for vested variable awards is reversed when the measurement of compensation cost decreases from prior measurements. Compensation expense previously recorded for unvested employee stock-based compensation awards that are forfeited upon employee termination is reversed in the period of forfeiture.

The following table compares net income and earnings per share as reported to the pro forma amounts that would be reported had compensation expense been recognized for our stock-based compensation plans on a fair value basis. Amounts for the quarter and nine months ended June 30, 2003 below have been revised to reflect the impact of employee stock purchase plan rights and an adjustment to dividend yield.

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
	(In thousands, except per share data)			
Net income, as reported	$28,769	$30,033	$ 88,373	$ 75,468
Add: Stock-based employee compensation expense included in reported net income, net of tax	178	451	781	1,426
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(5,685)	(4,782)	(18,625)	(15,031)
Pro forma net income	$23,262	$25,702	$ 70,529	$ 61,863
Earnings per share, as reported:				
Basic	$ 0.41	$ 0.42	$ 1.26	$ 1.04
Diluted	$ 0.39	$ 0.40	$ 1.20	$ 0.99
Pro forma earnings per share:				
Basic	$ 0.33	$ 0.36	$ 1.01	$ 0.85
Diluted	$ 0.32	$ 0.34	$ 0.96	$ 0.81

2. Acquisitions

London Bridge Software Holdings plc

On April 26, 2004, our Board of Directors, together with the Board of Directors of London Bridge Software Holdings plc ("London Bridge"), a provider of intelligent business software, announced that they had reached agreement on the terms of a recommended cash offer (the "Offer") to be made by us and by Hawkpoint Partners Limited on our behalf outside of the United States for the entire issued and to be issued ordinary share capital of London Bridge. The Offer was made on April 30, 2004.

On May 28, 2004, we announced that valid acceptances of the Offer had been received in respect of a total of approximately 159.6 million London Bridge shares, representing approximately 93.4% of the issued share capital of London Bridge. Accordingly, all conditions related to the Offer were deemed to have been satisfied, and the Offer was declared unconditional by us in all respects. As of June 30, 2004, acceptances in respect of approximately 96% of the issued London Bridge share capital had been received. We are entitled to acquire all remaining outstanding London Bridge shares through compulsory acquisition procedures under U.K. law, which

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

we commenced on June 26, 2004. We expect these procedures to be completed in August 2004, at which time we will own 100% of London Bridge's issued share capital.

London Bridge delivers solutions for the management of retail debt and deposit origination, collection and recovery and the provision of core banking systems to its target markets. These markets include retail financial services and range from telecommunications, utilities and governmental agencies to other service providers and to the debt collection industry. Our acquisition of London Bridge was consummated principally to incorporate London Bridge's software and systems for collections and recovery into our existing portfolio, and extend our ability to deliver analytics-driven strategies across the entire credit customer lifecycle. This acquisition was also made to enhance our presence and growth opportunities internationally.

We accounted for this transaction using the purchase method of accounting. Results of operations of London Bridge have been included in our results prospectively from May 28, 2004.

Our estimate of the total purchase price is summarized as follows (in thousands):

Estimated total cash consideration for share capital	$303,025
Estimated acquisition-related costs	5,865
Total estimated purchase price of acquisition	$308,890

The total estimated purchase price was preliminarily allocated as follows (in thousands):

Assets:	
Cash and cash equivalents	$ 29,155
Receivables	14,063
Prepaid expenses and other current assets	1,961
Property and equipment	6,078
Goodwill	246,113
Intangible assets:	
Completed technology	25,660
Customer contracts and relationships	19,820
Total assets	342,850
Liabilities:	
Current liabilities	28,707
Non-current liabilities	5,253
Total liabilities	33,960
Total estimated purchase price of acquisition	$308,890

The estimate of the purchase price above does not reflect the fair value of Fair Isaac options that will be issued in exchange for certain London Bridge options upon the completion of the compulsory acquisition procedures, which we expect to occur in August 2004. The fair value of these options, to be determined by application of the Black-Scholes options pricing model, will result in additional goodwill and a corresponding increase to our paid-in-capital. None of these to-be-issued exchange options will result in future compensation expense.

The preliminary allocation of the purchase price is pending completion of several elements, including the finalization of our independent appraisal for purposes of the valuation of acquired intangible assets. We do not expect future adjustments to the purchase price to be material. However, there may be material adjustments to the allocation of the purchase price.

Based on a preliminary valuation, the acquired intangible assets have a weighted average useful life of approximately 7.3 years and are being amortized using the straight-line method over their estimated useful lives as follows: completed technology — six years; and customer contracts and relationships - nine years. Based upon this preliminary valuation, we recorded amortization expense related to London Bridge intangible assets of $0.5 million during the quarter ended June 30, 2004, and our estimate of future amortization expense is $1.6 million for the fourth quarter of fiscal 2004, $6.4 million for each of fiscal 2005 through fiscal 2009, and $10.9 million thereafter. Also, based on this preliminary valuation, no value has been recorded by us to in-process research and development ("IPR&D"). Because this valuation is preliminary, the valuation of intangible assets and their useful lives may change upon completion of the final valuation.

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

Of the preliminary goodwill recorded, we have not yet allocated such to our operating segments, and expect to do so in the fourth quarter of fiscal 2004. None of this goodwill will be deductible for tax purposes.

During the quarter ended June 30, 2004, in connection with our acquisition of London Bridge, we entered into a forward foreign currency contract to sell £170.0 million for $300.1 million. This contract was entered into to offset exchange rate transaction gains or losses on Great Britain Pounds (“GBP”) cash balances that were held by our wholly-owned acquiring subsidiary, whose functional currency is that of the U.S. Dollar, for the purpose of funding the London Bridge acquisition. We reduced the notional amount of the forward currency contract in connection with the payment of consideration to the selling shareholders, and settled the contract on June 30, 2004, at which time we entered into a new contract to offset the foreign currency exposure related to the remaining GBP cash balance of £8.0 million held by our acquiring subsidiary. During the quarter ended June 30, 2004, we recorded realized and unrealized losses on these contracts totaling $10.3 million, which are included in other income, net in the accompanying condensed consolidated statement of income. These losses were principally offset by foreign currency transaction gains of $9.0 million, which are also included in other income, net.

Seurat Company

On October 1, 2003, we acquired substantially all of the assets of Seurat Company (“Seurat”) for cash consideration of $5.0 million. Seurat is a provider of solutions and services that help companies target, acquire and retain customers through creative marketing strategies. We accounted for this transaction using the purchase method of accounting. The results of operations of Seurat have been included in the accompanying condensed consolidated statements of income beginning on October 1, 2003. Our allocation of the purchase price, including $0.1 million in acquisition costs, was as follows: (i) $3.6 million was allocated to net tangible assets, consisting principally of receivables and property and equipment, (ii) $1.4 million was allocated to intangible assets, consisting of acquired customer contracts and relationships, and (iii) $0.1 million was allocated to goodwill. The acquired intangible assets have an estimated useful life of five years and are being amortized over this period using the straight-line method. The goodwill was allocated entirely to our Strategy Machine Solutions operating segment, all of which is deductible for tax purposes.

Unaudited Pro Forma Results of Operations

The following unaudited pro forma results of operations present the impact of our results of operations for the quarters and nine months ended June 30, 2004 and 2003, as if our London Bridge acquisition had occurred on October 1, 2003 and 2002, respectively.

	Quarter Ended June 30, 2004		Quarter Ended June 30, 2003		Nine Months Ended June 30, 2004		Nine Months Ended June 30, 2003	
	Historical	Pro forma Combined (a)	Historical	Pro forma Combined	Historical	Pro forma Combined (a)	Historical	Pro forma Combined
	(In thousands, except per share data)							
Revenues	$173,197	$186,799	$163,000	$181,800	$515,784	$575,052	$468,330	$519,038
Net income	$ 28,769	$ 10,663	$ 30,033	$ 24,202	$ 88,373	$ 66,256	$ 75,468	$ 53,190
Basic earnings per share	$ 0.41	$ 0.15	$ 0.42	$ 0.34	$ 1.26	$ 0.95	$ 1.04	$ 0.73
Diluted earnings per share	$ 0.39	$ 0.15	$ 0.40	$ 0.32	$ 1.20	$ 0.90	$ 0.99	$ 0.70

(a) Includes a write-off of $6.9 million recorded by London Bridge in its May 2004 historical financial statements, related to the impairment of an equity investment and the write-off of a note and trade receivables that were due from that investee.

3. Other Investment

As of September 30, 2003, we held an approximate 6.0% ownership interest in Open Solutions, Inc. (“OSI”), a developer of client/server core data processing solutions for community banks and credit unions, that was accounted for using the cost method. The OSI investment was recorded by us at its estimated fair value of $7.5 million in connection with our acquisition of HNC Software Inc. (“HNC”) in fiscal 2002, and was included in other investments as of September 30, 2003. In November 2003, OSI completed an initial public offering of its common stock, at which time we began accounting for it as a marketable equity security. In May 2004, we sold our investment in OSI for net proceeds of $14.1 million, which includes a realized gain of $6.6 million ($4.1 million net of tax) that is included in other income, net, within the accompanying condensed consolidated statements of income for the quarter and nine months ended June 30, 2004.

4. Amortization of Intangible Assets

Amortization expense associated with our intangible assets, which has been reflected as a separate operating expense caption

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

within the accompanying condensed consolidated statements of income, consisted of the following:

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
	(In thousands)			
Cost of revenues	$2,638	$2,100	$ 7,212	$ 6,300
Selling, general and administrative expenses	1,959	1,361	5,516	3,842
	$4,597	$3,461	$12,728	$10,142

Cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflect our amortization of other intangible assets. Intangible assets were $127.6 million and $93.9 million, net of accumulated amortization of $28.8 million and $16.1 million, as of June 30, 2004 and September 30, 2003, respectively.

5. Restructuring and Merger-Related Expenses

The following table summarizes activity for the nine months ended June 30, 2004, related to restructuring accruals previously recorded in connection with the August 2002 HNC acquisition, of which $0.9 million and $0.9 million is recorded in other accrued current liabilities as of June 30, 2004 and September 30, 2003, respectively, and $0.7 million and $1.3 million is recorded in other long-term liabilities as of June 30, 2004 and September 30, 2003, respectively, within the accompanying condensed consolidated balance sheets:

	Accrual at September 30, 2003	Cash Payments	Accrual at June 30, 2004
	(In thousands)		
Facilities charges	$2,208	$(653)	$1,555
Employee separation	5	(5)	—
	$2,213	$(658)	$1,555

During the nine months ended June 30, 2004, we finalized a plan to exit certain office space acquired in connection with our prior acquisition of NAREX Inc., and accordingly, recorded a lease exit accrual and additional goodwill of $1.7 million, of which $0.4 million and $1.3 million is recorded in other accrued current liabilities and other long-term liabilities, respectively, within the accompanying condensed consolidated balance sheets as of June 30, 2004. We estimate that payments will be made against the liability commencing in September 2004, which is the anticipated exit date.

During the quarter and nine months ended June 30, 2004, we expensed merger-related costs totaling $0.8 million in connection with an aborted acquisition, consisting principally of third-party legal, accounting and other professional fees. During the nine months ended June 30, 2003, we incurred merger-related expenses totaling $2.6 million, consisting primarily of retention bonuses earned by HNC employees.

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

6. Earnings Per Share

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
	(In thousands, except per share data)			
Numerator for basic earnings per share — net income	$28,769	$30,033	$88,373	$75,468
Interest expense on convertible subordinated notes, net of tax	—	1,585	4,808	—
Numerator for diluted earnings per share	$28,769	$31,618	$93,181	$75,468
Denominator — shares:				
Basic weighted-average shares	70,008	71,233	70,046	72,787
Effect of dilutive securities	3,042	8,203	7,610	3,666
Diluted weighted-average shares	73,050	79,436	77,656	76,453
Earnings per share:				
Basic	$ 0.41	$ 0.42	$ 1.26	$ 1.04
Diluted	$ 0.39	$ 0.40	$ 1.20	$ 0.99

The computation of diluted EPS for the quarters ended June 30, 2004 and 2003 excludes options to purchase approximately 3,733,000 and 313,000 shares of common stock, respectively, and for the nine months ended June 30, 2004 and 2003, excludes options to purchase approximately 1,778,000 and 1,644,000 shares of common stock, respectively, because the options’ exercise prices exceeded the average market price of our common stock in these periods and their inclusion would be antidilutive. The computation of diluted EPS for the quarter ended June 30, 2004, and for the nine months ended June 30, 2003, also excludes approximately 4,055,000 shares of common stock issuable upon conversion of our 5.25% Convertible Subordinated Notes (the “Subordinated Notes”), as the inclusion of such shares would have been antidilutive for these periods. The computation of diluted EPS for the quarter and nine months ended June 30, 2004 also excludes approximately 9,101,000 shares of common stock issuable upon conversion of our 1.5% Senior Convertible Notes (the “Senior Notes”), as the conditions for conversion had not been satisfied as of June 30, 2004. The Senior Notes become convertible into shares of Fair Isaac common stock, subject to the conditions described below, at an initial conversion price of $43.9525 per share, subject to adjustments for certain events. The initial conversion price is equivalent to a conversion rate of approximately 22.7518 shares of Fair Isaac common stock per $1,000 principal amount of the Senior Notes. Holders may surrender their Senior Notes for conversion, if any of the following conditions is satisfied: (i) prior to August 15, 2021, during any fiscal quarter, if the closing price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the last day of the immediately preceding fiscal quarter is more than 120% of the conversion price per share of our common stock on the corresponding trading day; (ii) at any time after the closing sale price of our common stock on any date after August 15, 2021 is more than 120% of the then current conversion price; (iii) during the five consecutive business day period following any 10 consecutive trading day period in which the average trading price of a Senior Note was less than 98% of the average sale price of our common stock during such 10 trading day period multiplied by the applicable conversion rate; provided, however, if, on the day before the conversion date, the closing price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, then holders converting their notes may receive, in lieu of our common stock based on the applicable conversion rate, at our option, cash or common stock with a value equal to 100% of the principal amount of the notes on the conversion date; (iv) if we have called the Senior Notes for redemption; or (v) if we make certain distributions to holders of our common stock or we enter into specified corporate transactions. The conversion price of the Senior Notes will be adjusted upon the occurrence of certain dilutive events as described in the indenture, which include but are not limited to: (i) dividends, distributions, subdivisions, or combinations of our common stock; (ii) issuance of rights or warrants for the purchase of our common stock; (iii) the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness or other non-cash assets, or rights or warrants; (iv) the cash dividend or distribution to all or substantially all holders of our common stock in excess of certain levels; and (v) certain merger and acquisition activities.

7. Repurchases of Common Stock

During the nine months ended June 30, 2004, we repurchased approximately 1.8 million shares of our common stock for an aggregate cost of $68.7 million. The shares were repurchased pursuant to a program approved by our Board of Directors in November 2003.

8. Stock Option Plan

In November 2003, our Board of Directors approved the adoption of the 2003 Employment Inducement Award Plan (the “Plan”). The Plan reserves 2,250,000 shares of common stock solely for the granting of inducement stock options and other awards, as defined, that meet the “employment inducement award” exception to the New York Stock Exchange’s listing standards requiring shareholder approval of equity-based inducement incentive plans. Except for the employment inducement award criteria, awards under this plan will be generally consistent with those made under our other existing stock option plan.

In connection with our acquisition of Seurat during the quarter ended December 31, 2003, awards for 215,250 shares, net of forfeitures, with a modified exercise price of $35.50 (original exercise price of $39.47) were granted to Seurat employees under the Plan, which are subject to variable plan accounting. No compensation cost was recognized during the nine months ended June 30, 2004 as the quoted market price of our common stock at June 30, 2004 did not exceed this exercise price.

9. Segment Information

We are organized into the following four reportable segments, to align with the internal management of our worldwide business operations based on product and service offerings:

- *Strategy Machine Solutions.* These solutions are industry-tailored applications designed for specific processes such as marketing, account origination, customer account management, fraud and medical bill review, as well as consumer solutions through our my FICO service.

FAIR ISAAC CORPORATION
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(Unaudited)

- *Scoring Solutions.* These include our scoring services distributed through major credit reporting agencies, as well as services through which we provide our credit bureau scores to lenders directly.

- *Professional Services.* This segment includes revenues from consulting services and custom engagements, as well as services associated with implementing and delivering our products.

- *Analytic Software Tools.* This segment is composed of our analytic software tools sold to businesses for their use in building their own decisioning applications.

Our Chief Executive Officer evaluates segment financial performance based on segment revenues and operating income. Segment operating expenses consist of direct and indirect costs principally related to personnel, facilities, consulting, travel, depreciation and amortization. Indirect costs are allocated to the segments generally based on relative segment revenues, fixed rates established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. Our Chief Executive Officer does not evaluate the financial performance of each segment based on its respective assets or capital expenditures; rather, depreciation and amortization amounts are allocated to the segments from their internal cost centers as described above.

The following tables summarize segment information for the quarters and nine months ended June 30, 2004 and 2003. Segment information for the quarter and nine months ended June 30, 2003 has been revised to conform to the current segment presentation.

	Quarter Ended June 30, 2004				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$105,699	$ 36,308	$ 23,197	$ 7,993	$ 173,197
Operating expenses	(84,024)	(16,576)	(22,522)	(7,316)	(130,438)
Segment operating income	$ 21,675	$ 19,732	$ 675	$ 677	42,759
Unallocated restructuring and merger-related expense					(751)
Operating income					42,008
Unallocated interest expense					(4,393)
Unallocated interest and other income, net					8,778
Income before income taxes					$ 46,393
Depreciation and amortization	$ 6,421	$ 2,912	$ 1,903	$ 360	$ 11,596

	Quarter Ended June 30, 2003				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$ 97,032	$ 34,547	$ 21,925	$ 9,496	$ 163,000
Operating expenses	(72,867)	(16,256)	(18,832)	(5,951)	(113,906)
Segment operating income	$ 24,165	$ 18,291	$ 3,093	$ 3,545	49,094
Unallocated restructuring and merger-related expense					36
Operating income					49,130
Unallocated interest expense					(2,333)
Unallocated interest and other income, net					1,643
Income before income taxes					$ 48,440
Depreciation and amortization	$ 6,218	$ 2,858	$ 1,397	$ 351	$ 10,824

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

	Nine Months Ended June 30, 2004				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$ 312,547	$105,322	$ 70,305	$ 27,610	$ 515,784
Operating expenses	(242,002)	(48,579)	(63,396)	(20,412)	(374,389)
Segment operating income	$ 70,545	$ 56,743	$ 6,909	$ 7,198	141,395
Unallocated restructuring and merger-related expense					(751)
Operating income					140,644
Unallocated interest expense					(13,153)
Unallocated interest and other income, net					15,046
Income before income taxes					$ 142,537
Depreciation and amortization	$ 19,089	$ 8,676	$ 5,390	$ 1,061	$ 34,216

	Nine Months Ended June 30, 2003				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$ 283,038	$101,570	$ 62,018	$ 21,704	$ 468,330
Operating expenses	(219,829)	(47,201)	(57,945)	(18,571)	(343,546)
Segment operating income	$ 63,209	$ 54,369	$ 4,073	$ 3,133	124,784
Unallocated restructuring and merger-related expense					(2,580)
Operating income					122,204
Unallocated interest expense					(6,981)
Unallocated interest and other income, net					6,499
Income before income taxes					$ 121,722
Depreciation and amortization	$ 19,424	$ 8,967	$ 4,392	$ 1,099	$ 33,882

10. Related Party Transactions

During the quarters ended June 30, 2004 and 2003, we recorded revenues in the amount of $0.3 million and $0.2 million, respectively, and during the nine months ended June 30, 2004 and 2003, we recorded revenues in the amount of $1.6 million and $0.7 million, respectively, related to sales of products through Informa GmbH (“Informa”), an equity method investee in which we owned a 33.3% interest through March 31, 2004. Receivables from Informa amounted to $0.4 million and $0.1 million as of June 30, 2004 and September 30, 2003, respectively.

11. Contingencies

We are in a dispute with certain customers regarding amounts owed in connection with the sale of several of our products. We also have had claims asserted by former employees relating to compensation and other employment matters. As to these matters, the amount or range of any potential liability cannot be determined with certainty.

We are involved in various other claims and legal actions arising in the ordinary course of business. We believe that these claims and actions will not result in a material adverse impact to our consolidated results of operations, liquidity or financial condition. However, the amount of the liabilities associated with these claims and actions, if any, cannot be determined with certainty.

12. Subsequent Events

In July 2004, our Board of Directors approved the cash redemption of all of our outstanding Subordinated Notes at a redemption price equal to 102.625% of the $150.0 million principal amount of the notes, pursuant to the redemption criteria in the indenture. We

FAIR ISAAC CORPORATION
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have provided notice to the holders that we will redeem the notes in September 2004. The redemption of these notes will require a cash outlay of approximately $153.9 million, and will result in our recognition of a loss on redemption of approximately $11.1 million in the fourth quarter of fiscal 2004, representing the excess of the redemption cost over the carrying amount of the notes upon redemption. The estimated loss on redemption excludes other miscellaneous costs of redemption, which will be determinable in September 2004.

In July 2004, our Board of Directors approved a new common stock repurchase program, which will expire in one year, that will allow us to purchase shares of our common stock from time to time in the open market and in negotiated transactions, for an aggregate amount not to exceed $200.0 million. Through August 6, 2004, we had repurchased 0.7 million shares of our common stock under this program for an aggregate cost of $18.3 million.

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

FORWARD LOOKING STATEMENTS

Statements contained in this Report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). In addition, certain statements in our future filings with the Securities and Exchange Commission ("SEC"), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators; and (v) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as "believes," "anticipates," "expects," "intends," "targeted," "should," "potential," "goals," "strategy," and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors, below. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-K, 10-Q and 8-K to be filed in fiscal year 2004.

RESULTS OF OPERATIONS

Overview

Fair Isaac Corporation (NYSE: FIC) (together with its consolidated subsidiaries, the "Company," which may also be referred to in this report as "we," "us," "our," and "Fair Isaac") is a leader in enterprise decision management, providing analytic, software and data management products and services that enable businesses to automate and improve their decisions. Our predictive modeling, decision analysis, intelligence management, decision management systems and consulting services power billions of customer decisions each year. We help companies acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do many insurers, retailers, telecommunications providers, healthcare organizations and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure of credit risk, to manage their financial health. In May 2004, we acquired London Bridge Software Holdings plc ("London Bridge"), a provider of intelligent business software.

Most of our revenues are derived from the sale of products and services within the consumer credit, financial services and insurance industries, and during the quarter and nine months ended June 30, 2004, 78% of our revenues were derived from within these industries. A significant portion of our remaining revenues is derived from the telecommunications, healthcare and retail industries, as well as the government sector. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. A significant portion of our revenues is derived from transactional or unit based software license fees, annual license fees under long-term software license arrangements, transactional fees derived under scoring, network service or internal hosted software arrangements, and annual software maintenance fees. The recurrence of these revenues is, to a significant degree, dependent upon our clients' continued usage of our products and services in their business activities. The more significant activities underlying the use of our products in these areas include: credit and debit card usage or active account levels; lending acquisition, origination and account management activity; workers' compensation and automobile medical injury insurance claims; and wireless and wireline calls and subscriber levels. Approximately 83% and 80% of our revenues during the quarters ended June 30, 2004 and 2003, respectively, and 81% of our revenues during the nine months ended June 30, 2004 and 2003, were derived from arrangements with transactional or unit based pricing. We also derive revenues from other sources which generally do not recur and include, but are not limited to, perpetual or time-based licenses with upfront payment terms, non-recurring professional service arrangements and gain-share arrangements where revenue is derived based on percentages of client revenue growth or cost reductions attributable to our products.

Within the consumer credit and financial services sectors there has recently been a sizable amount of industry consolidation. Several of our customers have announced consolidation plans in recent periods. As a result of this consolidation, our future revenues may decline; however, due to the long-term customer arrangements we have with many of our customers, we view current consolidation in our customer base as unlikely to have a material effect on our near term future results.

One measure used by management as an indicator of our business performance is the volume of new bookings achieved. We define a "new booking" as estimated future contractual revenues, including agreements with perpetual, multi-year and annual terms. New bookings values may include: (i) estimates of variable fee components such as hours to be incurred under new professional services arrangements and customer account or transaction activity for agreements with transactional-based fee arrangements, (ii) additional or expanded business from renewals of contracts, and (iii) to a lesser extent, previous customers that have attrited and been re-sold only as a result of a significant sales effort. In the quarter ended June 30, 2004, we achieved new bookings of $78.6 million, including 16 deals with bookings values of $1 million or more. Of the deals over $1 million, five had bookings values over $3 million. In comparison, new bookings in the quarter ended June 30, 2003 were $78.4 million, including 22 deals with bookings values over $1 million, of which two had bookings values over $3 million.

Management regards the volume of new bookings achieved, among other factors, as an important indicator of future revenues, but they are not comparable to, nor should they be substituted for, an analysis of our revenues, and they are subject to a number of risks and uncertainties, including those described in Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors, below, concerning timing and contingencies affecting product delivery and performance. Although many of our contracts have fixed non-cancelable terms, some of our contracts are terminable by the client on short notice or without notice. Accordingly, we do not believe it is appropriate to characterize all of our new bookings as backlog that will generate future revenue.

Our revenues derived from clients outside the United States continue to grow, and may in the future grow more rapidly than our revenues from domestic clients. International revenues totaled $110.3 million and $96.4 million during the nine months ended June 30, 2004 and 2003, respectively, representing 21% of total consolidated revenues in each of these periods. International revenues totaled $35.1 million and $34.4 million during the quarters ended June 30, 2004 and 2003, respectively, representing 20% and 21% of total consolidated revenues in each of these periods. While international revenues grew during the quarter ended June 30, 2004 as compared to the quarter ended June 30, 2003, the percentage of international revenues to total revenues declined nominally. However, as a result of our acquisition of London Bridge in late May 2004, we expect that a larger percentage of total revenues will be derived from international clients beginning in our fourth quarter ended September 30, 2004. In addition to clients acquired via our acquisitions, we believe that our international growth is a product of successful relationships with third parties that assist in international sales efforts and our own increased sales focus internationally, and we expect that the percentage of our revenues derived from international clients will increase in the future.

We acquired Spectrum Managed Care, Inc. ("Spectrum") in December 2002, NAREX Inc. ("NAREX") in July 2003, Diversified HealthCare Services, Inc. ("Diversified HealthCare Services") in September 2003, Seurat Company ("Seurat") in October 2003, and London Bridge in May 2004. Results of operations from these acquisitions are included prospectively from the date of acquisition. As a result of these acquisitions, our financial results during the quarter and nine months ended June 30, 2004, are not directly comparable to those during the quarter and nine months ended June 30, 2003 or other quarters prior to any of these acquisitions.

Our reportable segments are: Strategy Machine Solutions, Scoring Solutions, Professional Services and Analytic Software Tools. Although we sell solutions and services into a larger number of end user product and industry markets, our reportable business segments reflect the primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the quarters and nine months ended June 30, 2004 and 2003 are set forth in Note 9 to the accompanying condensed consolidated financial statements.

Revenues

The following table sets forth certain summary information on a segment basis related to our revenues for the fiscal periods indicated. Segment information for the quarter and nine months ended June 30, 2003 has been revised to conform to the current segment presentation.

Segment	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Percentage of Revenues 2004	Percentage of Revenues 2003	Period-to-Period Change	Period-to-Period Percentage Change
	(In thousands)				(In thousands)	
Strategy Machine Solutions	$105,699	$ 97,032	61%	60%	$ 8,667	9%
Scoring Solutions	36,308	34,547	21%	21%	1,761	5%
Professional Services	23,197	21,925	13%	13%	1,272	6%
Analytic Software Tools	7,993	9,496	5%	6%	(1,503)	(16%)
Total revenues	$173,197	$163,000	100%	100%	10,197	6%

	Nine Months Ended June 30, 2004	Nine Months Ended June 30, 2003	Percentage of Revenues 2004	Percentage of Revenues 2003	Period-to-Period Change	Period-to-Period Percentage Change
	(In thousands)				(In thousands)	
Strategy Machine Solutions	$312,547	$283,038	61%	60%	$29,509	10%
Scoring Solutions	105,322	101,570	20%	22%	3,752	4%
Professional Services	70,305	62,018	14%	13%	8,287	13%
Analytic Software Tools	27,610	21,704	5%	5%	5,906	27%
Total revenues	$515,784	$468,330	100%	100%	47,454	10%

Quarter Ended June 30, 2004 Revenues Compared to Quarter Ended June 30, 2003 Revenues

The increase in total revenues from the quarter ended June 30, 2003 to the quarter ended June 30, 2004 included a $13.7 million increase in revenues that resulted from our NAREX, Diversified HealthCare Services, Seurat and London Bridge acquisitions in fiscal 2003 and 2004.

Strategy Machine Solutions segment revenues increased primarily due to a $4.0 million increase in revenues from our *account management solutions*, a $2.4 million increase in revenues from our *consumer solutions*, a $1.3 million increase in revenues from our *fraud solutions* and a $1.2 million increase in revenues from our *marketing solutions*, partially offset by a $0.2 million net decrease in revenues from our other strategy machine solutions. The increase in *account management solutions* revenues was attributable primarily to increases in volumes under transactional-based agreements, including transactional-based revenues derived from our London Bridge and NAREX acquisitions in May 2004 and July 2003, respectively, and an increase in maintenance revenues derived from our London Bridge acquisition, partially offset by a decline in revenues relating to a prior year non-recurring perpetual license for our strategies. The increase in *consumer solutions* revenues was attributable primarily to an increase in revenues derived from our myFICO.com and strategic alliance partners due to increased customer volumes and higher average selling prices. The increase in *fraud solutions* revenues was attributable primarily to an increase in active accounts and merchant transaction volumes, principally due to growth in our customer base, and to the cross-selling of additional fraud products to our existing customer base. The increase in *marketing solutions* revenues was attributable primarily to an increase in customer transaction volumes resulting from our Seurat acquisition in October 2003, partially offset by a decrease in service revenues from our existing customer base.

Scoring Solutions segment revenues increased primarily due to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting principally from increased sales of scores for prescreening and on-line activities. During the quarters ended June 30, 2004 and 2003, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 21% and 19%, respectively, of our total company revenues, including revenues from these customers that are recorded in our other segments.

Professional Services segment revenues increased primarily due to an increase in model development, software implementation, and business consulting revenues, including revenues derived from our London Bridge and Seurat acquisitions in May 2004 and

October 2003, respectively.

Analytic Software Tools segment revenues decreased primarily due to a decrease in sales of perpetual licenses for our analytic decision tools products.

Nine Months Ended June 30, 2004 Revenues Compared to Nine Months Ended June 30, 2003 Revenues

The increase in total revenues from the nine months ended June 30, 2003 to the nine months ended June 30, 2004 included a $33.1 million increase in revenues that resulted from our five acquisitions in fiscal 2003 and 2004.

Strategy Machine Solutions segment revenues increased primarily due to a $10.7 million increase in revenues from our *account management solutions*, a $5.9 million increase in revenues from our *fraud solutions*, a $5.6 million increase in revenues from our *consumer solutions*, a $4.7 million increase in revenues from our *insurance and healthcare solutions* and a $4.7 million increase in revenues from our *marketing solutions*, partially offset by a $2.1 million decrease in revenues from our *originations solutions*. The increase in *account management solutions* revenues was attributable primarily to increases in both perpetual license sales and transactional volumes under transactional-based agreements, including perpetual and transactional-based revenues derived from our London Bridge acquisition in May 2004 and transactional-based revenues derived from our NAREX acquisition in July 2003, partially offset by a decline in revenues relating to a prior year non-recurring perpetual license for our strategies. The increase in *fraud solutions* revenues was attributable primarily to an increase in active accounts and merchant transaction volumes, principally due to growth in our customer base, and to the cross-selling of additional fraud products to our existing customer base. The increase in *consumer solutions* revenues was attributable primarily to increases in revenues derived from our myFICO.com and strategic alliance partners due to increased customer volumes and higher average selling prices. The increase in *insurance and healthcare solutions* revenues was attributable primarily to an increase in customer medical bill review volumes resulting from our Diversified acquisition in September 2003, partially offset by a decline in bill review volumes associated with our existing customer base, including that related to the loss of a significant customer, as well as lower claims volumes at some of our key customers. The increase in *marketing solutions* revenues was attributable primarily to an increase in customer transaction volumes resulting from our Seurat acquisition in October 2003, partially offset by a decrease in service revenues from our existing customer base. The decrease in *origination solutions* revenues was attributable primarily to a decline in origination product perpetual license sales.

Scoring Solutions segment revenues increased primarily due to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting from increased sales of scores for prescreening, account review, and on-line activities. During the nine months ended June 30, 2004 and 2003, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 20% and 19%, respectively, of our total company revenues, including revenues from these customers that are recorded in our other segments.

Professional Services segment revenues increased primarily due to an increase in model development and business consulting revenues, including revenues derived from our London Bridge and Seurat acquisitions in May 2004 and October 2003, respectively.

Analytic Software Tools segment revenues increased primarily due to an increase in sales of perpetual licenses for our analytic decision tools and model development software products.

Operating Expenses and Other Income (Expense)

The following table sets forth certain summary information related to our operating expenses and other income (expense) for the fiscal periods indicated.

	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Percentage of Revenues 2004	Percentage of Revenues 2003	Period-to-Period Change	Period-to-Period Percentage Change
	(In thousands)				(In thousands)	
Revenues	$173,197	$163,000	100%	100%	$10,197	6%
Operating expenses:						
Cost of revenues	61,361	62,209	35%	38%	(848)	(1)%
Research and development	19,096	16,959	11%	11%	2,137	13%
Selling, general and administrative	45,384	31,277	26%	19%	14,107	45%
Amortization of intangible assets	4,597	3,461	3%	2%	1,136	33%
Restructuring and merger-related	751	(36)	1%	—	787	2,186%
Total operating expenses	131,189	113,870	76%	70%	17,319	15%
Operating income	42,008	49,130	24%	30%	(7,122)	(14)%
Interest income	3,137	1,542	2%	1%	1,595	103%
Interest expense	(4,393)	(2,333)	(2)%	(2)%	2,060	88%
Other income, net	5,641	101	3%	—	5,540	5,485%
Income before income taxes	46,393	48,440	27%	29%	(2,047)	(4)%
Provision for income taxes	17,624	18,407	10%	11%	(783)	(4)%
Net income	$ 28,769	$ 30,033	17%	18%	(1,264)	(4)%
Number of employees at quarter end	3,094	2,260			834	37%

	Nine Months Ended June 30, 2004	Nine Months Ended June 30, 2003	Percentage of Revenues 2004	Percentage of Revenues 2003	Period-to-Period Change	Period-to-Period Percentage Change
	(In thousands)				(In thousands)	
Revenues	$515,784	$468,330	100%	100%	$47,454	10%
Operating expenses:						
Cost of revenues	184,179	186,904	36%	40%	(2,725)	(1)%
Research and development	49,830	51,325	10%	11%	(1,495)	(3)%
Selling, general and administrative	127,652	95,175	25%	20%	32,477	34%
Amortization of intangible assets	12,728	10,142	2%	2%	2,586	25%
Restructuring and merger-related	751	2,580	—	1%	(1,829)	(71)%
Total operating expenses	375,140	346,126	73%	74%	29,014	8%
Operating income	140,644	122,204	27%	26%	18,440	15%
Interest income	8,213	5,904	2%	1%	2,309	39%
Interest expense	(13,153)	(6,981)	(2)%	(1)%	6,172	88%
Other income, net	6,833	595	1%	—	6,238	1,048%
Income before income taxes	142,537	121,722	28%	26%	20,815	17%
Provision for income taxes	54,164	46,254	11%	10%	7,910	17%
Net income	$ 88,373	$ 75,468	17%	16%	12,905	17%

Cost of Revenues

Cost of revenues consists primarily of employee salaries and benefits for personnel directly involved in creating, installing and supporting revenue products; travel and related overhead costs; costs of computer service bureaus; internal network hosting costs; amounts payable to credit reporting agencies for scores; software costs; and expenses related to our consumer score services through myFICO.com.

The quarter over quarter decrease in cost of revenues was attributable primarily to a $4.8 million reduction in personnel and other labor-related costs, partially offset by a $2.5 million increase in third-party software and data costs and a $1.5 million increase in facilities and infrastructure costs. The reduction in personnel and other labor-related costs resulted primarily from our transfer of key management personnel into sales strategy and execution roles from their previous operational roles at the beginning of the first quarter of fiscal 2004, partially offset by an increase in personnel costs resulting from our fiscal 2003 and 2004 acquisitions. The increase in third-party software and data costs was attributable primarily to an increase in consumer solutions, insurance and healthcare solutions, and marketing solutions revenues, including those resulting from our fiscal 2003 and 2004 acquisitions. The increase in facilities and infrastructure costs was attributable primarily to our fiscal 2003 and 2004 acquisitions, partially offset by lower corporate cost of revenue allocations corresponding with the reduction in personnel described above.

The year to date period over period decrease in cost of revenues was attributable primarily to a $11.9 million reduction in personnel and other labor-related costs and a $0.9 million net decrease in various other expenditures, partially offset by a $5.7 million increase in third-party software and data costs and a $4.4 million increase in facilities and infrastructure costs. The reduction in personnel and other labor-related costs resulted primarily from our transfer of key management personnel into sales strategy and execution roles from their previous operational roles at the beginning of the first quarter of fiscal 2004, partially offset by an increase in personnel costs resulting from our fiscal 2003 and 2004 acquisitions. The increase in third-party software and data costs was attributable primarily to an increase in consumer solutions, insurance and healthcare solutions and marketing solutions revenues, including those resulting from our fiscal 2003 and 2004 acquisitions. The increase in facilities and infrastructure costs was attributable primarily to our fiscal 2003 and 2004 acquisitions, partially offset by lower corporate cost of revenue allocations corresponding with the reduction in personnel described above.

In future periods, we expect that cost of revenues as a percentage of revenues will be slightly higher than those incurred during the third quarter of fiscal 2004.

Research and Development

Research and development expenses include the personnel and related overhead costs incurred in development of new products and services, including primarily the research of mathematical and statistical models and the development of other Strategy Machine Solutions and Analytic Software tools.

The quarter over quarter increase in research and development expenditures was attributable primarily to an increase in research and development personnel and related costs associated with our acquisition of London Bridge in May 2004. The year to date period over period decrease in research and development expenses was attributable primarily to a reduction in research and development personnel and related costs, primarily related to Strategy Machine Solutions development projects, partially offset by an increase related to our acquisition of London Bridge in May 2004.

In future periods, we expect that research and development expenditures as a percentage of revenues will be consistent with, or slightly higher than, those incurred during the third quarter of fiscal 2004, consistent with our plans to continue our investment in research and development efforts.

Selling, General and Administrative

Selling, general and administrative expenses consist principally of employee salaries and benefits, travel, overhead, advertising and other promotional expenses, corporate facilities expenses, legal expenses, business development expenses, and the cost of operating computer systems.

The quarter over quarter increase in selling, general and administrative expenses was attributably primarily to a $10.6 million increase in personnel and other labor-related costs, a $2.4 million increase in travel costs and a $1.2 million increase in legal and accounting professional fees, partially offset by a $0.1 million net decrease in various other expenditures. The increase in personnel and labor-related costs resulted primarily from our transfer of key management personnel into sales strategy and execution roles from their previous operational roles at the beginning of the first fiscal quarter of 2004, and to a lesser degree an increase in personnel resulting from our fiscal 2003 and 2004 acquisitions.

The year to date period over period increase in selling, general and administrative expenses was attributably primarily to a $26.8 million increase in personnel and other labor-related costs, a $5.2 million increase in travel costs and a $4.0 million increase in legal and accounting professional fees, partially offset by a $3.1 million decrease in our provision for doubtful accounts and a $0.4 million net decrease in various other expenditures. The increase in personnel and labor-related costs resulted primarily from our transfer of key management personnel into sales strategy and execution roles from their previous operational roles at the beginning of the first fiscal quarter of 2004, and to a lesser degree an increase in personnel resulting from our fiscal 2003 and 2004 acquisitions.

In future periods, we expect that selling, general and administrative expenses as a percentage of revenues will be slightly higher than those incurred during the third quarter of fiscal 2004.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense that we have recorded on intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Our definite-lived intangible assets are being amortized using the straight-line method or based on forecasted cash flows associated with the assets over periods ranging from two to fifteen years.

The quarter over quarter increase in amortization expense is attributable primarily to the full quarter of amortization of intangible assets recorded in connection with our acquisition of NAREX in July 2003, Diversified HealthCare Services in September 2003, Seurat in October 2003, and to a month of incremental estimated amortization of intangible assets recorded in connection with our acquisition of London Bridge in May 2004, the latter of which is based on a preliminary London Bridge valuation. The valuation of London Bridge intangible assets and their useful lives may change upon completion of the final valuation.

The year to date period over period increase in amortization expense is attributable primarily to nine months of amortization of intangible assets recorded in connection with our acquisition of NAREX in July 2003, Diversified HealthCare Services in September 2003, and Seurat in October 2003, and to the incremental amortization of intangible assets recorded in connection with our acquisition of Spectrum in December 2002 and London Bridge in May 2004.

Restructuring and Merger-related

During the quarter and nine months ended June 30, 2004, we wrote off deferred acquisition costs totaling $0.8 million in connection with an aborted acquisition, consisting principally of third-party legal, accounting and other professional fees.

During the nine months ended June 30, 2003, we recorded merger-related expenses totaling $2.6 million, consisting primarily of retention bonuses earned by HNC employees.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. The quarter over quarter and year-to-date period over period increases in interest income were attributable primarily to higher average cash and investment balances, partially offset by lower interest and investment income yields due to market conditions. The increase in cash and investment balances resulted principally from the receipt of $391.5 million in net proceeds from our issuance of our 1.5% Senior Notes in August 2003 and an increase in net cash provided by operating activities, partially offset by a decrease in cash balances due to our repurchases of common stock in the second and third quarters of fiscal 2004, and our acquisition of London Bridge in the latter part of the third quarter of fiscal 2004.

Interest Expense

In August 2003, we issued $400.0 million of 1.5% Senior Notes that mature in August 2023. Interest expense on the Senior Notes recorded by us, including amortization of debt issuance costs, totaled $2.0 million and $6.1 million during the quarter and nine months ended June 30, 2004.

As a result of the HNC acquisition and subsequent merger of the HNC entity into Fair Isaac, we assumed $150.0 million of 5.25% Subordinated Notes due in September 2008. The Subordinated Notes were recorded at their fair value of $139.7 million on the acquisition date, as determined based on their quoted market price, which resulted in our recognition of a $10.3 million note discount. The carrying amount of the Subordinated Notes is being accreted to $150.0 million over their remaining term using the effective interest method, resulting in an effective interest rate of approximately 6.64% per annum. Interest expense on the Subordinated Notes recorded by us totaled $2.4 million and $2.3 million during the quarters ended June 30, 2004 and 2003, respectively, and $7.1 million and $7.0 million during the nine months ended June 30, 2004 and 2003, respectively.

Other Income, Net

Other income, net consists primarily of realized investment gains/losses, exchange rate gains/losses resulting from re-measurement of foreign-denominated receivable and cash balances held by our U.S. reporting entities into the U.S. dollar functional currency at period-end market rates, net of the impact of offsetting forward foreign exchange contracts, and other non-operating items. The quarter over quarter and year-to-date period over period increases were attributable primarily to an increase in realized gains on sales of our marketable securities of $6.7 million and $6.9 million, respectively, including a $6.6 million gain recognized on the sale of our OSI investment in the current quarter. These gains were offset primarily by an increase in foreign exchange losses of $1.2 million and $0.8 million in the quarter and year-to-date periods, respectively, principally due to a $1.3 million net foreign exchange loss recorded in connection with our London Bridge acquisition. This net foreign exchange loss represented the excess of a loss recorded on a forward foreign exchange contract entered into in connection with this transaction, offset by exchange rate gains resulting from the re-measurement of British pound-sterling cash balances held by one of our U.S. dollar functional currency entities for the purpose of funding the acquisition.

Provision for Income Taxes

Our effective tax rate was 38% during each of the quarter and nine-month periods ended June 30, 2004 and 2003. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year.

Operating Income

The following tables set forth certain summary information on a segment basis related to our operating income for the fiscal periods indicated. Segment information for the quarter and nine months ended June 30, 2003 has been restated to conform to the current segment presentation.

Segment	Quarter Ended June 30, 2004	Quarter Ended June 30, 2003	Period-to-Period Change	Period-to-Period Percentage Change
		(In thousands)		
Strategy Machine Solutions	$21,675	$24,165	$(2,490)	(10)%
Scoring Solutions	19,732	18,291	1,441	8%
Professional Services	675	3,093	(2,418)	(78)%
Analytic Software Tools	677	3,545	(2,868)	(81)%
Segment operating income	42,759	49,094	(6,335)	(13)%
Unallocated restructuring and merger-related expense	(751)	36	787	2,186%
Operating income	$42,008	$49,130	(7,122)	(14)%

Segment	Nine Months Ended June 30, 2004	Nine Months Ended June 30, 2003	Period-to-Period Change	Period-to-Period Percentage Change
		(In thousands)		
Strategy Machine Solutions	$ 70,545	$ 63,209	$ 7,336	12%
Scoring Solutions	56,743	54,369	2,374	4%
Professional Services	6,909	4,073	2,836	70%
Analytic Software Tools	7,198	3,133	4,065	130%
Segment operating income	141,395	124,784	16,611	13%
Unallocated restructuring and merger-related expense	(751)	(2,580)	(1,829)	(71)%
Operating income	$140,644	$122,204	18,440	15%

The quarter over quarter decrease in operating income was attributable primarily to an increase in segment operating expenses that exceeded the $10.2 million increase in revenues quarter over quarter, including a $13.7 million increase in revenues that resulted from our acquisitions in fiscal 2003 and 2004. At the segment level, the decrease in segment operating income was attributable primarily to

$2.9 million, $2.5 million and $2.4 million decreases in segment operating income within our Analytic Software Tools, Strategy Machine Solutions, and Professional Services segments, respectively, partially offset by a $1.4 million increase in segment operating income within our Scoring segment. The decrease in Analytical Software Tools segment operating income was attributable primarily to a decrease in sales of perpetual licenses for our analytic decision tool products. The decrease in Strategy Machine Solutions segment operating income was primarily due to a reduction in sales of higher margin account perpetual licenses within our account management solutions. The decrease in Professional Services segment operating income was attributable primarily to increased business unit overhead allocations from our Analytical Software Tools segment, due to the decrease in license sales described above. The increase in Scoring segment revenues was attributable primarily to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting from increased sales of scores for prescreening, account review, and on-line activities.

The year to date period over period increase in operating income was attributable primarily to an increase in segment revenues, which included a $33.1 million increase in revenues that resulted from our acquisitions in fiscal 2003 and 2004, including those described above, and a $1.8 million decrease in merger-related expenses. At the segment level, the increase in operating income was attributable primarily to $7.3 million, $4.1 million, $2.8 million, and $2.4 million increases in segment operating income within our Strategy Machine Solutions, Analytic Software Tools, Professional Services and Scoring Solutions segments, respectively. The increase in Strategy Machine Solutions segment operating income was driven primarily by the growth of segment revenues and operating margins, principally as a result of management's cost control efforts, acquisition-related efficiencies resulting from the integration of acquisitions and a mix of relatively higher margin product revenues. The increase in Analytic Software Tools segment operating margins was driven primarily by an increase in sales of higher margin perpetual licenses related to our analytic decision tools and model development software products. The increase in Professional Services segment operating margins was primarily due to an increase in higher margin model development and business consulting revenues. The increase in Scoring Solutions segment operating income was primarily due to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting from increased sales of scores for prescreening, account review, and on-line activities.

Stock-based Compensation

We recorded stock-based compensation expense of $0.3 million and $0.7 million during the quarters ended June 30, 2004 and 2003, respectively, and $1.3 million and $2.3 million during the nine months ended June 30, 2004 and 2003, respectively. This expense is recorded in cost of revenues, research and development, and selling, general and administrative expense. The period over period decreases were primarily due to a decrease in amortization of deferred compensation related to the final vesting during the nine months ended June 30, 2004 of 1,417,500 stock options granted to an officer, in which the quoted market price of our common stock at the grant date exceeded the stock options' exercise price, and due to a decrease in amortization of deferred compensation related to the intrinsic value of HNC's unvested options to purchase Fair Isaac common stock assumed at the time of the HNC acquisition resulting from forfeitures. The deferred compensation is being amortized on a straight-line basis over the vesting period of the options.

Capital Resources and Liquidity

Working Capital

Our working capital at June 30, 2004 and September 30, 2003 totaled $464.7 million and $569.5 million, respectively. The decrease in working capital during the nine months ended June 30, 2004 is attributable to a $51.7 million decrease in cash and cash equivalents and short-term marketable securities, a $2.8 million decrease in net receivables, a $33.6 million increase in other accrued liabilities, a $9.1 million increase in consideration payable to London Bridge stockholders, a $7.9 million increase in deferred revenue, a $1.1 million increase in accounts payable, and a net $0.5 million decrease in other working capital balances, partially offset by a $1.9 million increase in the current portion of deferred income taxes.

The decrease in cash and cash equivalents and short-term marketable securities was attributable primarily to the use of cash paid for our May 2004 acquisition of London Bridge, net of cash acquired, cash used in investing and financing activities during the nine months ended June 30, 2004, partially offset by net cash provided by operations, as described below. The decrease in net receivables was attributable primarily to increased customer collections, partially offset by receivables acquired in the London Bridge acquisition, and an increase resulting from the increase in revenues during the quarter ended June 30, 2004, as compared to the quarter ended September 30, 2003. The increase in other accrued liabilities was attributable primarily to an increase in income taxes payable, accrued liabilities acquired in the London Bridge acquisition, and accrued interest payable on our convertible notes. The consideration payable to London Bridge stockholders represents the amount we expect to pay to acquire the remaining outstanding London Bridge shares through compulsory acquisition procedures under U.K. law. The increase in deferred revenue was attributable primarily to deferred revenue acquired in the London Bridge acquisition and to an increase in customer prepayments. The increase in accounts payable was attributable primarily to accounts payable acquired in the London Bridge acquisition.

Cash Flows from Operating Activities

Our primary method for funding operations and growth has been through cash flows generated from operations. Net cash provided by operating activities increased from $125.5 million during the nine months ended June 30, 2003 to $162.5 million during the nine months ended June 30, 2004, reflecting an increase in net earnings before non-cash charges and the effect of other net working capital changes, as discussed herein.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $103.8 million during the nine months ended June 30, 2004, compared to net cash provided by investing activities of $74.9 million during the nine months ended June 30, 2003. The shift to net cash used in investing activities during the nine months ended June 30, 2004, as compared net cash provided by investing activities during the nine months ended June 30, 2003, was attributable primarily to a $267.4 million increase in net cash paid in acquisitions, principally as a result of our May 2004 acquisition of London Bridge, a $2.2 million increase in property and equipment purchases and a $3.0 million decrease in cash proceeds from the sale of a product line, as no product line sales occurred during the nine months ended June 30, 2004 as compared to the nine months ended June 30, 2003, partially offset by a $91.6 million increase in cash proceeds from sales and maturities of marketable securities, net of purchases of marketable securities, and repayments of $2.2 million on notes receivable resulting from fiscal 2003 product line sales.

Cash Flows from Financing Activities

Net cash used in financing activities totaled $27.7 million and $161.2 million during the nine months ended June 30, 2004 and 2003, respectively. The decrease in net cash used in financing activities during the nine months ended June 30, 2004 as compared to the nine months ended June 30, 2003 was attributable primarily to a $153.2 million decrease in cash used for repurchases of our common stock during the nine months ended June 30, 2004 as compared to the nine months ended June 30, 2003, partially offset by a $19.2 million decrease in proceeds from issuances of common stock period over period, a $0.3 million increase in dividends paid due to a higher amount of common shares outstanding period over period, and $0.2 million in cash paid in lieu of fractional shares due to the stock split in fiscal 2004.

Repurchases of Common Stock

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. In November 2003, our Board of Directors approved a common stock repurchase program allowing us to purchase shares of our common stock from time to time in the open market and in negotiated transactions. During the nine months ended June 30, 2004, we repurchased approximately 1.8 million shares of our common stock under this program for an aggregate cost of $68.7 million. These shares represent all of the shares approved for repurchase by our Board of Directors under this program.

In July 2004, our Board of Directors approved a new common stock repurchase program, which will expire in one year, that will allow us to purchase shares of our common stock up to an aggregate cost of $200.0 million. Through August 6, 2004, we had repurchased 0.7 million shares of our common stock under this program for an aggregate cost of $18.3 million.

Dividends

We paid quarterly dividends of two cents per share, or a total of six cents per share, during the nine months ended June 30, 2004 and 2003. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

1.5% Senior Convertible Notes

We are the issuer of $400.0 million of the Senior Notes that mature on August 15, 2023. The Senior Notes become convertible into shares of Fair Isaac common stock, subject to the conditions described below, at an initial conversion price of $43.9525 per share, subject to adjustments for certain events. The initial conversion price is equivalent to a conversion rate of approximately 22.7518 shares of Fair Isaac common stock per $1,000 principal amount of the Senior Notes. Holders may surrender their Senior Notes for conversion, if any of the following conditions is satisfied: (i) prior to August 15, 2021, during any fiscal quarter, if the closing price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the last day of the immediately preceding fiscal quarter is more than 120% of the conversion price per share of our common stock on the corresponding trading day; (ii) at any time after the closing sale price of our common stock on any date after August 15, 2021 is more than 120% of the then current conversion price; (iii) during the five consecutive business day period following any 10 consecutive trading day period in which the average trading price of a Senior Note was less than 98% of the average sale price of our common stock during such 10 trading day period multiplied by the applicable conversion rate; provided, however, if, on the day before the conversion date, the closing price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, then holders converting their notes may receive, in lieu of our common stock based on the applicable conversion rate, at our option, cash or common stock with a value equal to 100% of the principal amount of the notes on the conversion date; (iv) if we have called the Senior Notes for redemption; or (v) if we make certain distributions to holders of our common stock or we enter into specified corporate transactions. The conversion price of the Senior Notes will be adjusted upon the occurrence of certain dilutive events as described in the indenture, which include but are not limited to: (i) dividends, distributions, subdivisions, or combinations of our common stock; (ii) issuance of rights or warrants for the purchase of our common stock; (iii) the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness or other non-cash assets, or rights or warrants; (iv) the cash dividend or distribution to all or substantially all holders of our common stock in excess of certain levels; and (v) certain merger and acquisition activities.

The Senior Notes are senior unsecured obligations of Fair Isaac and rank equal in right of payment with all of our unsecured and unsubordinated indebtedness. The Senior Notes are effectively subordinated to all of our existing and future secured indebtedness and existing and future indebtedness and other liabilities of our subsidiaries. The Senior Notes bear regular interest at an annual rate of 1.5%, payable on August 15 and February 15 of each year until August 15, 2008. Beginning August 15, 2008, regular interest will accrue at the rate of 1.5%, and be due and payable upon the earlier to occur of redemption, repurchase, or final maturity. In addition, the Senior Notes bear contingent interest during any six-month period from August 15 to February 14 and from February 15 to August 14, commencing with the six-month period beginning August 15, 2008, if the average trading price of the Senior Notes for the five trading day period immediately preceding the first day of the applicable six-month period equals 120% or more of the sum of the principal amount of, plus accrued and unpaid regular interest on, the Senior Notes. The amount of contingent interest payable on the Senior Notes in respect of any six-month period will equal 0.25% per annum of the average trading price of the Senior Notes for the five trading day period immediately preceding such six-month period.

We may redeem for cash all or part of the Senior Notes on and after August 15, 2008, at a price equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest. Holders may require us to repurchase for cash all or part of their Senior Notes on August 15, 2007, August 15, 2008, August 15, 2013 and August 15, 2018, or upon a change in control, at a price equal to 100% of the principal amount of the Senior Notes being repurchased, plus accrued and unpaid interest.

5.25% Convertible Subordinated Notes

We are the issuer of $150.0 million of the Subordinated Notes that mature on September 1, 2008. The Subordinated Notes are convertible into shares of Fair Isaac common stock at a conversion price of $36.99 per share, subject to anti-dilution adjustment. The conversion price is equivalent to a conversion rate of approximately 27.03 shares of Fair Isaac common stock per $1,000 principal amount of the Subordinated Notes. The Subordinated Notes are general unsecured obligations of Fair Isaac and are subordinated in right of payment to all existing and future senior indebtedness of Fair Isaac. Interest on the Subordinated Notes is payable on March 1 and September 1 of each year until maturity. Holders may require us to repurchase for cash all or part of their Subordinated Notes upon a change in control at a price equal to 100% of the principal amount of the Subordinated Notes being repurchased, plus accrued and unpaid interest up to the purchase date.

In July 2004, our Board of Directors approved the cash redemption of all of the outstanding Subordinated Notes at a redemption price equal to 102.625% of the $150.0 million principal amount of the Subordinated Notes, pursuant to the redemption criteria in the indenture. We have provided notice to the holders of the Subordinated Notes of this redemption, which will occur in September 2004. The redemption of these notes will require a cash outlay of $153.9 million, which we will fund with our existing cash and cash equivalent resources.

Credit Agreement

We are party to a credit agreement with a financial institution that provides for a $15.0 million revolving line of credit through February 2006. Under the agreement, as amended, we are required to comply with various financial covenants, which include but are not limited to, minimum levels of domestic liquidity, parameters for treasury stock repurchases, dividend payments, and merger and acquisition requirements. At our option, borrowings under this agreement bear interest at the rate of LIBOR plus 1.25% or at the financial institution's Prime Rate, payable monthly. The agreement also includes a letter of credit subfeature that allows us to issue commercial and standby letters of credit up to a maximum amount of $5.0 million and a foreign exchange facility that allows us to enter contracts with the financial institution to purchase and sell certain currencies, subject to a maximum aggregate amount of $25.0

million and other specified limits. As of June 30, 2004, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of June 30, 2004, this credit facility also served to collateralize certain letters of credit aggregating $0.7 million, issued by us in the normal course of business. As of June 30, 2004, this credit facility also served to collateralize contracts to sell certain currencies aggregating $10.5 million, entered into by us pursuant to our program to manage foreign currency exchange rate risk on existing foreign currency receivable and bank balances. Available borrowings under this credit agreement are reduced by the principal amount of letters of credit and by 20% of the aggregate amount of contracts to purchase and sell certain foreign currencies outstanding under the facility. We believe that the covenants of this credit facility do not materially restrict our future liquidity or operations.

Azure Cost-Method Investment

We are a limited partner in Azure Venture Partners I, L.P. ("Azure"), a venture capital investment management fund, and are committed to invest an additional $0.8 million into this fund. The ultimate timing of this additional investment will be dependent on when the fund managers make additional capital calls. It is possible that additional capital calls may require us to invest some or all of our remaining commitment during fiscal 2004.

Capital Resources and Liquidity Outlook

As of June 30, 2004, we had $523.1 million in cash, cash equivalents and marketable security investments. We believe that these balances, including interest to be earned thereon, and anticipated cash flows from operating activities will be sufficient to fund our working and other capital requirements over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

Contractual Obligations

The following is a summary of the assumed contractual obligations of London Bridge as of June 30, 2004:

	Fiscal Year Ending September 30,							
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total**
				(In thousands)				
Operating lease obligations	$1,352	$4,845	$4,353	$3,079	$2,563	$2,459	$690	$19,341

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These accounting principles require management to make certain judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We periodically evaluate our estimates including those relating to revenue recognition, the allowance for doubtful accounts, goodwill and other intangible assets resulting from business acquisitions, capitalized software development costs, internal-use software, income taxes and contingencies and litigation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable based on the specific circumstances, the results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

Software license fee revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred at our customer's location, the fee is fixed or determinable and collection is probable. We use the residual method to recognize revenue when an arrangement includes one or more elements to be delivered at a future date and vendor-specific objective evidence of the fair value of all undelivered elements exists. Vendor-specific objective evidence of fair value is based on the normal pricing practices for those products and services when sold separately by us and customer renewal rates for post-contract customer support services. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the fair value of one or more undelivered elements does not exist, the revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established. The determination of whether fees are fixed or determinable and collection is probable involves the use of assumptions. We evaluate contract terms and customer information to ensure that these criteria are met prior to our recognition of license fee revenue. We have not experienced significant variances between our assumptions and actual results in the past and anticipate that we will be able to continue to make reasonable assumptions in the future.

When software licenses are sold together with implementation or consulting services, license fees are recognized upon delivery provided that the above criteria are met, payment of the license fees is not dependent upon the performance of the services, and the services do not provide significant customization or modification of the software products and are not essential to the functionality of the software that was delivered. For arrangements with services that are essential to the functionality of the software, the license and related service revenues are recognized using contract accounting as described below.

If at the outset of an arrangement we determine that the arrangement fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes due. If at the outset of an arrangement we determine that collectibility is not probable, revenue is deferred until the earlier of when collectibility becomes probable or the receipt of payment. If an arrangement provides for customer acceptance, revenue is not recognized until the earlier of receipt of customer acceptance or expiration of the acceptance period.

Revenues from post-contract customer support services, such as software maintenance, are recognized on a straight-line basis over the term of the support period. The majority of our software maintenance agreements provide technical support as well as unspecified software product upgrades and releases when and if made available by us during the term of the support period.

Revenues recognized from our credit scoring, data processing, data management and internet delivery services are recognized as these services are performed, provided persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured. The determination of certain of our credit scoring and data processing revenues requires the use of estimates, principally related to transaction volumes in instances where these volumes are reported to us by our clients on a monthly or quarterly basis in arrears. In these instances, we estimate transaction volumes based on preliminary customer transaction information, if available, or based on average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported. We have not experienced significant variances between our estimates and actual reported volumes in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we were unable to reasonably estimate transaction volumes in the future, revenue may be deferred until actual customer data was received, and this could have a material impact on our results of operations during the period of time that we changed accounting methods.

Transactional or unit based license fees under software license arrangements, network service and internally-hosted software agreements are recognized as revenue based on system usage or when fees based on system usage exceed monthly minimum license fees, provided persuasive evidence of an arrangement exists, fees are fixed or determinable and collection is probable. The determination of certain of our transactional or unit based license fee revenues requires the use of estimates, principally related to transaction usage or active account volumes in instances where this information is reported to us by our clients monthly or quarterly basis in arrears. In these instances, we estimate transaction volumes based on preliminary customer transaction information, if available, or based on average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported. We have not experienced significant variances between our estimates and actual reported volumes in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we were unable to reasonably estimate customer account or transaction volumes in the future, revenue would be deferred until actual customer data was received, and this could have a material impact on our consolidated results of operations.

We provide consulting, training, model development and software integration services under both hourly-based time and materials and fixed-priced contracts. Revenues from these services are generally recognized as the services are performed. For fixed-price service contracts, we apply the percentage-of-completion method of contract accounting to determine progress towards completion, which requires the use of estimates. In such instances, management is required to estimate the input measures, generally based on hours incurred to date compared to total estimated hours of the project, with consideration also given to output measures, such as contract milestones, when applicable. Adjustments to estimates are made in the period in which the facts requiring such revisions become known and, accordingly, recognized revenues and profits are subject to revisions as the contract progresses to completion. Estimated losses, if any, are recorded in the period in which current estimates of total contract revenue and contract costs indicate a loss. If substantive uncertainty related to customer acceptance of services exists, we apply the completed contract method of accounting and defer the associated revenue until the contract is completed.

Revenue recognized under the percentage-of-completion method in excess of contract billings is recorded as an unbilled receivable. Such amounts are generally billable upon reaching certain performance milestones as defined by individual contracts. Billings collected in advance of performance and recognition of revenue under contracts are recorded as deferred revenue.

In certain of our non-software arrangements, we enter into contracts that include the delivery of a combination of two or more of our service offerings. Typically, such multiple element arrangements incorporate the design and development of data management tools or systems and an ongoing obligation to manage, host or otherwise run solutions for our customer. Such arrangements are divided into separate units of accounting provided that the delivered item has stand-alone value and there is objective and reliable evidence of the fair value of the undelivered items. The total arrangement fee is allocated to the undelivered elements based on their fair values and to the initial delivered elements using the residual method. Revenue is recognized separately, and in accordance with our revenue recognition policy, for each element.

As described above, sometimes our customer arrangements have multiple deliverables, including service elements. Generally, our multiple element arrangements fall within the scope of specific accounting standards that provide guidance regarding the separation of elements in multiple-deliverable arrangements and the allocation of consideration among those elements (e.g., American Institute of Certified Public Accountants Statement of Position (“SOP”) No. 97-2, *Software Revenue Recognition*, as amended by SOP No. 98-9, *Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, or SOP No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*). If not, we apply the separation provisions of the Emerging Issues Task Force (“EITF”) consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The provisions of EITF Issue No. 00-21 require us to unbundle multiple element arrangements into separate units of accounting when the delivered element(s) has stand-alone value and fair value of the undelivered element(s) exists. When we are able to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to each unit. If we are unable to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to the entire arrangement. Sometimes this results in recognizing the entire arrangement fee when delivery of the last element in a multiple element arrangement occurs. For example, if the last undelivered element is a service, we recognize revenue for the entire arrangement fee as the service is performed, or if no pattern of performance is discernable, we recognize revenue on a straight-line basis over the term of the arrangement.

We adopted EITF Issue No. 00-21 for multiple element arrangements entered into subsequent to July 1, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on our financial position or results of operations because most of our arrangements fall entirely within the scope of higher-level authoritative literature and those that do not were already accounted for in a manner consistent with the provisions of EITF Issue No. 00-21.

We record revenue on a net basis for those sales in which we have in substance acted as an agent or broker in the transaction.

Allowance for Doubtful Accounts

We make estimates regarding the collectibility of our accounts receivable. When we evaluate the adequacy of our allowance for doubtful accounts, we analyze specific accounts receivable balances, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment cycles. Material differences may result in the amount and timing of expense for any period if we were to make different judgments or utilize different estimates. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances might be required. We have not experienced significant variances in the past between our estimated and actual doubtful accounts and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we did not reasonably estimate the amount of our doubtful accounts in the future, it could have a material impact on our consolidated results of operations.

Business Acquisitions; Valuation of Goodwill and Other Intangible Assets

Our business acquisitions typically result in the recognition of goodwill and other intangible assets, and in certain cases non-recurring charges associated with the write-off of in-process research and development ("IPR&D"), which affect the amount of current and future period charges and amortization expense. Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identified intangible assets, in connection with our business combinations accounted for by the purchase method of accounting. We amortize our definite-lived intangible assets based on forecasted cash flows associated with the assets or using the straight-line method over the estimated useful lives, while IPR&D is recorded as a non-recurring charge on the acquisition date. Goodwill is not amortized, but rather is periodically assessed for impairment.

The determination of the value of these components of a business combination, as well as associated asset useful lives, requires management to make various estimates and assumptions. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from product sales and services, maintenance agreements, consulting contracts, customer contracts, and acquired developed technologies and patents or trademarks; expected costs to develop the IPR&D into commercially viable products and estimating cash flows from the projects when completed; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired products and services will continue to be used in our product portfolio; and discount rates. Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. Unanticipated events and circumstances may occur and assumptions may change. Estimates using different assumptions could also produce significantly different results.

We continually review the events and circumstances related to our financial performance and economic environment for factors that would provide evidence of the impairment of our intangible assets. When impairment indicators are identified with respect to our previously recorded intangible assets, then we test for impairment using undiscounted cash flows. If such tests indicate impairment, then we measure the impairment as the difference between the carrying value of the asset and the fair value of the asset, which is measured using discounted cash flows. Significant management judgment is required in forecasting of future operating results, which are used in the preparation of the projected discounted cash flows and should different conditions prevail, material write downs of net intangible assets and other long-lived assets could occur. We periodically review the estimated remaining useful lives of our acquired intangible assets. A reduction in our estimate of remaining useful lives, if any, could result in increased amortization expense in future periods.

We test goodwill for impairment at the reporting unit level at least annually during the fourth quarter of each fiscal year and more frequently if impairment indicators are identified. We have determined that our reporting units are the same as our reportable segments. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using discounted cash flow valuation models and by comparing our reporting units to guideline publicly-traded companies. These methods require estimates of our future revenues, profits, capital expenditures, working capital, and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. The estimated fair value of each of our reporting units exceeded its respective carrying value in fiscal 2003, indicating the underlying goodwill of each reporting unit was not impaired as of our most recent testing date. Accordingly, we were not required to complete the second step of the goodwill impairment test. The timing and frequency of our goodwill impairment test is based on an ongoing assessment of events and circumstances that would more than likely reduce the fair value of a reporting unit below its carrying value. We will continue to monitor our goodwill balance and conduct formal tests on at least an annual basis or earlier when impairment indicators are present. There are various assumptions and estimates underlying the determination of an impairment loss, and estimates using different, but each reasonable, assumptions could produce significantly different results. Therefore, the timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions. We believe that the assumptions and estimates utilized were appropriate based on the information available to management.

Capitalized Software Development Costs

We capitalize certain software development costs after establishment of a product's technological feasibility. Such costs are then amortized over the estimated life of the related product. Periodically, we compare a product's unamortized capitalized cost to the product's estimated net realizable value. To the extent unamortized capitalized costs exceed net realizable value based on the product's estimated future gross revenues, reduced by the estimated future costs of completing and disposing of the product, the excess is written off. This analysis requires us to estimate future gross revenues associated with certain products, and the future costs of completing and disposing of certain products. If these estimates change, reductions or write-offs of capitalized software development costs could result.

Internal-use Software

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at cost, subject to an impairment test as described below. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. We assess potential impairment of capitalized internal-use software whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows that are expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. This analysis requires us to estimate future net cash flows associated with the assets, as well as the future costs of selling such assets. If these estimates change, reductions or write-offs of internal-use software costs could result.

Income Taxes

We use the asset and liability approach to account for income taxes. This methodology recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax base of assets and liabilities and operating loss and tax credit carryforwards. We then record a valuation allowance to reduce deferred tax assets to an amount that more likely than not will be realized. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, which requires the use of estimates. If we determine during any period that we could realize a larger net deferred tax asset than the recorded amount, we would adjust the deferred tax asset to increase income for the period. Conversely, if we determine that we would be unable to realize a portion of our recorded deferred tax asset, we would adjust the deferred tax asset to record a charge to income for the period. Although we believe that our estimates are reasonable, there is no assurance that our the valuation allowance will not need to be increased to cover additional deferred tax assets that may not be realizable, and such an increase could have a material adverse impact on our income tax provision and results of operations in the period in which such determination is made. In addition, the calculation of tax liabilities also involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could also have a material impact on our income tax provision and results of operations in the period in which such determination is made.

Contingencies and Litigation

We are subject to various proceedings, lawsuits and claims relating to product, technology, labor, shareholder and other matters. We are required to assess the likelihood of any adverse outcomes and the potential range of probable losses in these matters. If the potential loss is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. If the potential loss is considered less than probable or the amount cannot be reasonably estimated, disclosure of the matter is considered. The amount of loss accrual or disclosure, if any, is determined after analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies. Due to uncertainties related to these matters, accruals or disclosures are based on the best information available at the time. Significant judgment is required in both the assessment of likelihood and in the determination of a range of potential losses. Revisions in the estimates of the potential liabilities could have a material impact on our consolidated financial position or consolidated results of operations.

New Accounting Pronouncements

In March 2004, the EITF reached a consensus on Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This consensus applies to investments in marketable debt and equity securities, as well as investments in equity securities accounted for under the cost method. It provides guidance for determining when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The provisions of EITF Issue No. 03-1 are effective at the beginning of the first interim period beginning after June 15, 2004. We do not expect the adoption of EITF Issue No. 03-1 to have a material impact on our financial position or results of operations.

RISK FACTORS

Risks Related to Our Business

We derive a substantial portion of our revenues from a small number of products and services, and our revenue will decline if the market does not continue to accept these products and services.

We expect that revenues derived from our scoring solutions, account management solutions, marketing solutions, fraud solutions, and insurance solutions products and services will account for a substantial portion of our total revenues for the foreseeable future. Our revenues will decline if the market does not continue to accept these products and services. Factors that might affect the market acceptance of these products and services include the following:

- changes in the business analytics industry;
- technological change;
- our inability to obtain or use state fee schedule or claims data in our insurance products;
- saturation of market demand;
- loss of key customers;
- industry consolidation;
- inability to successfully sell our products in new vertical markets; and
- events that reduce the effectiveness of or need for fraud detection capabilities.

We may incur risks related to acquisitions or significant investment in businesses.

We have made in the past, and may make in the future, acquisitions of, or significant investments in, businesses that offer complementary products, services and technologies. Any acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of businesses, which include:

- the possibility that we will pay more than the acquired companies or assets are worth;
- the difficulty of assimilating the operations and personnel of the acquired businesses;
- the potential product liability associated with the sale of the acquired companies’ products;
- the potential disruption of our ongoing business;
- the potential dilution of our existing stockholders and earnings per share;
- unanticipated liabilities, legal risks and costs;
- the distraction of management from our ongoing business; and
- the impairment of relationships with employees and customers as a result of any integration of new management personnel.

These factors could harm our business, financial condition or results of operations, particularly in the event of a significant acquisition.

We rely on relatively few customers, as well as our contracts with the three major credit reporting agencies, for a significant portion of our business, and our future revenues and operating income could decline if the terms of these relationships change.

Most of our customers are relatively large enterprises, such as banks, insurance companies, healthcare firms, retailers and telecommunications carriers. As a result, many of our customers and potential customers are significantly larger than we are and may have sufficient bargaining power to demand reduced prices and favorable nonstandard terms. We also derive a substantial portion of our revenues and operating income from contracts with the three major credit reporting agencies, TransUnion, Equifax and Experian and other parties that distribute our products to certain markets. The loss of any major customer, the loss of a relationship with one of the major credit reporting agencies, the loss of another significant third-party distributor or the delay of significant revenue from these sources, could have a material adverse effect on our revenues and results of operations.

Defects, failures and delays associated with our introduction of new products could seriously harm our business.

Significant undetected errors or delays in new products or new versions of products may affect market acceptance of our products and could harm our business, financial condition or results of operations. In the past, we have experienced delays while developing and introducing new products and product enhancements, primarily due to difficulties developing models, acquiring data and adapting to particular operating environments. We have also experienced errors or "bugs" in our software products, despite testing prior to release of the products. Software errors in our products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. Errors or defects in our products that are significant, or are perceived to be significant, could result in the rejection of our products, damage to our reputation, lost revenues, diverted development resources, potential product liability claims and increased service and support costs and warranty claims.

Our future revenues may be uncertain because of reliance on third parties for marketing and distribution.

Our Scoring Solutions segment and Strategy Machine Solutions segment rely on distributors, including with respect to our Scoring Solutions segment, TransUnion, Equifax and Experian, and we intend to continue to market and distribute our products through existing and future distributor relationships. Failure by our existing and future distributors to generate significant revenues or our failure to establish additional distribution or sales and marketing alliances could have a material adverse effect on our business, operating results and financial condition. In addition, distributors may become our competitors with respect to the products they distribute either by developing a competitive product themselves or by distributing a competitive offering. For example, credit reporting agencies may evaluate and seek to distribute or acquire alternative vendors' prepaid products that compete with our products. Competition from existing and future distributors or other sales and marketing partners could significantly harm sales of our products.

Our share price will fluctuate as a result of several factors, including changes in our revenues and operating results.

The market price of our common shares may be volatile and could be subject to wide fluctuations due to a number of factors, including variations in our revenues and operating results. With respect to our revenues and operating results, we believe that you should not rely on period-to-period comparisons of financial results as an indication of future performance. Most of our operating expenses will not be affected by short-term fluctuations in revenues; thus, short-term fluctuations in revenues may significantly impact operating results. Additional factors that will cause our share price to fluctuate include the following:

- variability in demand from our existing customers;
- failure to meet the expectations of market analysts;
- changes in recommendations by market analysts;
- the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increase the likelihood of short term fluctuation in revenues;
- consumer dissatisfaction with, or problems caused by, the performance of our products;

- the timing of new product announcements and introductions in comparison with our competitors;
- the level of our operating expenses;
- changes in competitive conditions in the consumer credit, financial services and insurance industries;
- fluctuations in domestic and international economic conditions;
- our ability to complete large installations on schedule and within budget;
- acquisition-related expenses and charges; and
- timing of orders for and deliveries of software systems.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many technology companies, and these fluctuations sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as industry-specific and general economic conditions may adversely affect the market price of our common shares.

We may not be able to forecast our revenues accurately because our products have a long and variable sales cycle.

We cannot forecast our revenues accurately because the length of our sales cycles makes it difficult for us to predict the quarter in which sales to expected customers will occur. The long sales cycle for our products may cause license revenue and operating results to vary significantly from period to period. The sales cycle to license our products can typically range from 60 days to 18 months. Customers are often cautious in making decisions to acquire our products, because purchasing our products typically involves a significant commitment of capital, and may involve shifts by the customer to a new software and/or hardware platform or changes in the customer's operational procedures. Delays in completing sales can arise while customers complete their internal procedures to approve large capital expenditures and test and accept our applications. Consequently, we face difficulty predicting the quarter in which sales to expected customers will occur. This has contributed, and we expect it to continue to contribute, to fluctuations in our operating results.

We typically have back-ended quarters.

Significant portions of our quarterly software licensing agreements are concluded in the last month of the fiscal quarter, generally with a concentration of such revenues earned in the final week of that month. Prior to the very end of any quarter, we must rely on our forecasts of revenue for planning, modeling and other purposes. However, forecasts are only estimates and may not correlate to revenues in a particular quarter or over a longer period of time. Consequently, a significant discrepancy between actual results and sales forecasts could cause us to improperly plan or budget and thereby adversely affect our business, financial condition or results of operations. Any publicly-stated revenue or earnings projections by us are especially subject to this risk.

Any failure to recruit and retain additional qualified personnel could hinder our ability to successfully manage our business.

Our future success will likely depend in large part on our ability to attract and retain experienced sales, research and development, marketing, technical support and management personnel. The complexity of our products requires highly trained customer service and technical support personnel to assist customers with product installation and deployment. The labor market for these persons is very competitive due to the limited number of people available with the necessary technical skills and understanding and may become more competitive with general market and economic improvement. We have experienced difficulty in recruiting qualified personnel, especially technical and sales personnel, and we may need additional staff to support new customers and/or increased customer needs. We may also recruit and employ skilled technical professionals from other countries to work in the United States. Limitations imposed by federal immigration laws and the availability of visas could hinder our ability to attract necessary qualified personnel and harm our business and future operating results. There is a risk that even if we invest significant resources in attempting to attract, train and retain qualified personnel, we will not succeed in our efforts, and our business could be harmed.

Failure or inability to obtain data from our customers or others could harm our business.

We must develop or obtain a reliable source of sufficient amounts of current and statistically relevant data to analyze transactions and update our products, including our consumer credit, financial services, predictive modeling, decision analysis, intelligence management, credit card fraud control and profitability management, loan underwriting and insurance products. In most cases, these data must be periodically updated and refreshed to enable our products to continue to work effectively in a changing environment. We do not own or control much of the data that we require, most of which is collected privately and maintained in proprietary databases. Customers and key business alliances agree to provide us the data we require to analyze transactions, report results and build new models. If we fail to maintain good relationships with our customers and business alliances, or if they decline to provide such data due to legal privacy concerns, competition concerns, prohibitions or a lack of permission from their customers, we could lose access to required data and our products might become less effective. In addition, certain of our insurance solutions products use data from state workers' compensation fee schedules adopted by state regulatory agencies. Third parties have previously asserted copyright interests in these data, and these assertions, if successful, could prevent us from using these data. Any interruption of our supply of data could seriously harm our business, financial condition or results of operations.

We will continue to rely upon proprietary technology rights, and if we are unable to protect them, our business could be harmed.

Our success will depend, in part, upon our proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, patent, trade secret, and trademark laws, and nondisclosure and other contractual restrictions on copying and distribution to protect our proprietary technology. This protection of our proprietary technology is limited, and our proprietary technology could be used by others without our consent. In addition, patents may not be issued with respect to our pending or future patent applications, and our patents may not be upheld as valid or may not prevent the development of competitive products. Any disclosure, loss, invalidity of, or failure to protect our intellectual property could negatively impact our competitive position, and ultimately, our business. We cannot assure you that our means of protecting our intellectual property rights in the United States or abroad will be adequate or that others, including our competitors, will not use our proprietary technology without our consent. Furthermore, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could harm our business, financial condition or results of operations.

In addition, some of our technologies were developed under research projects conducted under agreements with various United States government agencies or subcontractors. Although we have commercial rights to these technologies, the United States government typically retains ownership of intellectual property rights and licenses in the technologies developed by us under these contracts, and in some cases can terminate our rights in these technologies if we fail to commercialize them on a timely basis. Under these contracts with the United States government, the results of research may be made public by the government, limiting our competitive advantage with respect to future products based on our research.

We may be subject to possible infringement claims that could harm our business.

With recent developments in the law that permit patenting of business methods, we expect that products in the industry segments in which we compete, including software products, will increasingly be subject to claims of patent infringement as the number of products and competitors in our industry segments grow and the functionality of products overlaps. We may need to defend claims that our products infringe patent, copyright or other rights, and as a result may:

- incur significant defense costs or substantial damages;
- be required to cease the use or sale of infringing products;
- expend significant resources to develop or license a substitute non-infringing technology;
- discontinue the use of some technology; or
- be required to obtain a license under the intellectual property rights of the third party claiming infringement, which license may not be available or might require substantial royalties or license fees that would reduce our margins.

Security is important to our business, and breaches of security, or the perception that e-commerce is not secure, could harm our business.

Our business requires the appropriate and secure utilization of consumer and other sensitive information. Internet-based, electronic commerce requires the secure transmission of confidential information over public networks and several of our products are accessed through the Internet, including our consumer services accessible through the www.myFICO.com website. Security breaches in connection with the delivery of our products and services, including products and services utilizing the Internet, or well-publicized security breaches affecting the Internet in general, could significantly harm our business, financial condition or results of operations. We cannot be certain that advances in computer capabilities, new discoveries in the field of cryptography, or other developments will not compromise or breach the technology protecting the networks that access our netsourced products, consumer services and proprietary database information.

Protection from system interruptions is important to our business, and a sustained interruption of our telecommunication systems could harm our business.

System interruptions could delay and disrupt our products and services, cause harm to our business and reputation and result in loss of customers. These interruptions include fires, floods, earthquakes, power losses, telecommunication failures and other events beyond our control. It is particularly important for us to protect our data centers against damage from these events. The on-line services we provide are dependent on links to telecommunication providers, and we believe we have taken reasonable precautions to protect our data centers or any failure of our telecommunications links from events that could interrupt our operations. Any sustained system interruption could materially adversely affect our ability to meet our customers' requirements, which could harm our business, financial condition or results of operations.

Risks Related to Our Industry

Our ability to increase our revenues will depend to some extent upon introducing new products and services, and if the marketplace does not accept these new products and services, our revenues may decline.

We have a significant share of the available market in our Scoring segment and for certain services in our Strategy Machine Solutions segment (specifically, the markets for account management services at credit card processors and credit card fraud detection software). To increase our revenues, we must enhance and improve existing products and continue to introduce new products and new versions of existing products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. We believe much of our future growth prospects will rest on our ability to continue to expand into newer markets for our products and services, such as direct marketing, insurance, small business lending, retail, telecommunications, personal credit management, the design of business strategies using Strategy Science technology and Internet services. These areas are relatively new to our product development and sales and marketing personnel. Products that we plan to market in the future are in various stages of development. We cannot assure you that the marketplace will accept these products. If our current or potential customers are not willing to switch to or adopt our new products and services, our revenues will decrease.

If we fail to keep up with rapidly changing technologies, our products could become less competitive or obsolete.

In our markets, technology changes rapidly, and there are continuous improvements in computer hardware, network operating systems, programming tools, programming languages, operating systems, database technology and the use of the Internet. If we fail to enhance our current products and develop new products in response to changes in technology or industry standards, our products could rapidly become less competitive or obsolete. For example, the rapid growth of the Internet environment creates new opportunities, risks and uncertainties for businesses, such as ours, which develop software that must also be designed to operate in Internet, intranet and other online environments. Our future success will depend, in part, upon our ability to:

- internally develop new and competitive technologies;
- use leading third-party technologies effectively;
- continue to develop our technical expertise;
- anticipate and effectively respond to changing customer needs;
- initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and

- influence and respond to emerging industry standards and other technological changes.

New product introductions and pricing strategies by our competitors could decrease our product sales and market share, or could pressure us to reduce our product prices in a manner that reduces our margins.

We may not be able to compete successfully against our competitors, and this inability could impair our capacity to sell our products. The market for business analytics is new, rapidly evolving and highly competitive, and we expect competition in this market to persist and intensify. Our competitors vary in size and in the scope of the products and services they offer, and include:

- in-house analytics departments;
- credit reporting agencies;
- computer service providers;
- regional risk management, marketing, systems integration and data warehousing competitors;
- application software companies, including enterprise software vendors;
- management information system departments of our customers and potential customers, including financial institutions, insurance companies and telecommunications carriers;
- third-party professional services and consulting organizations;
- hardware suppliers that bundle or develop complementary software;
- network and telecommunications switch manufacturers, and service providers that seek to enhance their value-added services;
- analytic software tool suppliers; and
- managed care organizations.

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, certain of our fraud solutions products compete against other methods of preventing credit card fraud, such as credit cards that contain the cardholder's photograph, smart cards, cardholder verification and authentication solutions and other card authorization techniques. Many of our anticipated competitors have greater financial, technical, marketing, professional services and other resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources than we can to develop, promote and sell their products. Many of these companies have extensive customer relationships, including relationships with many of our current and potential customers. Furthermore, new competitors or alliances among competitors may emerge and rapidly gain significant market share. If we are unable to respond as quickly or effectively to changes in customer requirements as our competition, our ability to expand our business and sell our products will be negatively affected.

Our competitors may be able to sell products competitive to ours at lower prices individually or as part of integrated suites of several related products. This ability may cause our customers to purchase products of our competitors that directly compete with our products. Price reductions by our competitors could negatively impact our margins, and could also harm our ability to obtain new long-term contracts and renewals of existing long-term contracts on favorable terms.

Government regulations that apply to us or to our customers may expose us to liability, affect our ability to compete in certain markets, limit the profitability of or demand for our products, or render our products obsolete.

Legislation and governmental regulation affects how our business is conducted and, in some cases, subject us to the possibility of future lawsuits arising from our products and services. Legislation and governmental regulation also influence our current and prospective customers' activities, as well as their expectations and needs in relation to our products and services. Both our core businesses and our newer consumer initiatives are affected by regulation, including the following significant regulatory areas:

- federal and state regulation of consumer report data and consumer reporting agencies, such as the Fair Credit Reporting Act, or FCRA, the Fair and Accurate Credit Transactions Act, or FACT, which amends FCRA, and the proposed regulations under FACT, presently under consideration;
- regulation designed to insure that lending practices are fair and non-discriminatory, such as the Equal Credit Opportunity Act, or ECOA;
- privacy law, including but not limited to the provisions of the Financial Services Modernization Act of 1999, or FSMA, the Health Insurance Portability and Accountability Act of 1996;
- regulations governing the extension of credit to consumers and by Regulation E under the Electronic Fund Transfers Act, as well as non-governmental VISA and MasterCard electronic payment standards;
- Fannie Mae and Freddie Mac regulations, among others, for our mortgage services products;
- insurance regulations related to our insurance products;
- consumer protection laws, such as federal and state statutes governing the use of the Internet and telemarketing; and
- regulations of foreign jurisdictions on our international operations, including the European Union's Privacy Directive.

In making credit evaluations of consumers, performing fraud screening or user authentication, our customers are subject to requirements of federal law, including the FCRA, FACT and the ECOA, and regulations thereunder, as well as state laws which impose a variety of additional requirements. Privacy legislation such as the FSMA may also affect the nature and extent of the products or services that we can provide to customers as well as our ability to collect, monitor and disseminate information subject to privacy protection. In addition to existing regulation, changes in legislative, judicial, regulatory or consumer environments could harm our business, financial condition or results of operations. For example, the recent FACT amendments to the FCRA will result in new regulation. These regulations or the interpretation of these amendments could affect the demand for or profitability of some of our products, including scoring and consumer products. State regulation could cause financial institutions to pursue new strategies, reducing the demand for our products. In addition, legislative reforms of workers' compensation laws that aim to simplify this area of regulation and curb abuses could diminish the need for, and the benefits provided by, certain of our insurance solutions products and services.

Since our revenues depend, to a great extent, upon conditions in the consumer credit, financial services and insurance industries, an industry specific downturn may harm our business, financial condition or results of operations.

During the quarter ended June 30, 2004, 78% of our revenues were derived from sales of products and services to the consumer credit, financial services and insurance industries. A downturn in the consumer credit, the financial services or the insurance industry, including a downturn caused by increases in interest rates or a tightening of credit, among other factors, could harm our business, financial condition or results of operations. Since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of our large institutional customers have merged and consolidated, we have generated most of our revenue growth from our bankcard-related scoring and account management businesses by selling and cross-selling our products and services to large banks and other credit issuers. As this industry continues to consolidate, we may have fewer opportunities for revenue growth due to changing demand for our products and services that support customer acquisition programs of our customers. In addition, industry consolidation could affect the base of recurring revenues derived from contracts in which we are paid on a per-transaction basis if consolidated customers combine their operations under one contract. We cannot assure you that we will be able effectively to promote future revenue growth in our businesses.

Risk Related to External Conditions

General economic conditions and world events may affect demand for our products and services.

During the economic slowdown in the United States and in Europe in recent years, companies in many industries delayed or reduced technology purchases and we experienced softened demand for our decisioning solutions and other products and services.

If the current improvement in economic conditions in the U.S. and Europe slows or reverses or if there is an escalation in regional or continued global conflicts, we may experience reductions in capital expenditures by our customers, longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition, and we may fall short of our revenue expectations.

Our operations outside the United States subject us to unique risks that may harm our business, financial condition or results of operations.

A growing portion of our revenues is derived from international sales. During the quarter ended June 30, 2004, 20% of our revenues were derived from business outside the United States. As part of our growth strategy, we plan to continue to pursue opportunities outside the United States. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

- the general economic and political conditions in countries where we sell our products and services;
- difficulty in staffing our operations in various countries;
- the effects of a variety of foreign laws and regulations, including restrictions on access to personal information;
- import and export licensing requirements;
- longer payment cycles;
- potentially reduced protection for intellectual property rights;
- currency fluctuations;
- changes in tariffs and other trade barriers; and
- difficulties and delays in translating products and related documentation into foreign languages.

We cannot assure you that we will be able to successfully address each of these challenges in the near term. Additionally, some of our business will be conducted in currencies other than the U.S. dollar. Foreign currency transaction gains and losses are not currently material to our cash flows, financial position or results of operations. However, an increase in our foreign revenues could subject us to increased foreign currency transaction risks in the future.

We have adopted anti-takeover defenses that could make it difficult for another company to acquire control of Fair Isaac or limit the price investors might be willing to pay for our stock.

Certain provisions of our Restated Certificate of Incorporation, as amended, could make a merger, tender offer or proxy contest involving us difficult, even if such events would be beneficial to the interests of our stockholders. These provisions include adoption of a Rights Agreement, commonly known as a "poison pill," and giving our board the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without stockholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of our outstanding voting stock. These factors and certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in control or changes in our management, including transactions in which our stockholders might otherwise receive a premium over the fair market value of our common stock.

We may incur significant stock-based compensation charges related to certain employee stock options in future periods, particularly if requirements relating to accounting for employee stock options are changed.

We have certain employee stock options that are subject to variable accounting treatment that require us to remeasure compensation costs for the options each reporting period based on changes in the market value of our stock. Depending on the movements in the market value of our stock, the variable accounting of those stock options may result in additional non-cash compensation costs in future periods.

In addition, we have not decided to expense stock options generally despite the recent debate regarding the accounting treatment of stock options. If we elected or were required to record an expense for all of our stock-based compensation plans using the fair value method under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* instead of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, we could have significant accounting charges. If future laws or regulations require us to treat all stock-based compensation as an expense using the fair value method, we may determine to avoid a portion of these accounting charges by reducing the number of stock options granted to employees or by granting options to fewer employees. This could affect our ability to retain existing employees and attract qualified candidates, and increase the cash compensation we would have to pay to them. Alternatively, if we continue to issue stock options at the same level, operating expenses could rise, negatively affecting our results of operations.

Changes in tax laws or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

We are subject to income taxes in the United States and in certain foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. Our future effective tax rates could be adversely affected by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have an adverse effect on our operating results and financial condition.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Market Risk Disclosures

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates, equity market prices, and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

We maintain an investment portfolio consisting mainly of income securities with an average maturity of three years or less. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our investments with interest rate risk at June 30, 2004 and September 30, 2003:

	June 30, 2004			September 30, 2003		
	Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield
	(In thousands)					
Cash and cash equivalents	$236,219	$236,206	1.40%	$243,368	$243,358	1.05%
Short-term investments	173,235	172,755	1.56%	255,423	255,893	1.50%
Long-term investments	66,081	65,475	2.00%	151,201	151,610	1.94%
	$475,535	$474,436	1.54%	$649,992	$650,861	1.43%

We are the issuer of 1.5% Senior Convertible Notes and 5.25% Convertible Subordinated Notes that mature in August 2023 and September 2008, respectively. In July 2004, our Board of Directors approved the cash redemption of all of the outstanding Subordinated Notes at a redemption price equal to 102.625% of the $150.0 million principal amount of the Subordinated Notes. The fair value of these notes, as determined based on quoted market prices, may increase or decrease due to various factors, including fluctuations in the market price of our common stock, fluctuations in market interest rates and fluctuations in general economic conditions. See Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and

Liquidity, above, for additional information on these notes. The following table presents the principal amounts, carrying amounts, and fair values for our Senior and Subordinated Notes at June 30, 2004 and September 30, 2003:

	June 30, 2004			September 30, 2003		
	Principal	Carrying Amount	Fair Value	Principal	Carrying Amount	Fair Value
	(In thousands)					
1.5% Senior Notes	$400,000	$400,000	$401,233	$400,000	$400,000	$441,000
5.25% Subordinated Notes	150,000	142,510	158,157	150,000	141,364	179,063
	$550,000	$542,510	$559,390	$550,000	$541,364	$620,063

Forward Foreign Currency Contracts

We maintain a program to manage our foreign currency exchange rate risk on existing foreign currency receivable and bank balances by entering into forward contracts to sell or buy foreign currency. At period end, foreign-denominated receivables and cash balances held by our U.S. reporting entities are remeasured into the U.S. dollar functional currency at current market rates. The change in value from this remeasurement is then reported as a foreign exchange gain or loss for that period in our accompanying consolidated statements of income and the resulting gain or loss on the forward contract mitigates the exchange rate risk of the associated assets. All of our forward foreign currency contracts have maturity periods of less than three months. Such derivative financial instruments are subject to market risk.

During the quarter ended June 30, 2004, in connection with our acquisition of London Bridge, we entered into a forward foreign currency contract to sell GBP £170.0 million for $300.1 million. This contract was entered into to offset exchange rate transaction gains or losses on GBP cash balances that were held by our wholly-owned acquiring subsidiary, whose functional currency is that of the U.S. dollar, for the purpose of funding the London Bridge acquisition. We reduced the notional amount of this forward contract in connection with the payment of consideration to the selling shareholders, and settled the contract on June 30, 2004, at which time we entered into a new contract to offset the remaining GBP cash balance of GBP £8.0 million held by our acquiring subsidiary. This forward contract is included in the table below as of June 30, 2004, in addition to forward currency contracts related to our regular program described in the preceding paragraph.

The following table summarizes our outstanding forward foreign currency contracts, by currency, with contract amounts representing the expected payments to be made under these instruments at June 30, 2004:

	Contract Amount			
	Foreign Currency		US$	Fair Value US$
			(In thousands)	
Sell foreign currency:				
British Pound (GBP)	GBP	10,608	$19,094	$19,153
EURO (EUR)	EUR	1,650	2,003	2,003
Japanese Yen (YEN)	YEN	85,000	778	778
			$21,875	$21,934

Item 4. *Controls and Procedures*

An evaluation was carried out under the supervision and with the participation of Fair Isaac's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Fair Isaac's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Fair Isaac's disclosure controls and procedures are effective to ensure that information required to be disclosed by Fair Isaac in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

No change in Fair Isaac's internal control over financial reporting was identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the period covered by this quarterly report and that has materially affected, or is reasonably likely to materially affect, Fair Isaac's internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

We are subject to various legal proceedings in the ordinary course of business, none of which is required to be disclosed under this Item 1.

Item 2. *Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities*

Issuer Purchases of Equity Securities (1)

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2004 through April 30, 2004	—	—	—	830,500
May 1, 2004 through May 31, 2004	830,500	$33.81	830,500	—
June 1, 2004 through June 30, 2004	—	—	—	—
	830,500	$33.81	830,500	—

(1) In November 2003, our Board of Directors approved a new common stock repurchase program allowing us to purchase up to 1,500,000 shares of our common stock from time to time in the open market and in negotiated transactions. The number of shares approved under this program was not adjusted as a result of the three-for-two stock split approved by our Board of Directors in February 2004. During our second quarter ended March 31, 2004, we repurchased 669,500 shares under this program, as calculated on a pre-split basis. During our third quarter ended June 30, 2004, we repurchased the remaining 830,500 shares under this program, as calculated on a post-split basis, as summarized in the table above.

Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibits:

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.
32.1	Section 1350 Certification of CEO.
32.2	Section 1350 Certification of CFO.

(b) Reports on Form 8-K:

i. On April 29, 2004, we furnished a Current Report on Form 8-K to the SEC, including the Company's press release announcing financial results for the quarter ended March 31, 2004.

ii. On June 10, 2004, we filed a Current Report on Form 8-K with the SEC, including the Company's press release announcing the Company's acquisition of London Bridge Software Holdings plc on May 28, 2004, as a result of the Company's offer for London Bridge's ordinary share capital becoming unconditional.

iii. On July 12, 2004, we furnished a Current Report on Form 8-K to the SEC, including the Company's press release announcing preliminary third quarter fiscal 2004 results and revised fourth quarter guidance.

iv. On July 28, 2004, we furnished a Current Report on Form 8-K to the SEC, including the Company's press release announcing financial results for the quarter ended June 30, 2004.

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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 CORPORATION	
DATE: August 9, 2004	By	/s/ CHARLES M. OSBORNE
		Charles M. Osborne *Vice President and Chief Financial Officer* *(for Registrant as duly authorized officer and as Principal Financial Officer)*
DATE: August 9, 2004	By	/s/ RUSSELL C. CLARK
		Russell C. Clark *Vice President, Finance and Corporate Controller* *(Principal Accounting Officer)*

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EXHIBIT INDEX

To Fair Isaac Corporation Report On Form 10-Q
For The Quarterly Period Ended June 30, 2004

Exhibit Number	Description	
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.	Filed Electronically
32.1	Section 1350 Certification of CEO.	Filed Electronically
32.2	Section 1350 Certification of CFO.	Filed Electronically

EXHIBIT 31.1

CERTIFICATIONS

I, Thomas G. Grudnowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fair Isaac Corporation;

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

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

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

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

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

   c) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: August 9, 2004

/s/ THOMAS G. GRUDNOWSKI

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Thomas G. Grudnowski

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Charles M. Osborne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fair Isaac Corporation;

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

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

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

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

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

    c) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: August 9, 2004

/s/ CHARLES M. OSBORNE

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CHARLES M. OSBORNE
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION UNDER SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Fair Isaac Corporation.

Date: August 9, 2004

/s/ THOMAS G. GRUDNOWSKI

Thomas G. Grudnowski
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION UNDER SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Fair Isaac Corporation.

Date: August 9, 2004

/s/ CHARLES M. OSBORNE

Charles M. Osborne
Chief Financial Officer