**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# Form 10-K

(Mark One)

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

**For the fiscal year ended September 30, 2002**

o **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 and Company, Incorporated

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **94-1499887** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **200 Smith Ranch Road** | **94903** |
| **San Rafael, California** | *(Zip Code)* |
| *(Address of principal executive offices)* | |

**Registrant's telephone number, including area code:**

**(415) 472-2211**

**Securities registered pursuant to Section 12(b) of the Act:**

| **(Title of Class)** | **(Name of each exchange on which registered)** |
|---|---|
| Common Stock, $0.01 par value per share | New York Stock Exchange, Inc. |
| Preferred Stock Purchase Rights | New York Stock Exchange, Inc. |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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 ☑ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

As of October 31, 2002, the aggregate market value of the Registrant's common stock held by nonaffiliates of the Registrant was $1,451,217,274 based on the last transaction price as reported on the New York Stock Exchange. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purposes.

The number of shares of common stock outstanding on October 31, 2002 was 50,729,166 (excluding 4,949,724 shares held by the Company as treasury stock).

Items 10, 11, 12 and 13 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on February 3, 2003.

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## FORWARD LOOKING STATEMENTS

*Certain statements contained in this Report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (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 financial items; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; (iv) statements concerning our merger with HNC Software Inc., expected synergies, execution of integration plans and increases in shareholder value as a result of the merger; and (v) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," 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 Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition-Risk Factors, below. 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-Q and 8-K to be filed by the Company in fiscal year 2003.*

## PART I

### Item 1. *Business*

### GENERAL

Fair, Isaac and Company, Incorporated (NYSE: FIC) (together with its consolidated subsidiaries, the "Company", which may also be referred to in this Report as "we", "us" or "our") provides analytic, software and data management products and services that enable businesses to automate and improve decisions. On a combined basis including HNC Software Inc., our predictive modeling, decision analytics, intelligence management, decision management systems and consulting services power more than 25 billion customer decisions a year.

We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, we help thousands of companies in over 60 countries target and 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 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, empowering them to manage their financial health.

On August 5, 2002, we completed our acquisition of HNC Software Inc. (HNC), a provider of sophisticated analytic and decision management software. We issued 18,780,482 shares of our common stock and the assumed options to purchase 3,897,664 shares of our common stock as a result of the merger. Results of operations of HNC are included prospectively from the date of acquisition through our year end. As of September 30, 2002, HNC was a wholly owned subsidiary of Fair, Isaac. Effective November 1, 2002, HNC was merged with and into Fair, Isaac. Accordingly, HNC is no longer a subsidiary of Fair, Isaac and ceases to exist as a separate legal entity. For the purposes of this report, descriptions of our products, segments and business organization will reflect the present, merged organization.

More information about us can be found on our principal Web site, www.fairisaac.com. Information on our Web site is not part of this report.

## PRODUCTS AND SERVICES

We help businesses make better decisions in the areas of customer targeting and acquisition, customer origination and customer management. Our solutions enable users to make decisions that are more accurate, objective and consistent, and that systematically advance a business's goals. Our products and services are designed to reduce the cost of doing business, increase revenues and profitability, reduce losses from risks and fraud, and increase customer loyalty.

### Our Segments

We categorize our products and services into the following four segments; and differences from our previous operating segments are noted. We offer Analytical Solutions that we break out as Scoring Solutions and Strategy Machine Solutions, Analytic Software Tools and Professional Services as follows:

- *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. Scoring services primarily generate revenues based on usage, and were previously included in the Scoring segment.

- *Strategy Machine Solutions.* Our Strategy Machine Solutions are industry-tailored applications designed for specific processes in customer acquisition, origination and account management. These products and services are generally licensed on a usage basis, and may often have an upfront one-time license revenue component. This segment includes the products and services that were part of our previous Strategy Machine segment, as well as software license fees and maintenance revenues related to our SEARCH™, ScoreWare, StrategyWare and TRIAD end-user products that were previously reported in our Software & Maintenance segment. It also includes most of the solutions previously offered by HNC.

- *Analytic Software Tools.* This segment is composed of our analytic software tools sold to businesses for their use in building their own decisioning applications. The principal software products in this segment are Fair, Isaac Blaze Advisor software, Fair, Isaac Blaze Decision System software (formerly Fair, Isaac Decision System™ software) and Fair, Isaac Model Builder for Decision Trees (formerly Fair, Isaac Strategy Designer™) software. These products are generally licensed to a single user for a flat fee. Previously, Fair, Isaac Blaze Decision System software and Fair, Isaac Model Builder software were included in the Software & Maintenance segment, and Blaze Advisor™ software was offered by HNC.

- *Professional Services.* This segment includes revenues from custom projects and consulting services as well as services associated with implementing and delivering our products. These services are generally offered on an hourly fee basis. Previously, revenue in our Professional Services segment was reported in our Consulting segment.

Comparative segment revenues, operating income and related financial information for fiscal years 2002, 2001 and 2000 are set forth in the tables in Note 16 to the Consolidated Financial Statements.

The following table illustrates the key solutions in each operating segment. Solutions previously offered by HNC are noted.

***Products by Segment***

| Operating Segment | Key Products and Services |
|---|---|
| Scoring Solutions | FICO® scores<br>NextGen FICO® scores<br>Marketing and bankruptcy scores<br>Commercial credit risk scores<br>Insurance scores<br>ScoreNet® Service<br>PreScore® Service |
| Strategy Machine Solutions | Fair, Isaac MarketSmart Decision System® solution<br>Fair, Isaac SmartLink™ customer data integration service<br>LiquidCredit® service<br>StrategyWare® decision engine<br>Capstone® Decision Manager system (HNC)<br>CreditDesk® software<br>TRIAD™ adaptive control system<br>Customer Management TRIAD™ adaptive control system<br>Adaptive Control Service<br>RoamEx® Roamer Data Exchanger (HNC)<br>TelAdaptive® service<br>Fair, Isaac Insurance Decision System™ software<br>Falcon™ Fraud Manager (HNC)<br>CardAlert™ Fraud Manager (HNC)<br>Risk Manager (HNC)<br>Profit Manager (HNC)<br>Fraud Manager (HNC)<br>Profitability Predictor (HNC)<br>MIRA™ Claims Advisor (HNC)<br>Claims Advisor for Exceptions Management (HNC)<br>Claims Advisor for Subrogation (HNC)<br>Payment Optimizer (HNC)<br>CompAdvisor® Medical Bill Review (HNC)<br>AutoAdvisor® Medical Bill Review (HNC)<br>Outsourced Cost Containment Services (HNC)<br>Connectivity Manager (HNC)<br>myFICO℠ service<br>Strategy Science |
| Analytic Software Tools | Fair, Isaac Blaze Advisor™ software (HNC)<br>Fair, Isaac Blaze Decision System™ software<br>Fair, Isaac Model Builder™ software<br>Fair, Isaac Decision Optimizer™ software<br>Business Science |
| Professional Services | Customer Strategy Integration<br>Product Services<br>Global Analytics<br>Fraud Consulting (HNC)<br>PreScore® Service<br>Strategy Science Services |

**Our Solutions**

Our solutions involve three fundamental disciplines:

- Analytics to identify the risks and opportunities associated with individual clients and prospects, as well as to improve the design of decision logic or “strategies”;

- Data management, profiling and text recognition that bring complete customer information to every decision; and

- Software such as decision engines and rules engines that implement decision strategies in a real-time environment for faster, more consistent and more accurate decisions.

All of our solutions are designed to help businesses make more accurate, consistent and objective decisions across the enterprise.

***Scoring Solutions***

We develop the world's leading scores based on credit bureau data. Our FICO scores are used in most U.S. credit decisions, by most of the major credit card organizations as well as many of the mortgage and auto loan originators. These scores provide a consistent and objective measure of an individual's credit risk. Credit grantors use the FICO scores to prescreen solicitation candidates, to evaluate applicants for new credit and to review existing accounts. The FICO scores are calculated based on proprietary scoring models. The scores produced by these models are available through each of the three major credit reporting agencies in the United States: TransUnion Corporation, Experian Information Solutions, Inc., and Equifax Inc. Users generally pay the credit reporting agencies based on usage, and the credit reporting agencies share these usage revenues with us.

Our new U.S. credit bureau products, NextGen FICO risk scores, are also now available at all three major credit-reporting agencies. NextGen risk scores provide a more refined risk assessment than the classic FICO risk scores.

In addition to our U.S. credit risk scores, we have developed marketing and bankruptcy scores offered through the U.S. credit reporting agencies; an application fraud score available in Canada; consumer risk scores offered through credit reporting agencies in Canada, South Africa and the U.K.; commercial credit scores delivered by both U.S. and U.K. credit reporting agencies; and a bankruptcy scoring service with Visa USA.

We have also developed scoring systems for insurance underwriters and marketers. Such systems use the same underlying statistical technology as our FICO risk scores, but are designed to predict applicant or policyholder insurance loss risk for automobile or homeowners' coverage. Our insurance scores are available in the U.S. from TransUnion, Experian, Equifax and Choicepoint, Inc., and in Canada from Equifax.

We also provide credit bureau scoring services and related consulting directly to users in financial services through two U.S.-based services: PreScore Service for prescreening solicitation candidates, and ScoreNet Service for account management.

***Strategy Machine Solutions***

We develop Strategy Machine Solutions that apply analytics, data management and software to specific business challenges and processes. These include credit offer prescreening, medical bill review, telecommunications fraud prevention and others. Our Strategy Machine Solutions serve clients in financial services, insurance, healthcare, retail, telecommunications and government sectors.

Acquisition Strategy Machine Solutions

The chief Strategy Machine offering for marketing is our Fair, Isaac MarketSmart Decision System ("MarketSmart"). MarketSmart is a multi-channel, Web-enabled marketing solution with campaign management, data warehousing, analytic and other capabilities. MarketSmart helps financial institutions, retailers and telecommunications companies determine where, when and how to interact with their prospects and customers to build stronger relationships. MarketSmart now also includes the Fair, Isaac SmartLink customer data integration service, powered by Equifax, which enables users to quickly and accurately link data from multiple external databases to build a fuller picture of every customer and his or her relationship and potential.

We also market our list processing and data enhancement services to direct marketing organizations in many industries.

Origination Strategy Machine Solutions

We provide solutions that enable companies, typically financial services institutions such as banks, credit unions, finance companies and installment lenders, to automate and improve the processing of requests for credit from applicants. These solutions increase the speed and efficiency with which requests are handled, reduce losses and increase approval rates through analytics that assess applicant risk, and reduce the need for manual review by loan officers.

Our solutions include LiquidCredit, a Web-based service primarily focused on the credit decision and offered largely to mid-tier financial services institutions and e-commerce providers; Capstone, a solution combining both analytics and full application processing capabilities, which is offered in both end-user software and application service provider (ASP) mode to high-volume operations; StrategyWare, an end-user software product used to design and automate more complex credit decision strategies; and CreditDesk, an end-user software product combining analytics and application processing software for the mid-tier financial services market.

Account Management Strategy Machine Solutions

Our account management products and services enable businesses to automate and improve decisions on their existing customers. These solutions help businesses decide which customers to cross-sell, what additional products and services to offer, when and how much to change a customer's credit line, what total amount of credit to extend to a customer, and how to prioritize and handle the collection of delinquent accounts.

We provide account management solutions for:

- *Financial Services.* In financial services, our leading account management product is the TRIAD adaptive control system, which is composed of behavior scoring models, software, and account management strategy consulting. TRIAD — the world's leading credit account management system — was used to manage approximately 65% of the world's credit card accounts for the calendar year ended December 31, 2001. As of September 30, 2002, TRIAD has more than 250 users worldwide. TRIAD is made available to our client base in many different ways, including Customer Management TRIAD, which enables lenders to manage customer relationships and credit exposure across multiple credit products. We also market and sell TRIAD multi-year software, maintenance, consulting services, and strategy design and evaluation. Additionally, we provide TRIAD and similar credit account management services through large third-party credit card processors worldwide, including the two largest processors in the U.S.: First Data Resources, Inc. and Total System Services, Inc. Customers using our adaptive control system through these two processors generally pay the processors based on usage, and we share in these usage revenues.

Netsourced TRIAD is a Web-delivered service that we offer directly to users, which enables users to access TRIAD account management capabilities in ASP mode, where we host the software. At the end of fiscal 2002, we made available transaction-based neural network models for TRIAD, an enhancement resulting from the merger with HNC.

- *Telecommunications.* Our principal solution is RoamEx Roamer Data Exchanger, which helps wireless telecommunications carriers reduce fraud. RoamEx delivers near real-time exchange of roamer call records that occur when subscribers roam outside a carrier's home network. RoamEx was used to exchange 95% of North American wireless carriers' roamer call detail records for the calendar year ended December 31, 2001, helping carriers combat fraud. We also offer the TelAdaptive account management system, which provides functionality similar to TRIAD as a Web-delivered service.

- *Insurance.* We provide insurers with a decisioning system that enables them to create, test and implement decision strategies for areas such as cross-selling, pricing, claims handling, retention,

prospecting and underwriting. This system is delivered as a Web-based service, and as end-user software (Fair, Isaac Insurance Decision System).

*Fraud Strategy Machine Solutions*

Our fraud products improve our customers' profitability by intelligently predicting the accuracy and validity of transactions to protect them and their customers from fraud and similar losses. They can analyze millions of customer transactions in milliseconds and generate recommendations for immediate action which is critical to stopping fraud and abuse. These applications can also detect organized fraud schemes that are too complex and well hidden to be identified by other methods.

Our solutions are designed to detect and prevent a wide variety of fraud and risk types across multiple industries, including credit and debit payment card fraud; identity fraud; telecommunications subscription fraud, technical fraud and bad debt; healthcare fraud; Medicaid and Medicare fraud; and property and casualty insurance fraud, including workers' compensation fraud. They protect merchants, financial institutions, insurance companies, telecommunications carriers, government agencies and employers from losses and damaged customer relationships caused by fraud.

Our leading fraud detection solution is Falcon Fraud Manager, recognized as the leader in global payment card fraud detection. Falcon uses neural networks and patented profiling technology, both further described below, to examine transaction, cardholder and merchant data to detect a wide range of payment card fraud quickly and accurately. Falcon analyzes payment card transactions in real-time, assesses the risk of fraud, and takes the user-defined steps to prevent fraud while expediting legitimate transactions. As of September 30, 2002, Falcon protects more than 450 million active payment card accounts worldwide, and in the calendar year ended December 31, 2001 was used in approximately 65% of all credit card transactions.

We also market fraud and fraud-related solutions for:

- *Financial Services:* We complement our Falcon product with fraud consulting services, and with fraud and risk management solutions for merchants and others. CardAlert Fraud Manager helps card issuers and Electronic Funds Transfer (EFT) network providers effectively combat large-scale counterfeit ATM and debit card fraud. Profitability Predictor provides credit card issuers a suite of transaction-based predictions to assist them in managing their credit card accounts more profitably. Our Risk Manager for Acquirers products helps merchant acquirers assess the bankruptcy and fraud risk of merchant relationships, as well as the likelihood of merchant attrition.

- *Insurance:* Our Claims Advisor products use neural networks and data analysis to forecast appropriate claims reserves based on individual claim data, to identify opportunities for subrogation, to identify fraud, and to manage claims workflow.

- *Healthcare:* Our Payment Optimizer product detects fraud and abuse of healthcare claims before claims are paid.

- *Telecommunications:* Our Risk Manager and Fraud Manager solutions help telecommunications carriers stop complex types of fraud such as subscription fraud, internal fraud, dealer/agent fraud, calling card fraud, cloning, clip-on fraud and PBX fraud, as well as to mitigate early-life and ongoing bad debt.

*Medical Bill Review Strategy Machine Solutions*

We provide a number of software solutions that automate the review and repricing of medical bills for workers' compensation and automobile medical injuries. Using these solutions, property and casualty insurers can process up to 80 percent of medical bills without the need for manual review. We also provide products that allow for electronic transmission, filing and management of mandated injury compliance reports for workers' compensation insurance.

Our principal solutions in this area are:

- *Medical Bill Review:* Our principal solutions are CompAdvisor, the leading medical bill review and repricing solution for workers' compensation, and AutoAdvisor, our medical bill repricing solution for automobile medical injury claims. These solutions check each bill against an extensive database of state fee schedules, automated contracts and user-defined policies to help insurers and others get the maximum savings on every bill reviewed. Both solutions optionally include Decision Manager for Medical Bills, a module that uses rules management technology to increase the speed, accuracy and consistency of decisions and reduce labor costs. These products are available in both licensed client/server and ASP versions.

- *Outsourced Cost Containment Services:* We provide turnkey insurance bill review administration services at selected locations across the country. These branch operations offer expert medical bill and preferred provider review for workers' compensation and auto medical insurance bills, including the additional review of complex medical, hospital and surgical bills.

- *Injury Compliance Reporting:* These connectivity solutions enable employers, risk managers, insurers, third-party administrators, self-insured firms, and state regulatory agencies to send, receive and manage injury reports and other claims data in an automated, paperless electronic flow of communications.

*Consumer Strategy Machine Solutions*

Through our myFICOSM service, we provide solutions based on our analytics to consumers, sold directly by us or through distribution partners. Our first consumer offering through myFICO, launched in March 2001, is the ScorePower™ service, available at our consumer Web site, www.myfico.com. U.S. consumers can use the myFICO services to purchase their FICO scores, the credit reports underlying the scores, explanations of the factors affecting their scores, and customized advice on how to improve their scores. Customers of myFICO can also simulate how taking specific actions would affect their FICO score. The myFICO services are available online at www.myfico.com as well as through the credit reporting agency involved, lenders and financial portals.

***Analytic Software Tools***

We provide end-user software systems and components that businesses can use to build their own tailored decisioning applications. In contrast to our packaged applications developed for specific industry applications, we design our analytic software tools to perform a single function — such as management of the rules and policies an enterprise uses to make decisions — that users can easily integrate within a variety of specialized industry applications.

Our suite of tools enables businesses to automate and improve their business processes and strategies, creating their own customized decision network. We use these tools as a common software platform for our own offerings. We also partner with third-party providers within given industry markets and with major software companies to imbed our tools within existing applications.

Our tools include software solutions previously developed by both HNC and Fair, Isaac. The principal modules offered in fiscal 2002 were software systems that automate:

- *Rules Management.* Fair, Isaac Blaze Advisor is a rules management tool used to design, develop, execute and maintain rules-based business applications. Blaze Advisor enables businesses to more quickly develop complex applications, respond to changing customer needs, implement regulatory compliance and reduce the total cost of day-to-day operations.

- *Strategy Execution.* Fair, Isaac Blaze Decision System is an advanced "decision engine factory" which enables the enterprise to create any number of decision engines that automatically execute

decision strategies — the various rules, criteria and calculations that determine what action to take in a given situation on a given customer. Blaze Decision System provides a mechanism for integrating multiple decision engines and analytics into a business's IT architecture, supporting enterprise-wide customer-centric strategy management.

- *Strategy Design.* Fair, Isaac Model Builder for Decision Trees enables the user to create empirical strategies, augmenting the user's expert judgment by applying data mining analytics to discover patterns empirically. In designing the steps and criteria of a decision strategy, the user can segment the customer base for targeted action based on the results of different performance measures, and can also simulate the performance of the designed strategy.

***Professional Services***

We provide a variety of custom offerings, business and technical consulting services, and technical system integration services to markets worldwide. The focus is on leveraging our industry experience and technical expertise, typically on a custom basis, to help clients address unique business challenges, to support the usage of our Strategy Machine Solutions and our analytic software tools, and to create new sales opportunities for our other offerings. This group also performs consultative selling, developing customized solution sets combining various products and capabilities to meet unique client or industry opportunities. These services are generally offered on an hourly fee basis, though some offerings, such as analytics and Strategy Science, have defined pricing structures.

Our services include:

- *Customer Strategy Integration.* We provide strategy development, analytics and systems planning for customer management and marketing. These projects include a number of packaged customer relationship management service offerings developed by Nykamp Consulting Group, which we acquired in December 2001.

- *Product Services.* We provide business consulting and technology integration services that support, complement and enhance the value of our software products. These services include installation and strategy development associated with our Strategy Machine Solutions and analytic software tools.

- *Strategy Science.* Using our Strategy Science technology and related advanced analytic methodologies, we perform decision modeling and strategy science projects for customer acquisition and customer management.

- *Global Analytics.* We perform custom analytic projects, primarily predictive model development for the credit and insurance industries. This work leverages our analytic methodologies and expertise to solve risk management and marketing challenges for a single business, using that business's data and industry best practices to develop a highly customized solution.

## COMPETITION

The market for our advanced solutions is intensely competitive and is constantly changing. Our competitors vary in size and in the scope of the products and services they offer. We encounter competition from a number of sources, including:

- in-house analytic and systems developers;

- scoring model builders;

- providers of credit reports and credit scores;

- providers of automated application processing services;

- data vendors;

- neural network developers and artificial intelligence system builders;

- third-party professional services and consulting organizations;
- network and telecommunications switch manufacturers, and service providers that seek to enhance their value-added services;
- managed care organizations; and
- software tools companies supplying modeling, rules, or analytic development tools.

We believe that none of our competitors offers the same mix of products as we do, or has the same expertise in predictive analytics. However, certain competitors may have larger shares of particular geographic or product markets.

**Scoring Solutions**

In the marketing of products in this segment we compete with both outside suppliers and in-house analytics and computer systems departments for scoring business. Major competitors among outside suppliers of scoring models include the three major credit-reporting agencies, which are also our partners in offering our Scoring Solutions, and also include credit reporting agencies outside the United States. In the consumer market we compete with companies that provide consumers with their credit reports, credit scores other than FICO scores, and related monitoring and score analysis services. FICO scores are used as a part of the credit decision process by the overwhelming majority of financial institutions to make the credit decisions that impact consumers, and we believe that this provides us an advantage over our competition in this market.

**Strategy Machine Solutions**

Products in our Strategy Machine Solutions segment help our customers acquire, originate and manage their customers. Within the customer acquisition market, we have experienced competition from our customers' internal IT departments, Acxiom Corporation, Experian and Harte-Hanks Inc, among others.

Within the origination market, we have experienced competition from American Management Systems Inc., Experian, Automatic Data Processing, Inc., Lightbridge, Inc., Appro Systems, Inc. and First American Credit Management Solutions, Inc. (CMSI), among others.

We have experienced competition from American Management Systems, Inc., Experian, Insurance Services Organization, Inc., Choicepoint, Inc. and Lightbridge, Inc., among others, within the account management market.

In the marketing of our fraud analytics products, we have experienced competition mainly from Retail Decisions and ACI Worldwide, a division of Transaction Systems Architects, Inc., in the financial services market; ECTel Ltd., Hewlett Packard Company, Cerebrus Solutions Limited and Neural Technologies in the telecommunications market; International Business Machines, Inc. and ViPS, Inc. in the healthcare segment; and Infoglide Software Corporation, NetMap Analytics LLC and Magnify, Inc. in the property and casualty and workers' compensation insurance market.

**Analytic Software Tools**

In our Analytic Software Tools segment, we develop, market and support analytic model building and decisioning software tools that enable our customers to develop their own Enterprise Decision Management applications. Our primary competitors in this segment include SAS Institute, SPSS Inc., Angoss Software Corporation, iLog S.A., Computer Associates International, Inc., and Pegasystems Inc.

**Professional Services**

We compete with a variety of organizations that offer services similar to the consulting services that we offer. In addition, a client may use its own resources rather than engage an outside firm for these services. Our competitors include information technology product and services vendors, management and strategy consulting firms, smaller specialized information technology consulting firms and analytical services firms.

***Competitive Factors***

We believe the principal competitive factors affecting our markets include: technical performance; access to unique proprietary databases; availability in ASP format; product attributes like adaptability, scalability, interoperability, functionality and ease-of-use; product price; customer service and support; the effectiveness of sales and marketing efforts; existing market penetration; and our reputation. Although we believe our products and services compete favorably with respect to these factors, we may not be able to maintain our competitive position against current and future competitors.

## MARKETS AND CUSTOMERS

Our products and services serve clients in multiple industries, including financial services, insurance, retail, telecommunications, healthcare and governmental agencies. During fiscal 2002, end users of our products who purchased directly from us included approximately 75 of the 100 largest banks in the United States; several of the largest banks in Canada; approximately 40 banks in the United Kingdom; over 300 insurers; more than 70 retailers; seven oil companies; major travel and entertainment card companies; and more than 40 finance companies. The scoring, application processing and account management services offered through credit reporting agencies and third-party processors extend the availability of our technology to smaller credit issuers.

We also market our services to a wide variety of businesses engaged in direct marketing. These include banks, insurance companies and retailers, among others. Our consumer services are marketed to an estimated 190 million U.S. consumers whose credit relationships are reported to the three major credit reporting agencies.

In the United States, we market our products and services primarily through our own direct sales organization. Sales groups are based in our headquarters and in field offices strategically located both in and outside the United States. We also market our products through indirect channels including alliance partners and other resellers.

In fiscal 2002, TransUnion accounted for approximately 8% of our revenues; Equifax, approximately 12%; and Experian, approximately 7%. In fiscal 2001, TransUnion, Equifax, and Experian accounted for approximately 9%, 11% and 7% of our revenues, respectively, and in fiscal 2000, 12%, 10% and 7% of our revenues, respectively.

Outside the United States, we market our products and services primarily through our subsidiary sales organizations. Our subsidiaries license and support our products in their local countries as well as within other foreign countries where we do not operate through a direct sales subsidiary. We also market our products through resellers and independent distributors in international territories not covered by our subsidiaries' direct sales organizations.

Our largest market segments outside the United States are the United Kingdom and Canada. Mexico, South Africa, a number of countries in South America and almost all of the Western European countries are represented in our user base. We have delivered products to users in over 60 countries.

Revenues from international customers, including end users and resellers, amounted to 19%, 18% and 19% of our total revenues in fiscal 2002, 2001 and 2000, respectively. See Note 16 to the Consolidated Financial Statements for a summary of our operating segments and geographic information.

## TECHNOLOGY

We specialize in analytics, software and data management technologies that analyze data and drive business processes and decision strategies. We maintain active research in a number of fields for the purposes of deriving greater insight and predictive value from data, making various forms of data more usable and valuable to the model-building process, and automating and applying analytics to the various processes involved in making high-volume decisions in real time. Because of our pioneering work in credit scoring and

fraud detection, we are widely recognized as the leader in predictive technology. In all our work, we believe that our tools and processes are among the very best commercially available, and that we are uniquely able to integrate advanced analytic, software and data technologies into mission-critical business solutions that offer superior returns on investment. Some of our longer-term research projects are partially funded through contracts with the U.S. Government or members of the U.S. intelligence community.

Our areas of expertise encompass:

*Predictive modeling.* Predictive modeling identifies and mathematically represents underlying relationships in historical data in order to explain the data and make predictions or classifications about future events. Our models summarize large quantities of data to amplify its value. Predictive models typically analyze current and historical data on individuals to produce easily understood metrics such as scores. These scores rank-order individuals by likely future performance, e.g., their likelihood of making credit payments on time, or of responding to a particular offer for services. We also include in this category models that detect the likelihood of a transaction being fraudulent. Our predictive models are frequently operationalized in mission-critical transactional systems and drive decisions and actions in near real time.

While we employ a wide range of analytic methodologies and tools in this area, we have two principal technologies behind most of our predictive models:

- *INFORM.* This is our proprietary predictive modeling technology. It is unique in its ability to account for business rules, legal environments, and real-world biased or missing values. Fair, Isaac has continuously evolved INFORM since the late 1950s, adding new algorithms and processes. The name, INFORM, was coined to reflect its information theory root. Although the modeling component is proprietary and closely protected, the present version of INFORM — INFORM 11 — is based upon a linear goal programming approach. As such, it allows for such operations research capabilities as linear constrained optimization. The latest generation of INFORM — INFORM-*NLP* — utilizes a non-linear constrained optimization algorithm. It provides the foundation for an extensible modeling technology that can accommodate an even wider variety of objective functions, still subject to business and data constraints. This reflects our focus on analytic solutions that address real-world problems.

- *Neural Networks.* The term “neural network” refers to a family of nonlinear, statistical modeling techniques, which were derived from the work of scientists engaged in understanding biological intelligence. We use neural network techniques to build models of complex transaction patterns such as consumer credit card fraud. These models are created through a process called “training.” Training involves exposing a neural network algorithm to a large data set of examples of transaction patterns. Often hundreds of thousands to millions of examples are provided. The neural network processes this data to identify patterns in the data that are predictive of the transaction patterns being modeled. Once training is complete, the neural network uses these learned patterns to predict the probability that a new individual will exhibit the modeled transaction patterns.

*Decision Analysis and Optimization.* Decision analysis refers to the broad quantitative field, that overlaps the fields of operations research and statistics, that deals with modeling, optimizing and analyzing decisions made by individuals, groups and organizations. Whereas predictive models analyze multiple aspects of individual behavior to forecast future behavior, decision analysis analyzes multiple aspects of a given decision to identify the most effective action to take to reach a desired result. We have developed an integrated approach to decision analysis that incorporates the development of a decision model that mathematically maps the entire decision structure; proprietary optimization technology that identifies the most effective strategies, given both the performance objective and constraints; the development of designed testing required for active, continuous learning; and the robust extrapolation of an optimized strategy to a wider set of scenarios than historically encountered. This technology is behind our Strategy Science solutions.

*Transaction Profiling.* Many of our products operate on transactional data, such as credit card purchase transactions, or other types of data that change over time, such as workers' compensation claims. In its raw form, this data is very difficult to use in predictive models for several reasons: First, a single transaction contains very little information about the transaction patterns of the individual that generated the transaction. Second, transaction patterns change rapidly over time. Finally, this type of data can often be incomplete. To overcome these data problems, we have developed a set of proprietary techniques that transform raw transactional data into a representation that reveals latent information, and which make the data more usable by predictive models. This profiling technology accumulates data across multiple transactions to create and update profiles of transaction patterns. These profiles enable our neural network models to make accurate assessments of fraud and risk within real-time transaction streams.

*Customer Data Integration.* Decisions made on customers or prospects can benefit from data stored in multiple sources, both inside and outside the enterprise. We have focused on developing data integration processes that are able to assemble and integrate those disparate data sources into a unified view of the customer or household for real-time decision-making. As an advance on our own internal tools for merge/purge processes using multiple match keys, we have co-developed a proprietary matching logic with Equifax. Using this logic, we quickly integrate customer data from many different enterprise touchpoints, and append data from external sources, including demographic databases, opt-out lists and the more than 1 billion consumer records in Equifax's comprehensive database.

*Decision Management Software.* In order to make a decision strategy operational, the various steps and rules need to be programmed or exported into the business's software infrastructure, where it can communicate with front-end, customer-facing systems and back-end systems such as billing systems. We have developed software systems, sometimes known as decision engines and rules management systems, that perform the necessary functions to execute a decision strategy. Our software includes very efficient programs for these functions, facilitating, for example, user definition of extremely complex decision strategies using GUI interfaces; simultaneous testing of hundreds of decision strategies in test/control mode; high-volume processing and analysis of transactions in real time; and integration of multiple data sources and predictive metrics for improved behavior forecasts and finer segmentation.

*Research and Development Activities.* Our research and development expenses were $33.8 million in fiscal 2002, $28.3 million in fiscal 2001, and $29.8 million in fiscal 2000. We believe that our future success depends on our ability to continually maintain and improve our core technologies, enhance our existing products, and develop new products and technologies that meet an expanding range of markets and customer requirements. In the development of new products and enhancements to existing products, we use our own development tools extensively.

We have traditionally relied primarily on the internal development of our products. Based on timing and cost considerations, however, we have acquired, and in the future may consider acquiring, technology or products from third parties.

In some cases, external funding (e.g., government grants) is used to develop initial concepts. For example, the Defense Advanced Research Projects Agency, or DARPA, funds our development of advanced computational intelligence algorithms to detect patterns in genomic and medical literature data. Another long-term research project is aimed at developing computer models of brain functions in order to develop more intelligent, interactive computing systems and new types of analytic algorithms.

The information set forth in the line entitled "Research and development" in the Consolidated Statement of Income, and the information set forth under the caption "Software costs" in Note 1 to the Consolidated Financial Statements are incorporated herein by reference.

## PRODUCT PROTECTION AND TRADEMARKS

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality procedures to protect our proprietary rights.

We retain the title to and protect the suite of models and software used to develop scoring models as a trade secret. We also restrict access to our source code and limit access to and distribution of our software, documentation and other proprietary information. We have generally relied upon the laws protecting trade secrets and upon contractual non-disclosure safeguards and restrictions on transferability to protect our software and proprietary interests in our product methodology and know-how. Our confidentiality procedures include invention assignment and proprietary information agreements with our employees and independent contractors, and nondisclosure agreements with our distributors, strategic partners and licensees. We also claim copyright protection for certain proprietary software and documentation.

We have patents on many of our technologies and have patent applications pending on other technologies. The patents we hold may not be upheld as valid and may not prevent the development of competitive products. In addition, patents may never issue on our pending patent applications or on any future application that we may submit.

Despite our precautions, it may be possible for competitors or users to copy or reproduce aspects of our software or to obtain information that we regard as trade secrets. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Patents and other protections for our intellectual property are important, but we believe our success and growth will depend principally on such factors as the knowledge, ability, experience and creative skills of our personnel, new products, frequent product enhancements, and name recognition.

We have developed technologies for research projects conducted under agreements with various United States Government agencies or their subcontractors. Although we have acquired commercial rights to these technologies, the United States Government typically retains ownership of intellectual property rights and licenses in the technologies that we develop under these contracts. In some cases, the United States Government can terminate our rights to these technologies if we fail to commercialize them on a timely basis. In addition, under United States Government contracts, the government may make the results of our research public, which could limit our competitive advantage with respect to future products based on funded research.

We have used, registered and/or applied to register certain trademarks and service marks for our technologies, products and services.

## PERSONNEL

As of September 30, 2002, we employed 2,388 persons worldwide. Of these, 498 full-time employees were located in our San Rafael, California office, 461 full-time employees were located in our Arden Hills, Minnesota office, and 407 full-time employees were located in our San Diego, California offices. None of our employees are covered by a collective bargaining agreement and no work stoppages have been experienced.

Information regarding our officers is included in “Executive Officers of The Registrant” at the end of Part I of this report.

**Item 2.** ***Properties***

Our properties consist primarily of leased office facilities for sales, data processing, research and development, consulting and administrative personnel. Our principal office is located in San Rafael, California, approximately 15 miles north of San Francisco.

Our leased properties include

- approximately 225,500 square feet of office space in San Rafael, California in three buildings under leases expiring in 2006 or later.

- approximately 166,500 square feet of office and data processing space in Arden Hills, Minnesota in four buildings under leases expiring in 2012 or later.

- approximately 162,500 square feet of office space in San Diego, California in three buildings at that location under leases expiring in 2003 or later.

- an aggregate of approximately 313,500 square feet of office and data center space in Alpharetta, GA; Arden Hills, MN; Arlington, VA; Atlanta, GA; Austin, TX; Baltimore, MD; Birmingham, UK; Boston, MA; Brentford, UK; Brookings, SD; Chestnut Hill, MA; Chicago, IL; Coppell, TX; Cranbury, NJ; Dallas, TX; Denver, CO; Emeryville, CA; Englewood, CO; Exton, PA; Irvine, CA; Kennett Square, PA; London, UK; Madrid, Spain; Mooresville, NC; Nanuet, NY; New Castle, DE; New York, NY; Oakbrook Terrace, IL; Paris, France; Peabody, MA; Petaluma, CA; Reston, VA; San Jose, CA; Sao Paulo, Brazil; Sarasota, FL; Singapore, Singapore; South Norwalk, CT; Tokyo, Japan; Toronto, Canada; Walpole, MA; and Warrenville, IL.

See Note 18 to the Consolidated Financial Statements for information regarding our obligations under leases. We believe that suitable additional space will be available to accommodate future needs.

**Item 3.** ***Legal Proceedings***

On April 30, 2002, Douglas Tidwell, seeking to act on behalf of a class of all holders of common stock of HNC Software Inc., filed suit in the Superior Court of the State of California, County of San Diego, and named as defendants all of the then current directors of HNC. The complaint alleges, among other things, that HNC's directors breached their fiduciary duties to HNC's stockholders by approving the Agreement and Plan of Merger that HNC entered into with Fair, Isaac on April 28, 2002 and that the individual defendants engaged in self-dealing in connection with the transaction. The complaint seeks injunctive relief, including enjoining consummation of the merger transaction with Fair, Isaac. The complaint also seeks an award of attorneys' and experts' fees. On July 18, 2002, HNC announced that it had entered into a memorandum of understanding with plaintiff's counsel setting forth the terms of a proposed settlement of the suit. A Stipulation of Settlement implementing the terms of the memorandum of understanding has been entered into by which the case will be dismissed and HNC will pay $492,000 in attorneys' fees to plaintiffs subject to approval by the court. A substantial portion of HNC's costs in connection with the pending settlement will be reimbursed by HNC's directors' and officers' insurance carrier. The settlement has been preliminarily approved by the court and a hearing before the court for final approval of the settlement is currently scheduled for December 11, 2002.

We are also subject to various other legal proceedings in the ordinary course of business, none of which is required to be disclosed under this Item 3.

**Item 4.** ***Submission of Matters to a Vote of Security Holders***

At the special meeting of our stockholders on July 23, 2002, the stockholders voted on the proposed issuance of common stock to stockholders of HNC in connection with the merger between HNC and a wholly-owned subsidiary of the Company under the Agreement and Plan of Merger among Fair, Isaac and Company, Incorporated, Northstar Acquisition Inc., and HNC, dated as of April 28, 2002. Proxies representing 25,746,694 shares of Fair, Isaac common stock, representing 79.1% of the total outstanding shares on the June 13, 2002 record date, were tabulated in the following manner:

| FOR | AGAINST | ABSTAIN |
|---|---|---|
| 25,295,666 | 429,977 | 21,051 |

## EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers as of September 30, 2002 were as follows:

| Name | Positions Held | Age |
|---|---|---|
| Thomas G. Grudnowski | President and Chief Executive Officer since joining us in December 1999. Also became a Director of the Company in December 1999. Partner at Andersen Consulting from 1983 until December 1999. | 52 |
| Chad L. Becker | Vice President, Strategy Machines — Life-Cycle Solutions since August 2002. From October 2000 to August 2002, was Vice President, Global Financial Services. Held various other senior and executive positions from 1991 until October 2000. | 34 |
| Michael Chiappetta | Vice President, Strategy Machines — Fraud Analytics since the time of the Company's merger with HNC Software Inc. in August 2002. After joining HNC in 1993, held various senior positions from 1993 through 2002, most recently as Executive Vice President, Analytic Solutions. | 38 |
| Russell C. Clark | Vice President and Controller since the time of the Company's merger with HNC Software Inc. in August 2002. Vice President, Corporate Finance of HNC from January 2000 until April 2002 and Senior Vice President, Corporate Finance from April 2002 to August 2002. From August 1990 until January 2000, held various positions with PricewaterhouseCoopers LLP's Technology Industry Group, including Senior Manager in the audit and business advisory services group. | 34 |
| Richard S. Deal | Vice President, Human Resources since joining the Company in January 2001. Vice President, Human Resources at Arcadia Financial, Ltd., from March 1998 until January 2001. Managed broad range of human resources corporate and line consulting functions at U.S. Bancorp, from 1993 until March 1998. | 35 |
| Sean M. Downs | Vice President, Healthcare and Insurance Solutions since the time of the Company's merger with HNC Software, Inc. in August 2002. Since joining HNC in April 1998 has held various executive positions including, President, HNC Insurance Solutions; Senior Vice President, Predictive Software Solutions; and Senior Vice President, Strategic Development. From February 1990 to March 1998 held various executive positions with Risk Data Corporation, including Senior Vice President, Sales and Marketing. | 42 |
| Eric J. Educate | Vice President, Global Sales since joining the Company in July 2000. Vice President of Global Sales for Imation Corporation, 1999 — 2000. Key sales executive at EMC Corporation, 1997 — 1999. Silicon Graphics, 1987 — 1997. | 50 |

| Name | Positions Held | Age |
|---|---|---|
| Henk J. Evenhuis | Vice President, Chief Accounting Officer since August 2002. Vice President, Chief Financial Officer since joining the Company in October 1999 until August 2002. Corporate Secretary from November 2001 until February 2002. Executive Vice President and Chief Financial Officer of Lam Research Corporation, from April 1987 until May 1997, and Vice President, Finance from May 1997 to September 1998. | 59 |
| Andrea M. Fike | Vice President, General Counsel and Secretary since February 2002. Vice President and General Counsel from February 2001 to January 2002. Senior Counsel from October 1999 to February 2001. Partner at Faegre & Benson, LLP, from January 1998 to September 1999. Associate at Faegre & Benson, from 1989 to December 1997. | 42 |
| W. Thomas McEnery | Vice President, Marketing since joining the Company in May 2001. Group Director at Fallon Worldwide, 1993-2001. | 40 |
| Mark P. Pautsch | Vice President and Chief Information Officer since August 2000. Managing Partner for the CIO Technology Services Organization of Andersen Consulting, August 1999 to August 2000. Managing Partner for the Teleworks Solution Center September 1995 to August 1999. Joined Andersen Consulting in 1979. | 46 |
| Larry E. Rosenberger | Vice President, Research & Development/Analytics since December 1999. President and Chief Executive Officer from March 1991 to December 1999. First named an officer in 1983. A Director from 1983 — 1999. Joined the Company in 1974. | 56 |
| Kenneth J. Saunders | Vice President, Chief Financial Officer since joining the Company at the time of the merger with HNC in August 2002. Chief Financial Officer and Secretary of HNC from January 2000 until August 2002. Vice President and Chief Financial Officer of HNC from December 1999 to August 2002. After joining HNC in January 1997 and prior to August 2002, held various financial positions including Treasurer, Corporate Controller, and Vice President Corporate Finance. | 41 |
| Steven A. Sjoblad | Vice President, Consumer Solutions since August 2002. Vice President, Corporate Development from May 2001 until August 2002. Managing Director and President of Fallon McElligott from 1981 until May 2001. | 53 |

## PART II

### Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

Our common stock trades on the New York Stock Exchange under the symbol: FIC. According to records of our transfer agent, at October 31, 2002, we had 514 shareholders of record of our common stock.

The following table shows the high and low closing prices for our stock, as listed on the New York Stock Exchange and adjusted to give retroactive effect to the three-for-two stock splits effected in each of June 2002 and June 2001, for each quarter in the last two fiscal years:

| | High | Low |
|---|---|---|
| **Fiscal 2001** | | |
| October 1 — December 31, 2000 | $22.67 | $17.06 |
| January 1 — March 31, 2001 | $28.45 | $20.64 |
| April 1 — June 30, 2001 | $41.21 | $25.01 |
| July 1 — September 30, 2001 | $46.47 | $29.87 |
| **Fiscal 2002** | | |
| October 1 — December 31, 2001 | $43.33 | $25.19 |
| January 1 — March 31, 2002 | $43.67 | $31.79 |
| April 1 — June 30, 2002 | $44.00 | $32.87 |
| July 1 — September 30, 2002 | $39.40 | $29.48 |

**Dividends**

We paid quarterly dividends of 2 cents per share, or 8 cents per year, during the 2000, 2001 and 2002 fiscal years. 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, the Company's obligations 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. On June 5, 2002 and June 4, 2001, we effected three-for-two common stock splits, each in the form of a stock dividend. Unless specifically noted, all share numbers in this report reflect these stock dividends.

**Item 6.** ***Selected Financial Data***

| | Fiscal Years Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| | (In thousands, except per share data) | | | | |
| Revenues | $392,418 | $329,148 | $298,630 | $277,041 | $245,545 |
| Operating income | 47,112 | 72,107 | 44,614 | 46,375 | 40,432 |
| Income before income taxes | 53,098 | 76,853 | 47,070 | 50,600 | 42,105 |
| Net income | 17,884 | 46,112 | 27,631 | 29,980 | 24,327 |
| Earnings per share: | | | | | |
| Basic | $ .49 | $ 1.40 | $ .86 | $ .95 | $ .79 |
| Diluted | $ .48 | $ 1.33 | $ .84 | $ .93 | $ .75 |
| Dividends declared per share | $ .08 | $ .08 | $ .08 | $ .08 | $ .08 |

| | At September 30, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| Working capital | $ 337,965 | $ 94,624 | $100,694 | $ 55,885 | $ 54,852 |
| Total assets | 1,212,513 | 317,013 | 241,288 | 210,353 | 189,614 |
| Convertible subordinated notes, net of discount | 139,922 | — | — | — | — |
| Long-term capital lease obligations | — | — | — | 364 | 789 |
| Stockholders' equity | 973,472 | 271,772 | 199,001 | 156,499 | 133,451 |

In April 2002 and May 2001, our Board of Directors authorized three-for-two stock splits, each effected in the form of a stock dividend, with cash paid in lieu of fractional shares. As a result of the two stock splits, stockholders of record at the close of business on May 15, 2002 and May 14, 2001, respectively, received an additional share of Fair, Isaac stock for every two shares owned, which was distributed on June 5, 2002 and June 4, 2001, respectively. All share and earnings per share amounts are restated to reflect these two stock splits.

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

## RESULTS OF OPERATIONS

**Overview**

We provide analytic, software and data management products and services that enable businesses to automate and improve decisions. On a combined basis including HNC, our predictive modeling, decision analysis, intelligence management, decision management systems and consulting services power more than 25 billion customer decisions a 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 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.

On August 5, 2002, we completed our acquisition of HNC, a provider of analytic and decision management software. Results of operations of HNC are included prospectively from the date of acquisition. Accordingly, our financial results in fiscal 2002 are not directly comparable to those in fiscal 2001.

Following our acquisition of HNC, we changed our reportable business segments to reflect the new primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Our current reportable segments include: Scoring Solutions, Strategy Machine Solutions, Professional Services and Analytic Software Tools. Information for fiscal 2001

and 2000 has been restated to conform to the fiscal 2002 presentation for comparability. Comparative segment revenues, operating income, and related financial information for fiscal 2002, 2001 and 2000 are set forth in Note 16 to the Consolidated Financial Statements.

A certification with respect to this report on Form 10-K by our Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002, has been submitted to the Securities and Exchange Commission (SEC) as additional correspondence accompanying this report.

**Revenues**

The following table displays (a) the percentage of revenues by segment and (b) the percentage change in revenues from the prior fiscal year for the fiscal periods indicated.

| Segment | Percentage of Revenues Fiscal Year | | | Period-to-Period Percentage Change | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 to 2001 | 2001 to 2000 |
| Scoring Solutions | 32% | 37% | 37% | 4% | 9% |
| Strategy Machine Solutions | 49% | 49% | 49% | 17% | 11% |
| Professional Services | 16% | 12% | 13% | 65% | (2)% |
| Analytic Software Tools | 3% | 2% | 1% | 87% | 286% |
| Total Revenues | 100% | 100% | 100% | 19% | 10% |

The growth in Scoring Solutions segment revenues in fiscal 2002 over fiscal 2001 was due primarily to an increase in revenues derived from risk and insurance scoring services at the credit reporting agencies, offset by a decrease in PreScore and ScoreNet services. The growth in risk scoring services resulted primarily from increased sales of scores for account review and increased online scores for auto financing, as well as a continued strong market for mortgage originations and refinancing. The increase in Scoring Solutions revenues in fiscal 2001 as compared to fiscal 2000 resulted primarily from an increase in revenues derived from risk scoring services at the credit reporting agencies, driven predominantly by increased marketing efforts of credit card issuers, and in part by a stronger market for mortgage refinancing in fiscal 2001 as compared to fiscal 2000.

While we have been successful in extending or renewing our agreements with credit reporting agencies and credit card processors in the past, and believe we will likely be able to do so in the future, the loss of one or more such alliances or an adverse change in terms could have a material adverse effect on revenues and operating margins. In fiscal 2002, revenues generated from our alliances with Experian, TransUnion and Equifax accounted for approximately 12%, 8%, and 7% of our revenues, respectively. In fiscal 2001, Equifax, TransUnion and Experian accounted for approximately 11%, 9% and 7% of total revenues, respectively, and in fiscal 2000, TransUnion, Equifax and Experian accounted for approximately 12%, 10% and 7% of total revenues, respectively.

The increase in Strategy Machine Solutions segment revenues in fiscal 2002 over fiscal 2001 was due primarily to increased revenues derived from MarketSmart, consumer score service revenues through myFICO.com and strategic alliance partners' Web sites, our Strategy Science offering, Netsourced and Processor TRIAD products, and the addition of products previously offered by HNC, offset by a decrease in revenues from List Processing, maintenance on retired products, CreditDesk and StrategyWare. Revenues derived from the Strategy Machine Solutions segment increased in fiscal 2001 as compared to fiscal 2000, due primarily to the addition of consumer score service revenues through myFICO.com and increased revenues from Liquid Credit, StrategyWare and Processor TRIAD.

The increase in Professional Services revenues in fiscal 2002 over fiscal 2001 was due primarily to increased revenues resulting from the acquisitions of the Nykamp and HNC businesses as well as increased revenues derived from consulting services related to TRIAD, MarketSmart, Strategy Science, Blaze Decision

System, and StrategyWare. Revenues derived from the Professional Services segment in fiscal 2001 decreased slightly as compared to fiscal 2000, due mainly to a decrease in consulting related to Strategy Machines Solutions products, offset by an increase in analytic consulting.

The increase in Analytic Software Tools segment revenues in fiscal 2002 over fiscal 2001 was due primarily to the addition of Blaze Advisor revenues previously offered by HNC and to additional revenues from Blaze Decision System (formerly Fair, Isaac Decision System), offset by a decrease in the sale of Model Builder for Decision Trees. Tools revenues increased in fiscal 2001 compared to fiscal 2000 due principally to increased revenues from Blaze Decision System and Strategy Designer products.

Revenues derived from clients outside the United States totaled $76.2 million, $60.0 million and $57.1 million in fiscal 2002, 2001 and 2000, respectively, representing 19%, 18% and 19% of total consolidated revenues in these years, respectively. The increase in international revenues in fiscal 2002 resulted primarily from increased sales of our TRIAD and Decision System products and Strategy Science services, offset by a decrease in international credit bureau scoring revenue. In fiscal 2001, the increase in international revenues resulted primarily from increased sales of our Strategy Machines Solutions products, including StrategyWare and the increased usage of our Processor TRIAD product. Fluctuations in currency exchange rates have not had a significant effect on revenues to date. In October 2001, we initiated a hedging program to reduce our exposure to fluctuations in certain foreign currency translation rates resulting from holding receivables and cash denominated in foreign currencies within our U.S. reporting entities.

**Operating Expenses and Other Income (Expense)**

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

| | Percentage of Revenues Fiscal Year | | | Period-to-Period Percentage Change | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 to 2001 | 2001 to 2000 |
| Revenues | 100% | 100% | 100% | 19% | 10% |
| Operating expenses: | | | | | |
| Cost of revenues | 45% | 44% | 43% | 18% | 15% |
| Research and development | 9% | 9% | 10% | 19% | (5)% |
| Sales, general and administrative | 21% | 24% | 30% | 7% | (13)% |
| Amortization of intangibles | 1% | 1% | 1% | 109% | — |
| In-process research and development | 10% | — | — | 100% | — |
| Restructuring and merger-related | 2% | — | 1% | 100% | (100)% |
| Total operating expenses | 88% | 78% | 85% | 34% | 1% |
| Operating income | 12% | 22% | 15% | (35)% | 62% |
| Interest income | 2% | 2% | 1% | 10% | 41% |
| Interest expense on convertible subordinated notes | — | — | — | (100)% | — |
| Other income (expense), net | — | — | (1)% | (204)% | (37)% |
| Income before income taxes | 14% | 23% | 16% | (31)% | 63% |
| Provision for income taxes | 9% | 9% | 7% | 15% | 58% |
| Net income | 5% | 14% | 9% | (61)% | 67% |

***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; and our payments made to credit reporting agencies for scores, related outside support in connection with the ScoreNet Service and expenses related to our consumer score services through myFICO.com.

Cost of revenues, as a percentage of revenues, increased in each of fiscal 2002 and 2001 over the prior fiscal year. In fiscal 2002, the increase was primarily due to the acquisition of the Nykamp and HNC businesses and to an increase in direct materials expenses associated with our consumer score services through myFICO.com, offset by a reduction in the use of outside consultants and contractors that are relatively more expensive than internal resources. In fiscal 2001, the increase was primarily due to higher operating costs incurred for telecommunications services, planning and compliance functions and software and consulting services related to the North American market.

***Research and Development***

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

Research and development expenses as a percentage of revenues were consistent between fiscal 2002 and fiscal 2001. As a percentage of revenues, the decrease in fiscal 2001 as compared to the prior year was due primarily to the redeployment of research and development personnel to support roles for our new products, particularly within our Strategy Machine Solutions segment.

***Sales, General and Administrative***

Sales, 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.

As a percentage of revenues, sales, general and administrative expenses in fiscal 2002 were lower than in fiscal 2001, due primarily to a reduction in personnel, consulting, sales commission, conference and trade show expenses, offset in part by increased personnel and other expenses resulting from the HNC acquisition. As a percentage of revenues, sales, general and administrative expenses in fiscal 2001 were lower than in fiscal 2000, due primarily to reductions in personnel, consulting and travel expenses as a result of our cost containment efforts.

***Amortization of Intangibles***

Amortization of intangibles consists of amortization expense that we have recorded on intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Amortization expense in fiscal 2002 totaled $4.4 million as compared to amortization expense of $2.1 million in each of fiscal 2001 and 2000. The increase in fiscal 2002 is attributable primarily to the incremental amortization of intangible assets recorded in connection with the HNC acquisition on August 5, 2002, and to a lesser degree the amortization of intangible assets resulting from our acquisition of assets from Nykamp Consulting Group, Inc. (Nykamp) in December 2001. Our intangible assets are being amortized using the straight-line method over periods ranging from three to fifteen years. See Notes 1 and 2 to the Consolidated Financial Statements for additional information.

***In-process Research and Development***

During fiscal 2002, we recorded in-process research and development (IPR&D) expense of $40.2 million in connection with our acquisition of HNC. IPR&D represents the present value of the estimated after-tax cash flows expected to be generated by purchased technologies that, as of the acquisition dates, had not yet

reached technological feasibility. The classification of the technology as complete or under development was made in accordance with the guidelines of Statement of Financial Accounting Standards No. 86: *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed,* and Financial Accounting Standards Board Interpretation No. 4: *Applicability of SFAS No. 2 to Business Combinations Accounted for by the Purchase Method.* In addition, the Fair Value, as defined below, of the IPR&D projects was determined in accordance with Statement of Financial Accounting Standards No. 141: *Business Combinations*, and SFAS No. 142: *Goodwill and Other Intangible Assets*.

We used an independent appraisal firm to assist us with our valuation of the fair value of the assets purchased from HNC. Fair value is defined as the price at which property would expect to be exchanged between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell, and both having reasonable knowledge of relevant facts.

HNC's IPR&D projects consisted of projects within HNC's three legacy suites of software, consisting of the Efficiency, Risk and Opportunity suites, as well as its development of a new software platform technology. The current Efficiency Suite products under development as of the acquisition date were Roamex 5.0, which replaces 60% of the existing Roamex code and adds additional capabilities, and Blaze Advisor 4.5, a business rules product that adds additional rules management features to this product line. The current Risk Suite products under development were Falcon 5.0, which will be the first project in a series to replace the legacy Falcon product code base with new Java and platform technology, and Payment Optimizer, a payment optimizer tool that incorporates new platform modeling and profiling components. The current Opportunity Suite product under development was Opportunity Suite Development ("OSD"). OSD was the core engine for this suite, and was a build out of the Optimization and Simulation Environment ("OSE") application version 2.0 UNIX based running on a web browser. At the time of acquisition, HNC was also in the process of developing a new software platform technology that enables efficient deployment and installation of multiple products while significantly reducing implementation and development costs.

The IPR&D projects were valued through the application of discounted cash flow analyses, taking into account many key characteristics of HNC as well as its future prospects, the rate of technological change in the industry, product life cycles, risks specific to each project, and various projects' stage of completion. Stage of completion was estimated by considering the time, cost, and complexity of tasks completed prior to the acquisition, verses the project's overall expected cost, effort and risks required for achieving technological feasibility. In the application of the discounted cash flow analyses, HNC's management provided distinct revenue forecasts for each IPR&D project. The projections were based on the expected date of market introduction, an assessment of customer needs, the expected pricing and cost structure of the related product(s), product life cycles, and the importance of the existing technology relative to the in-process technology. In addition, the costs expected to complete each project were added to the operating expenses to calculate the operating income for each IPR&D project. As certain other assets contribute to the cash flow attributable to the assets being valued, returns to these other assets were calculated and deducted from the pre-tax operating income to isolate the economic benefit solely attributable to each of the in-process technologies. The present value of IPR&D was calculated based on discount rates recommended by the American Institute of Certified Public Accountants IPR&D Practice Aid, which depend on the stage of completion and the additional risk associated with the completion of each of the IPR&D projects. As a recommended basis for the valuation of technology under development, we considered venture capital rates of return as an appropriate measure of the discount rates associated with each IPR&D project. As a result, the earnings associated with the incomplete technology were discounted at a rate ranging from 25% to 60%.

***Restructuring and Merger-related***

During fiscal 2002, in connection with our acquisition of HNC, we incurred charges totaling $7.2 million, consisting of the following: (i) $5.0 million in restructuring charges, including $3.2 million in charges associated with our abandonment of a Fair, Isaac facility lease concurrent with the merger, representing future cash obligations under the lease net of estimated sublease income, and $1.8 million in severance costs associated with a reduction in Fair, Isaac staff in connection with the merger, and (ii) $2.2 million in other

non-recurring merger related costs, consisting primarily of retention bonuses earned through September 30, 2002 by employees with future severance dates and employee outplacement costs.

In October 1999, we announced the discontinuance of our Healthcare Receivables Management System product line, and in connection therewith recorded a restructuring charge totaling $1.9 million during fiscal 2000. We also recorded a restructuring charge totaling $1.0 million related to a reduction in staff during fiscal 2000. These restructuring actions were completed during fiscal 2000 and resulted in a combined restructuring charge of $2.9 million in fiscal 2000, $0.3 million of which related to the write-down of operating assets. At September 30, 2000, we had an outstanding restructuring liability of $0.4 million related to these charges, which was included in other accrued liabilities. During fiscal 2001, we made cash payments of $0.2 million and wrote off $0.2 million in remaining operating assets such that no remaining restructuring liability existed at September 30, 2001.

***Interest Income***

Interest income increased to $6.4 million in fiscal 2002, as compared to $5.8 million in fiscal 2001 and $4.1 million in fiscal 2000. Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. Interest income increased in both fiscal 2002 and 2001, due primarily to higher average cash and investment balances, partially offset by lower interest and investment income yields due to market conditions. Also contributing to the increase in interest income in fiscal 2002 was the contribution of HNC's cash and investment balances as a result of our acquisition of HNC on August 5, 2002.

***Interest Expense on Convertible Subordinated Notes***

As a result of the HNC acquisition and subsequent liquidation of the HNC entity, we are the issuer of $150.0 million in 5.25% convertible subordinated notes due in September 2008. The 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 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 notes recorded by us totaled $1.5 million during fiscal 2002.

***Other Income (Expense), Net***

Other income (expense), 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 exchange contracts, and other non-operating items. Other income (expense), net was $1.1 million in fiscal 2002 as compared to $(1.0) million in fiscal 2001 and $(1.7) million in fiscal 2000. Other income (expense), net in fiscal 2002 includes $2.7 million in realized gains on the sale of investments, whereas investment gains/losses were insignificant in fiscal 2001 and 2000. In fiscal 2002 and 2001, we also recorded our share of losses in an early-stage development company accounted for using the equity method, as well as net foreign currency losses.

In fiscal 1998, we entered into a lease arrangement to construct an office complex in San Rafael, California to accommodate future growth. During fiscal 2000, we decided not to build out the site as planned following a five-month study of our options. Under an agreement with the San Rafael City Government, we were released from our obligation to occupy buildings on the site. As a result of the transaction, we recorded a loss of approximately $1.4 million, which is reflected in other income (expense), net in fiscal 2000.

***Provision for Income Taxes***

Our effective tax rate was 66.3%, 40.0%, and 41.3% in fiscal 2002, 2001 and 2000, respectively. The increase in fiscal 2002 compared to fiscal 2001 was due primarily to a $40.2 million non-deductible IPR&D charge, offset by the reduction of valuation allowance on capital loss carryovers and an increased level of research and development tax credits. The effective tax rate net of the IPR&D adjustment would have been

37.7%. The decrease in fiscal 2001 compared to fiscal 2000 was due to the implementation of an "extraterritorial income exclusion" tax structure and relatively more income generating activities in states with lower tax rates.

***Operating Income***

Operating income in fiscal 2002 decreased as compared to fiscal 2001, primarily as a result of the IPR&D charge and other merger-related costs recorded in connection with the HNC acquisition. Excluding these charges, operating income in fiscal 2002 increased, due principally to increased segment operating income derived from our Strategy Machines Solutions, Scoring Solutions and Analytic Software Tools segments, offset by a decrease in Professional Services segment operating income.

The fiscal 2002 increase in Strategy Machines Solutions segment operating income was due primarily to the increase in revenues from consumer score services through myFICO.com and strategic alliance partners' Web sites. The increase in Scoring Solutions segment operating income was due primarily to the growth in risk and insurance scoring revenues from the credit reporting agencies. The increase in Analytic Software Tools segment operating income was due primarily to an increase in Blaze Decision System and Blaze Advisor revenues in fiscal 2002, the latter of which resulted from the HNC acquisition. The decrease in the Professional Services segment operating income resulted primarily from the acquisitions of Nykamp and HNC, which contributed to lower professional services margins, offset by the increase in professional service revenue contributions from these acquisitions.

Operating income in fiscal 2001 increased as compared to fiscal 2000, primarily as a result of increased segment operating income within our Strategy Machines Solutions and Scoring Solutions segments, and to a decline in the Analytic Software Tools segment operating loss. The increased Strategy Machines Solutions segment operating income was attributable primarily to the introduction in fiscal 2001 of consumer score services through myFICO.com and to the elimination of lower operating margins associated with our former Healthcare Receivables Management System line of business, which was discontinued in fiscal 2000. The increase in the Scoring Solutions segment operating income was due primarily to increased revenues related to risk scores from the credit reporting agencies. The decline in the Analytic Software Tools segment operating loss was due principally to increased revenues from Blaze Decision System products and to a lower percentage increase of segment operating expenses.

**Capital Resources and Liquidity**

Our working capital at September 30, 2002 and 2001 totaled $338.0 million and $94.6 million, respectively. The increase in working capital year over year is attributable mainly to an increase in cash and cash equivalents, short-term marketable securities and accounts receivable, primarily resulting from our acquisition of HNC.

Our primary method for funding operations and growth has been through cash flows generated from operations. Net operating cash flows increased from $70.5 million in fiscal 2001 to $103.1 million in fiscal 2002, reflecting primarily an increase in net earnings before merger-related IPR&D and other non-cash charges, partially offset by the effect of net working capital changes excluding the impact of the HNC and Nykamp acquisitions. Net operating cash flows increased from $36.7 million in fiscal 2000 to $70.5 million in fiscal 2001, reflecting primarily an increase in net earnings before non-cash charges, partially offset by net working capital changes.

Net cash provided by investing activities totaled $92.5 million in fiscal 2002, compared to net cash used in investing activities of $98.1 million in fiscal 2001 and $27.6 million in fiscal 2000. The increase in cash flows from investing activities in fiscal 2002 as compared to fiscal 2001 is attributable primarily to the acquisition of $143.1 million of HNC cash and cash equivalents and a reduction in purchases of marketable securities, net of sales and maturities year over year, partly offset by cash paid to effect the Nykamp acquisition in fiscal 2002. The increase in cash used in investing activities in fiscal 2001 as compared to fiscal 2000 was attributable primarily to an increase in purchases of marketable securities, net of sales and maturities, partially offset by a decline in purchases of property and equipment year over year.

Net cash used in financing activities totaled $123.4 million in fiscal 2002, compared to net cash provided by financing activities of $12.7 million in fiscal 2001 and $9.7 million in fiscal 2000. The increase in net cash used in financing activities in fiscal 2002, as compared to fiscal 2001, is attributable primarily to a increase in stock repurchases, a decrease in proceeds from issuances of common stock and an increase in cash dividends paid year over year. The increase in net cash provided by financing activities in fiscal 2001 as compared to fiscal 2000 was attributable primarily to an increase in proceeds from issuances of common stock, partially offset by an increase in stock repurchases year over year.

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During fiscal 2002, 2001 and 2000, we expended $144.4 million, $19.9 million and $0.1 million, respectively, in connection with our repurchase of common stock under such programs. In August 2002, we announced a 6.0 million share repurchase program. When the current program was announced, we stated an expectation that the volume of repurchases would be made in amounts consistent with the previous quarter's free cash flow and that the program would have a term of up to three years. In November 2002, our board of Directors determined that it is in the Company's best interest to have the discretion to accelerate the rate of repurchase activity and that the Company should not be subject to restrictions on the rate of repurchases or the duration of the program. As of September 30, 2002, approximately 1.1 million shares of our common stock had been repurchased under the current program. We anticipate that we will continue to repurchase shares in accordance with this program.

We paid quarterly dividends of two cents per share, or eight cents per year, during each of fiscal 2002, 2001 and 2000. 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 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.

In connection with our merger with HNC and the subsequent liquidation of the HNC entity, we are the issuer of $150,000 of 5.25% Convertible Subordinated Notes that mature on September 1, 2008. The notes are convertible into shares of Fair, Isaac common stock at a conversion rate of approximately 18.02 shares of Fair, Isaac common stock per $1,000 principal amount of the notes, subject to anti-dilution adjustment. The 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 notes is payable on March 1 and September 1 of each year until maturity. We may redeem the notes on or after September 5, 2004, or earlier if the price of Fair, Isaac common stock reaches certain levels. If we redeem the notes prior to September 1, 2007, we will also be required to pay a redemption premium as prescribed by the indenture.

As of September 30, 2002, we had $421.6 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, particularly in light of the current decline in the capital markets. 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.

We are party to a credit agreement with a financial institution that provides for a $15.0 million revolving line of credit through February 2004. Under the agreement 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. This agreement, executed in November 2002, replaces a former $15.0 million revolving credit facility that was held by HNC. As of September 30, 2002, the former HNC credit facility served to collateralize certain letters of credit aggregating $0.7 million, made by us in the normal course of business. These letters of credit are now collateralized by the new facility. Our available borrowings under this facility are reduced by the principal amount of letters of credit collateralized by this credit agreement.

We are a limited partner in Azure Capital Partners L.P., a venture capital investment management fund. We are committed to invest an additional $2.2 million into this fund, and we expect to make this additional investment in fiscal 2003.

**Critical Accounting Policies and Estimates**

We prepare our financial statements in conformity with U.S. generally accepted accounting principles. 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, capitalized software development costs, 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 impact the most significant judgments and estimates used in the preparation of our consolidated financial statements:

***Revenue Recognition***

We recognize software license revenue upon delivery, provided all significant obligations have been met, persuasive evidence of an arrangement exists, fees are fixed and determinable, collections are probable, and we are not involved in significant production, customization, or modification of the software or services that are essential to the functionality of the software.

If the arrangement involves (1) development of custom scoring systems or (2) significant production, customization, or modification of software or service essential to the functionality of the software, the revenue is generally recognized under the percentage-of-completion method of contract accounting. Progress toward completion is generally measured by achieving certain standards and objectively verifiable milestones present in each project. In order to apply the percentage of completion of method, management is required to estimate the number of hours needed to complete a particular project. As a result, recognized revenues and profits are subject to revisions as the contract progresses to completion.

Revenues from multiple element arrangements are allocated to each element based on the relative fair values of the elements. The determination of fair value is based on objective evidence that is specific to our business. If such evidence of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value for each element does exist or until all elements of the arrangement are delivered. If in a multiple element arrangement, fair value does not exist for one or more of the delivered elements in the arrangement, but fair value does exist for all of the undelivered elements, then the residual method of accounting is applied. 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.

Revenue determined by the percentage-of-completion method in excess of contract billings is recorded as unbilled work in progress. Such amounts are generally billable upon reaching certain performance milestones as defined by individual contracts. Billings received in advance of performance under contracts are recorded as billings in excess of earned revenues.

Revenues recognized from our credit scoring, data processing, data management, internet delivery services and consulting are generally recognized as these services are performed, provided all significant

obligations have been met, persuasive evidence of an arrangement exists, fees are fixed and determinable, and collections are probable.

Transactional-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.

Revenues from post-contract customer support, such as maintenance, are recognized on a straight-line basis over the term of the contract.

***Allowance for Doubtful Accounts***

We make estimates regarding the collectibility of our accounts receivables. When we evaluate the adequacy of our allowance for doubtful accounts, we closely 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, or if payments from customers are significantly delayed, additional allowances might be required.

***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 one-time charges associated with the write-off of in-process research and development, which affect the amount of current and future period charges and amortization expense. The determination of value of these components of a business combination, as well as associated asset useful lives, requires management to make various estimates and assumptions. Estimates using different, but each reasonable, assumptions could 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 enterprise-level goodwill. If factors suggesting impairment exist, we use the market value method to determine the extent of the impairment. We will adopt the provisions of Statement of Financial Accounting Standards No. 142 in the first quarter of fiscal 2003, and as a result we will cease to amortize all goodwill. In lieu of amortization, we will be required to perform an initial impairment review based on the estimated fair value of our goodwill and intangible assets as of October 1, 2002 and on a periodic basis thereafter. There are many management 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 have not yet determined whether any impairment loss will result from our initial impairment review in fiscal 2003.

***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, write-offs of capitalized software costs could result.

***Internal-use Software***

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at the lower of cost or net realizable value. 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 to 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 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.

***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. We then record a valuation allowance to reduce deferred tax assets to an amount that likely will be realized. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. 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.

***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. The amount of loss accrual, if any, is determined after careful analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies.

**New Accounting Pronouncements**

In July 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that goodwill and certain intangibles with indefinite lives are no longer amortized, but instead are tested for impairment at least annually or more frequently if impairment circumstances arise. SFAS No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001; therefore, the Company will adopt SFAS 142 beginning October 1, 2002. We are currently evaluating the impact that the adoption of SFAS No. 142 will have on our financial position and results of its operations. Annual goodwill amortization was approximately $2.1 million for each of the fiscal years 2002, 2001 and 2000.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 revises the accounting for specified employee and contract terminations that are part of restructuring activities and allows recognition of a liability for the cost associated with an exit or disposal activity only when the liability is incurred and can be measured at fair value. This Statement only applies to termination benefits offered for a specific termination event or a specified period. We are required to adopt this statement for exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of this statement to have a significant impact on our financial position and results of operations.

## RISK FACTORS

**Although we expect that the recently completed merger between Fair, Isaac and HNC will benefit us, we may not realize those benefits because of integration and other challenges.**

On August 5, 2002, we completed the acquisition of HNC, previously announced on April 29, 2002. Our failure to meet the challenges involved in successfully integrating the operations of Fair, Isaac and HNC or

otherwise to realize any of the anticipated benefits of the recently completed merger, including anticipated cost savings, could seriously harm our results of operations. Realizing the benefits of the recently completed merger will depend in part on the continued integration of products, technologies, operations, and personnel. Although we have made progress since the merger was completed, the continued integration is a complex, time-consuming and expensive process that, even with proper planning and implementation, could significantly disrupt our business. In many recent mergers, especially mergers involving technology companies, merger partners have experienced difficulties integrating the combined businesses, and we have not previously faced an integration challenge as substantial as the one presented by the recently completed merger. The challenges involved in this integration include the following:

- continuing to persuade employees that the business cultures of Fair, Isaac and HNC are compatible, maintaining employee morale and retaining key employees;
- managing a workforce over expanded geographic locations;
- demonstrating to our customers that the merger will not lower client service standards, interfere with business focus, adversely affect product quality or alter current product development plans;
- consolidating and rationalizing corporate IT and administrative infrastructures;
- combining product offerings;
- coordinating sales and marketing efforts to effectively communicate our capabilities to current and prospective customers;
- coordinating and rationalizing research and development activities to enhance introduction of well designed new products and technologies;
- preserving our marketing or other important relationships and resolving potential conflicts that may arise;
- minimizing the diversion of management attention from other ongoing business concerns; and
- coordinating and combining overseas operations, relationships and facilities, which may be subject to additional constraints imposed by local laws and regulations.

We may not successfully integrate the operations of Fair, Isaac and HNC in a timely manner, or at all. Moreover, we may not realize the anticipated benefits or synergies of the merger to the extent, or in the time frame, anticipated. The anticipated benefits and synergies relate to cost savings associated with anticipated restructurings and other operational efficiencies, greater economies of scale and revenue growth opportunities through expanded markets and cross-sell opportunities. However, these anticipated benefits and synergies are based on projections and assumptions, not actual experience, and assume a successful integration.

**Charges to earnings resulting from the application of the purchase method of accounting may cause the market value of our common stock to decline.**

In accordance with United States generally accepted accounting principles, we are accounting for the merger using the purchase method of accounting. Under the purchase method of accounting, we have allocated the total estimated purchase price to HNC's net tangible assets, amortizable intangible assets, intangible assets with indefinite lives and in-process research and development, based on their fair values as of the date of completion of the merger on August 5, 2002. We have recorded the excess of the purchase price over those fair values as goodwill. We have expensed approximately $40.2 million of the estimated purchase price allocated to in-process research and development in the fourth quarter. We will incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the merger. Annual amortization of intangible assets is currently estimated at $13.3 million, as compared to our amortization expense for such items during our most recent completed fiscal year of $2.1 million. In addition, to the extent the value of goodwill or intangible assets with indefinite lives becomes impaired in the future, we may be required to incur material charges relating to the impairment of

those assets. These depreciation, amortization, in-process research and development and potential impairment charges could seriously harm our results of operations.

**We may incur significant liabilities and merger-related charges resulting from integration of the two companies following the recently completed restructuring.**

We recognized approximately $7.2 million of merger-related and restructuring costs in the fourth quarter of our fiscal year 2002. However, additional liabilities ultimately will be recorded for severance, retention or relocation costs, costs of vacating some facilities, or other costs associated with ceasing certain activities. These liabilities and charges may be significant and could seriously harm our operating results in future periods.

**Customer uncertainties related to the recently completed merger could harm our businesses and results of operations.**

Since the merger we have been communicating our future plans to our customers. Despite these efforts there may be customer uncertainty, causing our customers to delay or defer purchasing decisions or elect to switch to other suppliers. In particular, prospective customers could be reluctant to purchase our products due to uncertainty about the direction of our product offerings and our willingness to support and service existing products. Prospective and current clients may worry about how integration of the two companies' technologies may affect current and future products. To the extent that the recently completed merger creates uncertainty among those persons and organizations contemplating product purchases such that one large customer, or a significant group of smaller customers, delays, defers or changes purchases, our results of operations would be seriously harmed. Further, we may have to make additional customer assurances and assume additional obligations to address our customers' uncertainty about the direction of our products and related support offerings. Accordingly, our quarterly results of operations could be substantially below expectations of market analysts, potentially decreasing our stock price.

**Our effective tax rate after the recently completed merger is uncertain, and any increase in tax liability would harm our operating results.**

The impact of the recently completed merger on our overall effective tax rate is uncertain. Although we will attempt to optimize our overall effective tax rate, it is difficult to predict our effective tax rate following the recently completed merger. The combination of the operations of Fair, Isaac and HNC may result in an overall effective tax rate that is higher than our currently reported tax rate, and it is possible that our combined effective tax rate on a consolidated basis may exceed the average of the pre-merger separate tax rates of Fair, Isaac and HNC.

**We may not be able to sustain the revenue growth rates previously experienced by HNC and Fair, Isaac individually.**

We cannot assure you that we will experience the same rate of revenue growth following the recently completed merger as HNC and Fair, Isaac experienced individually because of the difficulty of maintaining high percentage increases as the base of revenue increases. If our revenue does not increase at or above the rate analysts expect, the trading price for our common stock may decline.

**Any failure to recruit and retain additional qualified personnel, more challenging in light of uncertainty following the recent acquisition, 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. Employee retention may be particularly challenging in connection with the recently completed acquisition as a result of employee uncertainty about their future roles, the distractions of integration, and morale challenges posed by workforce reductions that occurred after completion of the acquisition. Moreover, 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. 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.

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

During fiscal 2002, approximately 90% 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 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 clients 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 clients' customer acquisition programs. 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.

In addition, a softening of demand for our decisioning solutions or other products and services caused by a weakening of the economy generally may result in decreased revenues or lower growth rates. Due to the current slowdown in the economy generally, we believe that many of our existing and potential customers are reassessing or reducing their planned technology investments and deferring purchasing decisions. As a result, there is increased uncertainty with respect to our expected revenues. Further delays or reductions in business spending for business analytics could seriously harm our revenues and operating results.

**Quarterly revenues and operating results have varied in the past and this unpredictability may continue in the future and could lead to substantial declines in the market price for our common stock.**

Our revenues and operating results varied in the past and future fluctuations in our operating results are possible. Consequently, we believe that you should not rely on period-to-period comparisons of financial results as an indication of future performance. Our future operating results may fall below the expectations of market analysts and investors, and in this event the market price of our common stock would likely fall. In addition, 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. Factors that will affect our revenues and operating results include the following:

- variability in demand from our existing customers;
- the lengthy and variable sales cycle of many products;
- consumer dissatisfaction with, or problems caused by, the performance of our products;
- the relatively large size of orders for our products and our inability to compensate for unanticipated revenue shortfalls;
- 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.

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

We cannot predict the timing of the recognition of 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 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 from some or all of our Falcon Fraud Manager, Decision Manager for Medical Bill Review and Outsourced Bill Review products and services, and agreements with TransUnion, Equifax and Experian, will account for a substantial portion of our total revenues for the foreseeable future. Our revenue 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;
- factors that reduce the effectiveness of or need for fraud detection capabilities; and
- reduction of the use of credit and other payment cards as payment methods.

**We will continue to depend upon major contracts with credit reporting agencies, and our future revenue could decline if the terms of these relationships change.**

We will continue to derive a substantial portion of our revenues from contracts with the three major credit reporting agencies. These contracts, which normally have a term of five years or less, accounted for approximately 27% of our revenues in fiscal 2002. If we are unable to renew any of these contracts on the same or similar terms, our revenues and results of operations would be harmed.

**Our revenue growth could decline if any major customer cancels, reduces or delays a purchase of our products.**

Most of our customers are relatively large enterprises, such as banks, insurance companies, healthcare firms, retailers and telecommunications carriers. Our future success will depend upon the timing and size of future licenses, if any, from these customers and new customers. 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. The loss of any major customer, or the delay of significant revenue from these customers, could reduce or delay our recognition of revenue.

**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 will have a significant share of the available market in our Scoring segment and for certain services in our Strategy Machine Solutions segment (specifically, account management services at credit card processors and in the market for credit card fraud detection software through our Falcon products). 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, and completely new to some personnel integrated as a result of the merger. 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.

**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, especially in the area of customer relationship management, may affect market acceptance of our products and could harm our business, results of operations or financial position. If we were to experience delays in commercializing and introducing new or enhanced products, if our customers were to experience significant problems with implementing and installing our products, or if our customers were dissatisfied with our products' functionality or performance, our business, results of operations or financial position could be harmed. 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. 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.

**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;
- internet companies;
- hardware suppliers that bundle or develop complementary software;
- network and telecommunications switch manufacturers, and service providers that seek to enhance their value-added services;
- neural network 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, our Falcon Fraud Manager and Falcon Fraud Manager for Merchants 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 results of operations, and could also harm our ability to obtain new long-term contracts and renewals of existing long-term contracts on favorable terms.

**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. Because the protection of our proprietary technology is limited, 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, operating results and financial condition.

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 will 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 will have to defend claims made against our products, and such claims may require us to:

- incur significant defense costs or substantial damages;
- 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
- 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.**

Internet-based, business-to-business electronic commerce requires the secure transmission of confidential information over public networks. Several of our products are accessed through the Internet, including our

new consumer services accessible through the www.myfico.com website. Consumers using the Internet to access their personal information will demand the secure transmission of such data. Security breaches in connection with the delivery of our products and services, including our netsourced products and consumer services, or well-publicized security breaches affecting the Internet in general, could significantly harm our business, operating results and financial condition. 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.

**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. Such risks 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 clients as a result of any integration of new management personnel.

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

**If our products do not comply with government regulations that apply to us or to our customers, we could be exposed to liability or our products could become obsolete.**

Legislation and governmental regulation inform how our business is conducted. Both our core businesses and our newer consumer initiatives are affected by regulation. Significant regulatory areas include:

- federal and state regulation of consumer report data and consumer reporting agencies, such as the Fair Credit Reporting Act, or FCRA;
- regulation designed to insure that lending practices are fair and non-discriminatory, such as the Equal Credit Opportunity Act;
- privacy law, such as provisions of the Financial Services Modernization Act of 1999 and 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; and
- consumer protection laws, such as federal and state statutes governing the use of the Internet and telemarketing.

In connection with our core activities, these statutes will continue, to some degree, to directly govern our operations. For example, the Financial Services Modernization Act restricts our use and transmittal of nonpublic personal information, grants consumers opt out rights, requires us to make disclosures to consumers about our collection and use of personal information and governs when and how we may deliver credit score explanation services to consumers. Many foreign jurisdictions relevant to our business will also regulate our operations. For example, the European Union's Privacy Directive creates minimum standards for the protection of personal data. In addition, some EU member states have enacted protections which go beyond the requirements of the Privacy Directive. We will be subject to the risk of possible regulatory enforcement actions if we fail to comply with any of the statutes governing our operations.

Additionally, existing regulation and legislation is subject to change or more restrictive interpretation by enforcement agencies, and new restrictive legislation might pass. For example, new legislation might restrict the sharing of information by affiliated entities, mandate providing credit scores to consumers, or narrow the permitted uses of consumer report data. Currently, the permitted uses of consumer report data in connection with customer acquisition efforts are governed primarily by the FCRA, whose federal preemption provisions effectively expire in 2004. Unless extended, this expiration could lead to greater state regulation, increasing the cost of customer acquisition activity. State regulation could cause financial institutions to pursue new strategies, reducing the demand for our products. In addition, in many states, including California, there have been periodic legislative efforts to reform workers' compensation laws in order to reduce workers' compensation insurance costs and to curb abuses of the workers' compensation system. Simplifying state workers' compensation laws, regulations or fee schedules could diminish the need for, and the benefits provided by our Decision Manager for Medical Bill Review products and Outsourced Bill Review services. Any changes to existing regulation or legislation, new regulation or legislation, or more restrictive interpretation of existing regulation could harm our business, results of operations and financial condition.

Finally, governmental regulation influences our current and prospective clients' activities, as well as their expectations and needs in relation to our products and services. For example, our clients include credit reporting agencies, credit card processors, telecommunications companies, state and federally chartered banks, savings and loan associations, credit unions, consumer finance companies, insurance companies and other consumer lenders, all of which are subject to extensive and complex federal and state regulations, and often international regulations. Moreover, industries of our future clients may also be subject to extensive regulations. We must appropriately design products and services to function in regulated industries or risk liability to our customers for our products' non-compliance.

**Failure to obtain data from our clients to update and re-develop or to create new models could harm our business.**

To develop, install and support our products, including consumer credit, financial services, predictive modeling, decision analysis, intelligence management, credit card fraud control and profitability management, loan underwriting and insurance products, we will require periodic updates of our technologies and models. We must develop or obtain a reliable source of sufficient amounts of current and statistically relevant data to analyze transactions and update our models. 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 are collected privately and maintained in proprietary databases. Generally, our customers 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, or if they decline to provide such data due to legal privacy concerns or a lack of permission from their own customers, we could lose access to required data and our products might become less effective. In addition, our Decision Manager for Medical Bill Review products use data from state workers' compensation fee schedules adopted by state regulatory agencies. Third parties have previously asserted copyright interests in these data. 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.

**Our operations outside the United States subject us to unique risks that may harm our results of operations.**

A growing portion of our revenues is derived from international sales. During fiscal 2002, approximately 19% 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;
- incongruent tax structures;
- difficulty in staffing our operations in various countries;
- the effects of a variety of foreign laws and regulations;
- 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 financial position, results of operations or cash flows. However, an increase in our foreign revenues could subject us to increased foreign currency transaction risks in the future.

**Item 7A.** ***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 and foreign currency exchange rates. We believe that our equity risks are not material. We do not use derivative financial instruments for speculative or trading purposes.

**Interest Rate Sensitivity**

We maintain an investment portfolio consisting mainly of income securities with an average maturity of less than five years. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. 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 fixed rate investment portfolio at September 30, 2002 and 2001:

| | September 30, 2002 | | | September 30, 2001 | | |
|---|---|---|---|---|---|---|
| | Cost Basis | Carrying Amounts | Average Yield | Cost Basis | Carrying Amounts | Average Yield |
| | (in thousands) | | | | | |
| Cash and cash equivalents | $ 76,195 | $ 76,189 | 1.66% | $ 16,918 | $ 16,918 | 2.87% |
| Short-term investments | 184,434 | 184,377 | 2.39% | 13,800 | 13,800 | 2.57% |
| Long-term investments | 135,788 | 136,971 | 3.27% | 110,709 | 110,709 | 3.78% |
| | $396,417 | $397,537 | 2.55% | $141,427 | $141,427 | 3.55% |

**Forward Foreign Currency Contracts**

Beginning October 2001, we initiated a hedging 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 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 six months. Such derivative financial instruments are subject to market risk.

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 as of September 30, 2002:

| | Contract Amount | | |
|---|---|---|---|
| | Foreign Currency | US$ | Fair Value US$ |
| | | (in thousands) | |
| Sell foreign currency: | | | |
| EURO (EUR) | EUR 4,000 | $3,915 | $3,917 |
| Japanese Yen (YEN) | YEN 22,000 | 180 | 181 |
| British Pound (GBP) | GBP 1,500 | 2,339 | 2,346 |
| | | $6,434 | $6,444 |

**Item 8.** ***Financial Statements and Supplementary Data***

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders of

Fair, Isaac and Company, Incorporated

We have audited the accompanying consolidated balance sheets of Fair, Isaac and Company, Incorporated, and subsidiaries as of September 30, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fair, Isaac and Company, Incorporated, and subsidiaries as of September 30, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective July 1, 2001, Fair, Isaac and Company, Incorporated adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and certain provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," as required for goodwill and intangible assets resulting from business combinations consummated after June 30, 2001.

/s/ KPMG LLP

San Francisco, California

October 25, 2002, except as to note 20, which is as of November 18, 2002

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**CONSOLIDATED BALANCE SHEETS**

| | September 30, | |
|---|---|---|
| | 2002 | 2001 |
| | (In thousands) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 96,834 | $ 24,608 |
| Marketable securities available for sale | 184,377 | 13,800 |
| Receivables, net | 121,456 | 80,071 |
| Other current assets | 17,498 | 10,565 |
| Deferred income taxes | 8,009 | 5,217 |
| Total current assets | 428,174 | 134,261 |
| Marketable securities available for sale | 140,398 | 114,835 |
| Other investments | 9,804 | 1,308 |
| Property and equipment, net | 63,898 | 49,383 |
| Goodwill, net | 430,739 | 6,530 |
| Intangibles, net | 89,375 | — |
| Deferred income taxes | 45,384 | 5,504 |
| Other assets | 4,741 | 5,192 |
| | $1,212,513 | $317,013 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 7,603 | $ 1,415 |
| Accrued compensation and employee benefits | 28,153 | 18,233 |
| Other accrued liabilities | 36,532 | 9,959 |
| Deferred revenue | 17,921 | 10,030 |
| Total current liabilities | 90,209 | 39,637 |
| Convertible subordinated notes, net of discount | 139,922 | — |
| Other liabilities | 8,910 | 5,604 |
| Total liabilities | 239,041 | 45,241 |
| Commitments and contingencies (Notes 18 and 19) | | |
| Stockholders' equity: | | |
| Preferred stock ($0.01 par value; 1,000 authorized; none issued and outstanding) | — | — |
| Common stock ($0.01 par value; 100,000 and 35,000 shares authorized, 55,619 and 34,880 shares issued, and 50,665 and 33,957 shares outstanding at September 30, 2002 and 2001, respectively) | 507 | 340 |
| Paid in capital in excess of par value | 927,169 | 97,920 |
| Treasury stock, at cost | (163,038) | (26,439) |
| Unearned compensation | (7,128) | (2,161) |
| Retained earnings | 216,041 | 200,739 |
| Accumulated other comprehensive income (loss) | (79) | 1,373 |
| Total stockholders' equity | 973,472 | 271,772 |
| | $1,212,513 | $317,013 |

See accompanying notes to consolidated financial statements.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**CONSOLIDATED STATEMENTS OF INCOME**

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (In thousands, except per share data) | | |
| Revenues | $392,418 | $329,148 | $298,630 |
| Operating expenses: | | | |
| Cost of revenues | 176,029 | 148,559 | 128,961 |
| Research and development | 33,840 | 28,321 | 29,817 |
| Sales, general and administrative | 83,633 | 78,061 | 90,215 |
| Amortization of intangibles | 4,380 | 2,100 | 2,100 |
| In-process research and development | 40,200 | — | — |
| Restructuring and merger-related | 7,224 | — | 2,923 |
| Total operating expenses | 345,306 | 257,041 | 254,016 |
| Operating income | 47,112 | 72,107 | 44,614 |
| Interest income | 6,374 | 5,785 | 4,110 |
| Interest expense on convertible subordinated notes | (1,471) | — | — |
| Other income (expense), net | 1,083 | (1,039) | (1,654) |
| Income before income taxes | 53,098 | 76,853 | 47,070 |
| Provision for income taxes | 35,214 | 30,741 | 19,439 |
| Net income | $ 17,884 | $ 46,112 | $ 27,631 |
| Earnings per share: | | | |
| Basic | $ 0.49 | $ 1.40 | $ 0.86 |
| Diluted | $ 0.48 | $ 1.33 | $ 0.84 |
| Shares used in computing earnings per share: | | | |
| Basic | 36,534 | 32,979 | 32,085 |
| Diluted | 37,550 | 34,589 | 32,928 |

See accompanying notes to consolidated financial statements.

## FAIR, ISAAC AND COMPANY, INCORPORATED

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

### Years Ended September 30, 2000, 2001 and 2002

| | Common Stock | | Paid In Capital in Excess | | | | Accumulated Other Comprehensive | Total | Comprehensive |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | of Par Value | Treasury Stock | Unearned Compensation | Retained Earnings | Income (Loss) | Stockholders' Equity | Income (Loss) |
| | | | | | (In thousands) | | | | |
| **Balance at September 30, 1999** | **31,455** | **$315** | **$ 38,551** | **$ (11,290)** | **$ (364)** | **$129,458** | **$ (171)** | **$ 156,499** | **$ —** |
| Exercise of stock options | 1,087 | 11 | 11,223 | — | — | — | — | 11,234 | |
| Tax benefit from exercised stock options | — | — | 1,786 | — | — | — | — | 1,786 | |
| Issuance of compensatory stock options | — | — | 3,990 | — | (3,990) | — | — | — | |
| Amortization of unearned compensation | — | — | — | — | 870 | — | — | 870 | |
| Cancellation of restricted stock grant | — | — | 27 | (352) | 325 | — | | — | |
| Repurchase of common stock | 1 | — | — | (41) | — | — | — | (41) | |
| Issuance of ESPP and ESOP shares from treasury | 170 | 2 | (255) | 2,888 | — | — | — | 2,635 | |
| Net income | — | — | — | — | — | 27,631 | — | 27,631 | 27,631 |
| Dividends paid | — | — | — | — | — | (1,140) | — | (1,140) | — |
| Unrealized losses on investments, net of tax of $59 | — | — | — | — | — | — | (84) | (84) | (84) |
| Cumulative translation adjustments, net of tax of $274 | — | — | — | — | — | — | (389) | (389) | (389) |
| **Balance at September 30, 2000** | **32,713** | **328** | **55,322** | **(8,795)** | **(3,159)** | **155,949** | **(644)** | **199,001** | **27,158** |
| Exercise of stock options | 2,078 | 21 | 34,224 | — | — | — | — | 34,245 | |
| Tax benefit from exercised stock options | — | — | 8,449 | — | — | — | — | 8,449 | |
| Amortization of unearned compensation | — | — | — | — | 998 | — | — | 998 | |
| Repurchase of common stock | (957) | (10) | — | (19,854) | — | — | — | (19,864) | |
| Issuance of ESPP and ESOP shares from treasury | 123 | 1 | (26) | 2,210 | — | — | — | 2,185 | |
| Net income | — | — | — | — | — | 46,112 | — | 46,112 | 46,112 |
| Dividends paid | — | — | — | — | — | (1,322) | — | (1,322) | — |
| Cash paid in lieu of fractional shares in effecting stock split | — | — | (49) | — | — | — | — | (49) | — |
| Unrealized gain on investments, net of tax of $(1,346) | — | — | — | — | — | — | 1,954 | 1,954 | 1,954 |
| Cumulative translation adjustments, net of tax of $(42) | — | — | — | — | — | — | 63 | 63 | 63 |
| **Balance at September 30, 2001** | **33,957** | **340** | **97,920** | **(26,439)** | **(2,161)** | **200,739** | **1,373** | **271,772** | **48,129** |
| Issuance of stock in HNC acquisition | 18,780 | 188 | 719,857 | — | — | — | — | 720,045 | |
| Options assumed in HNC acquisition | — | — | 68,705 | — | (1,827) | — | — | 66,878 | |
| Restricted stock in escrow — Nykamp acquisition | 87 | 1 | 2,817 | — | — | — | — | 2,818 | |
| Exercise of stock options | 1,383 | 14 | 23,662 | — | — | — | — | 23,676 | |
| Tax benefit from exercised stock options | — | — | 14,350 | — | — | — | — | 14,350 | |
| Amortization of unearned compensation | — | — | — | — | 1,418 | — | — | 1,418 | |
| Forfeiture of stock options assumed in HNC acquisition | — | — | (237) | — | 237 | — | — | — | |
| Repurchase of common stock | (3,800) | (38) | — | (144,313) | — | — | — | (144,351) | |
| Issuance of ESPP and ESOP shares from treasury | 102 | 1 | 462 | 2,693 | — | — | — | 3,156 | |
| Issuance of restricted stock to employees from treasury, net of forfeitures | 156 | 1 | (227) | 5,021 | (4,795) | — | — | — | |
| Net income | — | — | — | — | — | 17,884 | — | 17,884 | 17,884 |
| Dividends paid | — | — | — | — | — | (2,582) | — | (2,582) | — |
| Cash paid in lieu of fractional shares in effecting stock split | — | — | (140) | — | — | — | — | (140) | — |
| Unrealized losses on investments, net of tax of $2,040 | — | — | — | — | — | — | (1,304) | (1,304) | (1,304) |
| Cumulative translation adjustments, net of tax of $94 | — | — | — | — | — | — | (148) | (148) | (148) |
| **Balance at September 30, 2002** | **50,665** | **$507** | **$927,169** | **$(163,038)** | **$(7,128)** | **$216,041** | **$ (79)** | **$ 973,472** | **$16,432** |

See accompanying notes to consolidated financial statements.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | | (In thousands) | |
| **Cash flows from operating activities** | | | |
| Net income | $ 17,884 | $ 46,112 | $ 27,631 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 30,985 | 25,074 | 21,461 |
| In process research and development | 40,200 | — | — |
| Share of equity losses and write-off of equity investments | 1,045 | 871 | 95 |
| Gain on sale of investments | (2,662) | (54) | — |
| Amortization of unearned compensation | 1,418 | 998 | 870 |
| Deferred income taxes | 5,315 | 2,429 | (2,487) |
| Tax benefit from exercise of stock options | 14,350 | 8,449 | 1,786 |
| Amortization of premium on investments | 510 | 285 | 213 |
| Allowance for doubtful accounts | 2,285 | 2,542 | 304 |
| Loss on sale of fixed assets | 271 | 166 | 68 |
| Other | (18) | 11 | — |
| Changes in operating assets and liabilities, net of acquisition effect: | | | |
| Receivables | (4,111) | (14,474) | (5,734) |
| Other assets | 4,084 | (7,149) | 1,857 |
| Accounts payable | 114 | 1,182 | (1,707) |
| Accrued compensation and employee benefits | 13,076 | 4,668 | (6,531) |
| Other accrued liabilities and other liabilities | (21,208) | (497) | (2,380) |
| Deferred revenue | (418) | (74) | 1,206 |
| Net cash provided by operating activities | 103,120 | 70,539 | 36,652 |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment | (23,386) | (24,004) | (22,595) |
| Cash and cash equivalents acquired in HNC acquisition | 143,092 | — | — |
| Cash paid in Nykamp acquisition, net of cash acquired | (2,593) | — | — |
| Purchases of marketable securities | (189,858) | (125,169) | (14,432) |
| Proceeds from sale of marketable securities | 140,045 | 27,083 | — |
| Proceeds from maturities of marketable securities | 25,203 | 23,969 | 9,447 |
| Net cash provided by (used in) investing activities | 92,503 | (98,121) | (27,580) |
| **Cash flows from financing activities** | | | |
| Principal payments on capital lease obligations | — | (364) | (429) |
| Proceeds from issuances of common stock | 23,676 | 34,283 | 11,329 |
| Dividends paid | (2,582) | (1,322) | (1,140) |
| Repurchase of common stock | (144,351) | (19,864) | (41) |
| Cash paid in lieu of fractional shares for stock-split | (140) | (49) | — |
| Net cash provided by (used in) financing activities | (123,397) | 12,684 | 9,719 |
| Increase (decrease) in cash and cash equivalents | 72,226 | (14,898) | 18,791 |
| Cash and cash equivalents, beginning of year | 24,608 | 39,506 | 20,715 |
| Cash and cash equivalents, end of year | $ 96,834 | $ 24,608 | $ 39,506 |

See accompanying notes to consolidated financial statements.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share amounts)**

## 1. Nature of Business and Summary of Significant Accounting Policies

***Fair, Isaac and Company, Incorporated***

Incorporated under the laws of the State of Delaware, Fair, Isaac and Company, Incorporated is a provider of analytic, software and data management products and services that enable businesses to automate and improve decisions. Fair, Isaac 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 this report, Fair, Isaac is referred to as "we," "us," "our," the "Company" and "Fair, Isaac." HNC Software Inc., which we acquired in August 2002 (see Note 2), is referred to as "HNC." Effective November 1, 2002, HNC Software Inc. was merged with and into Fair, Isaac. Accordingly, HNC is no longer a subsidiary of Fair, Isaac, and ceases to exist as a separate legal entity.

***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of Fair, Isaac and its subsidiaries. All significant intercompany accounts and transactions have been eliminated from the consolidated financial statements.

***Use of Estimates***

The preparation of financial statements, in conformity with generally accepted accounting principles, 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.

***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation.

***Cash and Cash Equivalents***

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

***Fair Value of Financial Instruments***

The fair values of cash and cash equivalents are approximately equal to their carrying amounts because of the short-term maturity of these instruments. The fair values of our marketable security investments are disclosed in Note 3. The fair value of our convertible subordinated notes is disclosed in Note 8.

***Investments***

Investments in U.S. government obligations and marketable equity and debt securities are classified as "available-for-sale" and are carried at market value. Investments with remaining maturities over one year are classified as long-term investments. Realized gains and losses are included in other income, net. The cost of investments sold is based on the specific identification method.

Our investments in equity securities of companies over which we do not have significant influence are accounted for under the cost method. We use the equity method to account for investments in which we have a voting interest of 20% to 50%, or over which we otherwise have the ability to exercise significant influence.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

Under the equity method, the investment is originally recorded at cost and adjusted to recognize our share of net earnings or losses of the investee, limited to the extent of our investment in, advances to, and financial guarantees for the investee. Management periodically reviews cost-basis investments for instances where fair value is less than cost and the decline in value is determined to be other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value and the resulting loss is charged to operations.

***Concentration of Risk***

Financial instruments that potentially expose us to concentrations of risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable, which are generally not collateralized. Our policy is to place our cash, cash equivalents, and marketable securities with high credit quality financial institutions, commercial companies and government agencies in order to limit the amount of credit exposure. We have established guidelines relative to diversification and maturities for maintaining safety and liquidity. We generally do not require collateral from our customers, but our credit extension and collection policies include analyzing the financial condition of potential customers, establishing credit limits, monitoring payments, and aggressively pursuing delinquent accounts. We maintain allowances for potential credit losses.

***Property and Equipment***

Property and equipment are recorded at cost less accumulated depreciation and amortization. Major renewals and improvements are capitalized, while repair and maintenance costs are expensed as incurred. Depreciation and amortization charges are calculated using the straight-line method over the following estimated useful lives:

| | Estimated Useful Life |
|---|---|
| Data processing equipment and software | 2 to 3 years |
| Office furniture, vehicles and equipment | 3 to 7 years |
| Leasehold improvements and capitalized leases | Shorter of estimated useful life or lease term |

The cost and accumulated depreciation for property and equipment sold, retired or otherwise disposed of are removed from the accounts and resulting gains or losses are recorded in operations.

***Intangible Assets and Goodwill***

We amortize our intangible assets and goodwill, which result from our acquisitions accounted for under the purchase method of accounting (see Note 2), using the straight-line method over the following estimated useful lives:

| | Estimated Useful Life |
|---|---|
| Goodwill — acquisitions prior to July 1, 2001 | 4 to 15 years |
| Goodwill — acquisitions after July 1, 2001 | Not amortized |
| Completed technology | 5 years |
| Customer contracts and relationships | 3 to 15 years |
| Tradename | 4 to 5 years |
| Other | 5 years |

Amortization expense totaled $4,380, $2,100, and $2,100 during fiscal 2002, 2001 and 2000, respectively, of which $2,096, $2,100 and $2,100, respectively, related to the amortization of goodwill.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

Goodwill represents the excess of the purchase price over the fair value of net assets assumed, including identified intangible assets, in connection with our business and asset acquisitions accounted for by the purchase method of accounting. 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 enterprise-level goodwill. If this review indicates that goodwill may not be recoverable, impairment would be measured by comparing the carrying value of the goodwill to its fair value, as determined based on discounted cash flows. To date, no indications of impairment have been identified.

Effective July 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, and certain provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, as required for goodwill and intangible assets resulting from business combinations consummated after June 30, 2001. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but will reviewed annually for impairment (or more frequently if impairment indicators arise). Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 applied immediately to goodwill and intangible assets acquired after June 30, 2001. We will adopt all other provisions of SFAS No. 142 in the first quarter of fiscal 2003. We have not yet determined the impact that our full adoption of SFAS No. 142 will have on our financial position and results of operations.

***Revenue Recognition***

We recognize software license revenue upon delivery, provided all significant obligations have been met, persuasive evidence of an arrangement exists, fees are fixed and determinable, collections are probable, and we are not involved in significant production, customization, or modification of the software or services that are essential to the functionality of the software.

If the arrangement involves (1) development of custom scoring systems, or (2) significant production, customization, or modification of software or services essential to the functionality of the software, the revenue is generally recognized under the percentage-of-completion method of contract accounting. Progress toward completion is generally measured by achieving certain standard and objectively verifiable milestones present in each project.

Revenues from multiple element arrangements are allocated to each element based on the relative fair values of the elements. The determination of fair value is based on objective evidence that is specific to us. If such evidence of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value for each element does exist or until all elements of the arrangement are delivered. If in a multiple element arrangement, fair value does not exist for one or more of the delivered elements in the arrangement, but fair value does exist for all of the undelivered elements, then the residual method of accounting is applied. 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.

Revenue determined by the percentage-of-completion method in excess of contract billings is recorded as unbilled work in progress. Such amounts are generally billable upon reaching certain performance milestones as defined by individual contracts. Billings received in advance of performance under contracts are recorded as billings in excess of earned revenues.

Revenues recognized from our credit scoring, data processing, data management, internet delivery services and consulting are generally recognized as these services are performed, provided all significant obligations have been met, persuasive evidence of an arrangement exists, fees are fixed and determinable, and collections are probable.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

Transactional-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.

Revenues from post-contract customer support, such as maintenance, are recognized on a straight-line basis over the term of the contract.

***Software Costs***

We may either create a detailed program design when introducing new technology or a working model for the modification to existing technologies. All costs incurred prior to the resolution of unproven functionality and features, including new technologies, are expensed as research and development. After the uncertainties have been tested and the development issues have been resolved and technological feasibility is achieved, subsequent costs such as coding, debugging and testing are capitalized. Capitalized costs are amortized using the straight-line method over two years.

***Internal-use Software***

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at the lower of cost or net realizable value. 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. Capitalized costs are amortized using the straight-line method over two years.

***Income Taxes***

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. A deferred income tax asset or liability is computed for the expected future impact of differences between the financial reporting and tax bases of assets and liabilities as well as the expected future tax benefit to be derived from tax loss and tax credit carry-forwards. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount “more likely than not” to be realized in future tax returns. Tax rate changes and tax credit reinstatements are reflected in income during the period the changes are enacted.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is the change in our equity (net assets) during each period from transactions and other events and circumstances from non-owner sources. It includes net income (loss), foreign currency translation adjustments and unrealized gains and losses, net of tax, on our investments in marketable securities.

***Foreign Currency***

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

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

***Hedging***

From time to time, we utilize forward contract instruments in balance sheet hedging to manage market risks associated with fluctuations in certain foreign currency exchange rates as they relate to specific balances of cash and accounts receivable in denominated in foreign currencies. It is our policy to use derivative financial instruments to protect against market risks arising in the normal course of business. Our policies prohibit the use of derivative instruments for the sole purpose of trading for profit on price fluctuations or to enter into contracts that intentionally increase our underlying exposure. The criteria we use for designating an instrument as a hedge include the instrument's risk reduction and the direct matching of the financial instrument to the underlying balance of cash or accounts receivable.

We manage our foreign currency exchange rate risk on existing foreign currency receivable and bank balances held by our U.S. corporate entities by entering into forward contracts to sell or buy foreign currency. At the end of the reporting period, foreign currency receivable and cash balances are remeasured into the functional currency of the reporting entities 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 other income (expense) on the Consolidated Statements of Income. This 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 six months. Such derivative financial instruments are subject to market risk.

***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 employee stock awards is measured as the excess, if any, of the fair value of our common stock at the grant date over the amount an employee must pay to acquire the stock. Compensation expense is amortized over the related service periods using the straight-line method. Compensation expense for awards that are forfeited is reversed against compensation expense in the period of forfeiture.

Stock-based awards issued to non-employees are accounted for using a fair value method and are marked to fair value at each period end until the earlier of the date at which a performance commitment has been obtained or the awards are fully vested. Fair value of stock-based awards is determined using the Black-Scholes option pricing model with weighted average assumptions for dividend yield, risk-free interest rate, expected volatility, and expected life.

***Earnings Per Share***

Diluted earnings per share are based on the weighted-average number of common shares outstanding and common stock equivalent shares. Common stock equivalent shares result from the assumed exercise of outstanding stock options or other potentially dilutive equity instruments, including HNC's outstanding convertible subordinated notes, that have a dilutive effect when applying the treasury stock method. Basic earnings per share are computed on the basis of the weighted average number of common shares outstanding.

***Impairment of Long-lived Assets***

We assess potential impairment to long-lived assets and certain identifiable intangible assets 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 net cash flows 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

(in thousands, except per share amounts)

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.

***Advertising and Promotion Costs***

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs totaled $1,549, $1,117 and $1,087 in fiscal 2002, 2001 and 2000, respectively, and are included in sales, general and administrative expense in our consolidated statements of income.

**2. Acquisitions**

***HNC Software Inc.***

On August 5, 2002, we completed our acquisition of HNC Software Inc. ("HNC"), a provider of high-end analytic and decision management software. Under the merger agreement, the stockholders of HNC received 0.519 of a newly issued share of the Fair, Isaac common stock for each share of HNC stock held, and we assumed outstanding HNC stock options based on the same ratio. Results of operations of HNC have been included in our results prospectively from August 5, 2002. We acquired HNC primarily to offer a broader product footprint addressing customer acquisition, origination and management as well as to increase our industry and international presence.

We accounted for this transaction using the purchase method of accounting. The transaction resulted in the issuance of approximately 18,780 shares of Fair, Isaac's common stock and the assumption of options to purchase approximately 3,898 shares of Fair, Isaac common stock. The total consideration paid for the acquisition of HNC was calculated as follows:

| | |
|---|---|
| Fair value of 18,780 shares of Fair, Isaac common stock | $720,045 |
| Acquisition related costs | 8,545 |
| Fair value of options to purchase Fair, Isaac common stock, less $1,827 representing the portion of the intrinsic value of HNC's unvested options | 66,878 |
| Total consideration paid | $795,468 |

The fair value of the common stock issued in the transaction was valued at approximately $38.34 per share, which is equal to the weighted average closing sale price per share, by volume, of Fair, Isaac's common stock as reported on the New York Stock Exchange for the five-day trading period beginning two days before and ending two days after the merger announcement date of April 29, 2002.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

This total consideration paid was allocated to the acquired assets and assumed liabilities as follows:

| | |
|---|---|
| **Assets** | |
| Cash, cash equivalents, and investments | 325,562 |
| Receivables | 37,935 |
| Property, plant, and equipment | 17,802 |
| Goodwill | 423,598 |
| Intangible assets: | |
| Trade name | 8,600 |
| Completed technology | 42,000 |
| Customer contracts and relationships | 39,700 |
| In-process research and development | 40,200 |
| Other assets | 56,531 |
| Total assets | 991,928 |
| **Liabilities** | |
| Current liabilities | 52,931 |
| Non-current liabilities | 3,831 |
| Convertible subordinated notes | 139,698 |
| Total liabilities | 196,460 |
| **Net assets** | 795,468 |

Of the acquired intangible assets, $40,200 pertained to in-process research and development and was written off by our recognition of a one-time charge to operations on the acquisition date. The remaining acquired intangible assets have a weighted average useful life of approximately 9 years and are being amortized using the straight-line method over their estimated useful lives as follows: trade name, five-years; completed technology, 15 years; and customer contracts and relationships, five years. The goodwill recorded in this transaction has not yet been allocated to our four operating segments. None of this goodwill will be deductible for tax purposes.

In-process research and development (“IPR&D”) recorded in connection with the acquisition of HNC represents the present value of the estimated after-tax cash flows expected to be generated by purchased technologies that, as of the acquisition dates, had not yet reached technological feasibility. The classification of the technology as complete or under development was made in accordance with the guidelines of SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, and Financial Accounting Standards Board Interpretation No. 4, *Applicability of SFAS No. 2 to Business Combinations Accounted for by the Purchase Method.* In addition, the Fair Value, as defined below, of the IPR&D projects was determined in accordance with SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets.*

HNC’s IPR&D projects were valued through the application of discounted cash flow analyses, taking into account many key characteristics of HNC as well as its future prospects, the rate technology changes in the industry, product life cycles, risks specific to each project, and various projects’ stage of completion. Stage of completion was estimated by considering the time, cost, and complexity of tasks completed prior to the acquisition verses the project’s overall expected cost, effort and risks required for achieving technological feasibility. In the application of the discounted cash flow analyses, HNC’s management provided distinct revenue forecasts for each IPR&D project. The projections were based on the expected date of market

introduction, an assessment of customer needs, the expected pricing and cost structure of the related product(s), product life cycles, and the importance of the existing technology relative to the in-process technology. In addition, the costs expected to complete each project were added to the operating expenses to calculate the operating income for each IPR&D project. As certain other assets contribute to the cash flow attributable to the assets being valued, returns to these other assets were calculated and deducted from the pre-tax operating income to isolate the economic benefit solely attributable to each of the in-process technologies. The present value of IPR&D was calculated based on discount rates recommended by the American Institute of Certified Public Accountants IPR&D Practice Aid, which depend on the stage of completion and the additional risk associated with the completion of each of the IPR&D projects. As a recommended basis for the valuation of technology under development, we considered venture capital rates of return as an appropriate measure of the discount rates associated with each IPR&D project. As a result, the earnings associated with the incomplete technology were discounted at a rate ranging from 25% to 60%.

Two of our officers are former HNC employees that were party to agreements with HNC providing for payment in the event of a change in control of HNC, 80% of which was payable immediately and 20% of which was payable after three months of service following the acquisition date. As a result of our acquisition of HNC, these employees were paid the first installment in August 2002, and we assumed the obligation to make aggregate cash payments of $321 to these employees in November 2002. During fiscal 2002, we recorded expense of $214 relating to these agreements. This amount was included in other accrued liabilities at September 30, 2002.

***Nykamp Consulting Group, Inc.***

On December 17, 2001, we acquired substantially all of the assets of Nykamp Consulting Group, Inc. (“Nykamp”), a privately-held company that provides customer relationship management (“CRM”) strategy and implementation services. We accounted for this transaction using the purchase method of accounting. Purchase consideration under the agreement included cash consideration of $2,821, including $406 that we placed into escrow to secure specifically identified receivable balances, and the issuance of $3,000 in restricted Fair, Isaac common stock. We placed 87 shares of our common stock into escrow to securitize the restricted stock obligation. The restricted stock is to be issued in installments of $1,000 each on the first, second and third anniversaries from the acquisition, beginning on December 17, 2002, subject to indemnification claims made by us, if any. The number of shares to be issued on each anniversary date will be determined by dividing $1,000 by the average market price of our common stock for the ten consecutive trading days leading up to the issuance dates. We recorded the restricted stock at a discounted amount of $2,817 within our consolidated statement of stockholders’ equity. Results of operations of Nykamp have been included in our results prospectively from December 17, 2002. Our rationale for acquiring Nykamp was to expand our CRM consulting and implementation offerings.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

This total consideration paid was allocated to the acquired assets and assumed liabilities as follows:

| | |
|---|---|
| **Assets** | |
| Current assets | 2,033 |
| Property, equipment and other assets | 327 |
| Intangible assets (including trade name, non-compete agreement, and customer base, amortizable between 3 and 5 years) | 1,359 |
| Goodwill | 2,706 |
| Total assets | 6,425 |
| **Liabilities** | (787) |
| **Net assets** | 5,638 |

The total goodwill of $2,706 was allocated entirely to our Professional Services operating segment, all of which is expected to be deductible for tax purposes.

***Unaudited Pro Forma Results of Operations***

The following unaudited pro forma results of operations present the impact on our results of operations for fiscal 2002 and 2001 as if the HNC and Nykamp acquisitions had occurred on October 1, 2000:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Historical | Proforma Combined | Historical | Proforma Combined |
| | | (Unaudited) | | (Unaudited) |
| Revenues | $392,418 | $579,438 | $329,148 | $562,926 |
| Net income | 17,884 | 57,906 | 46,112 | 47,795 |
| Basic net income per share | $ 0.49 | $ 1.11 | $ 1.40 | $ 0.92 |
| Diluted net income per share | $ 0.48 | $ 1.08 | $ 1.33 | $ 0.90 |

FAIR, ISAAC AND COMPANY, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands, except per share amounts)

## 3. Marketable Securities Available for Sale

The following is a summary of marketable securities available for sale at September 30, 2002 and 2001:

| | 2002 | | | | 2001 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Short-term:** | | | | | | | | |
| U.S. government obligations | $ 85,748 | $ 75 | $ (32) | 85,791 | $ 13,646 | $ 154 | $ — | $ 13,800 |
| U.S. corporate debt | 98,686 | 94 | (194) | 98,586 | — | — | — | — |
| | $184,434 | $ 169 | $ (226) | $184,377 | $ 13,646 | $ 154 | $ — | $ 13,800 |
| **Long-term:** | | | | | | | | |
| U.S. government obligations | $109,730 | $1,213 | $ (87) | $110,856 | $106,861 | $3,847 | $ — | $110,708 |
| U.S. corporate debt | 26,058 | 61 | (4) | 26,115 | — | — | — | — |
| Marketable equity securities | 4,588 | — | (1,161) | 3,427 | 4,755 | — | (628) | 4,127 |
| | $140,376 | $1,274 | $(1,252) | $140,398 | $111,616 | $3,847 | $(628) | $114,835 |

Short-term marketable securities mature at various dates over the course of the next twelve months. Our long-term U.S. government obligations and U.S. corporate debt investments mature at various dates over the next one to five years. During fiscal 2002 and 2001, we recognized gross realized gains on the sale of investments totaling $2,662 and $54, respectively, which are included in other income (expense), net in the accompanying consolidated statements of operations.

The long-term marketable equity securities represent securities held under a supplemental retirement and savings plan for certain officers and senior management employees, which are distributed upon termination or retirement of the employees.

## 4. Other Investments

Other long-term investments include the following at September 30, 2002 and 2001:

| | 2002 | 2001 |
|---|---|---|
| Cost basis equity investments | $9,519 | $ — |
| Other | 285 | 1,308 |
| | $9,804 | $1,308 |

As a result of our acquisition of HNC, we maintain two investments that are being accounted for using the cost method as follows: i) we hold an approximate 4.8% ownership interest in Open Solutions Inc. (“OSI”), a developer of client/ server core data processing solutions for community banks and credit unions, and ii) we are a limited partner in Azure Capital Partners L.P (“Azure”), a venture capital investment management fund. The OSI and Azure investments were recorded by us at their estimated fair values of $7,469 and $2,050, respectively, in connection with the HNC acquisition, and such carrying amounts have not changed through September 30, 2002. We are committed to invest an additional $2,200 into the Azure fund,

(in thousands, except per share amounts)

which we anticipate making in fiscal 2003. Including this commitment, our percentage ownership in this fund will not exceed two percent of the total fund ownership.

We are also the holder of a $500 secured promissory note receivable from OSI that originated from HNC's sale to OSI of certain product line assets prior to our acquisition of HNC. This note bears interest at the rate of 6.0% per annum and all principal and interest is payable in full in March 2004. As discussed in Note 20, we received an additional $950 secured promissory note from OSI in November 2002, in connection with our sale of additional product line assets to OSI.

On June 1, 2000, we entered into a joint venture, OptiFI, Inc., with MarketSwitch Corporation ("MarketSwitch"). Fair, Isaac and MarketSwitch each held a 50% voting interest in the joint venture. We accounted for the investment on an equity basis and recorded our equity share of the joint venture's operating gain/loss each period. During fiscal 2002, the joint venture wound down its business operations, reverted certain rights in its intangible assets to MarketSwitch and us, and distributed its remaining assets among its creditors. Pursuant to a separation agreement executed by us, MarketSwitch and the joint venture, we agreed to pay the joint venture $5 in consideration for the rights assigned by the separation agreement. We have no further obligation to fund the joint venture or to discharge any of its remaining indebtedness. During fiscal 2002, we wrote off our remaining investment balance of $210, and recorded our share of the equity loss of the joint venture and the investment write-off within other income, net. During fiscal 2002, 2001 and 2000, we recorded in other income, net our equity share of the operating loss from the joint venture totaling $866, $854 and $70 respectively.

## 5. Receivables

Receivables at September 30, 2002 and 2001 consist of the following:

| | 2002 | 2001 |
|---|---|---|
| Billed | $ 91,415 | $54,133 |
| Unbilled | 31,250 | 28,452 |
| | 122,665 | 82,585 |
| Less allowance | (1,209) | (2,514) |
| Receivables, net | $121,456 | $80,071 |

Unbilled receivables represent revenue recorded in excess of amounts billable pursuant to contract provisions and generally become billable at contractually specified dates or upon the attainment of milestones. Unbilled amounts are expected to be realized within one year.

During fiscal 2002, 2001 and 2000, we increased our allowance by $2,285, $2,542 and $304, respectively, and wrote off (net of recoveries) $3,590, $1,158 and $448, respectively.

FAIR, ISAAC AND COMPANY, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands, except per share amounts)

## 6. Property and Equipment

Property and equipment at September 30, 2002 and 2001 consist of the following:

| | 2002 | 2001 |
|---|---|---|
| Data processing equipment and software | $116,748 | $ 89,166 |
| Office furniture, vehicles and equipment | 26,331 | 21,649 |
| Leasehold improvements | 20,392 | 19,836 |
| Capitalized leases | — | 2,841 |
| Less accumulated depreciation and amortization | (99,573) | (84,109) |
| Net property and equipment | $ 63,898 | $ 49,383 |

We capitalized $6,729, $2,910, and $2,775 of software costs during fiscal 2002, 2001 and 2000, respectively, which has been included within data processing equipment and software. Such capitalized costs are amortized over a two-year period.

Depreciation and amortization expense on property and equipment totaled $26,605, $22,974, and $19,361 for fiscal years 2002, 2001 and 2000, respectively, of which $3,279, $3,060, and $301 related to the amortization of capitalized software costs during such fiscal years.

We maintained a capital lease for a building bearing an interest rate of 7% that matured in June 2001. Capital lease amortization expense totaled $237 and $2,604 during fiscal 2001 and 2000, respectively. The amount of accumulated amortization of the assets under capital leases was $2,841 at September 30, 2001. We did not maintain any capital leases during fiscal 2002.

FAIR, ISAAC AND COMPANY, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands, except per share amounts)

## 7. Composition of Certain Financial Statement Captions

| | September 30, | |
|---|---|---|
| | 2002 | 2001 |
| **Goodwill, net:** | | |
| Goodwill | $442,020 | $15,716 |
| Less accumulated amortization | (11,281) | (9,186) |
| | $430,739 | $ 6,530 |
| **Intangible assets, net:** | | |
| Completed technology | $ 42,000 | $ — |
| Customer contracts and relationships | 39,855 | — |
| Tradename | 9,090 | — |
| Other | 714 | — |
| | 91,659 | — |
| Less accumulated amortization | (2,284) | — |
| | $ 89,375 | $ — |
| **Other accrued liabilities:** | | |
| Investment banking fees payable — HNC acquisition related | $ 12,058 | $ — |
| Accruals related to abandoned facility lease obligations | 6,858 | — |
| Other | 17,616 | 9,959 |
| | $ 36,532 | $ 9,959 |

## 8. Convertible Subordinated Notes

In connection with our merger with HNC and the subsequent liquidation of the HNC entity, we are the issuer of $150,000 of 5.25% Convertible Subordinated Notes (the “Notes”) that mature on September 1, 2008. In connection with the HNC merger, the Notes became convertible into shares of Fair, Isaac common stock at a conversion rate of approximately 18.02 shares of Fair, Isaac common stock per $1,000 principal amount of the Notes, subject to anti-dilution adjustment. The 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 Notes is payable on March 1 and September 1 of each year until maturity. We may redeem the Notes on or after September 5, 2004, or earlier if the price of Fair, Isaac common stock reaches certain levels. If we redeem the Notes prior to September 1, 2007, we will also be required to pay a redemption premium as prescribed by the indenture.

In connection with the HNC merger, we recorded the Notes at their fair market value of $139,698, as determined by reference to quoted market prices on August 5, 2002, which resulted in a note discount of $10,302. We are accreting this amount over the remaining term of the notes to their $150,000 maturity value via the effective interest method. We recorded interest expense of $1,471 and made cash interest payments of $3,938 related to the Notes during fiscal 2002. The carrying amount of the Notes at September 30, 2002 was $139,922. The fair value of the Notes at September 30, 2002, as determined based upon quoted market prices, was $140,719.

FAIR, ISAAC AND COMPANY, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands, except per share amounts)

## 9. Credit Agreement

At September 30, 2002, HNC was party to a credit agreement with a financial institution that provided for a $15,000 revolving line of credit through July 2003. Borrowings under this agreement bore interest at the rate of LIBOR plus 0.5%, payable monthly (which would have amounted to approximately 2.3% at September 30, 2002). The agreement contained covenants that, among other things, restricted HNC's ability to pay cash dividends and make loans, advances or investments, or to effect certain asset transfers without the consent of the financial institution. As of September 30, 2002 no borrowings were outstanding under this agreement and HNC was in compliance with all related covenants, with the exception of a covenant pertaining to asset transfers which the financial institution waived following our acquisition of HNC. As of September 30, 2002, this credit facility also served to collateralize certain letters of credit aggregating $683, made by us in the normal course of business. Available borrowings under this credit agreement were reduced by the principal amount of letters of credit collateralized by the facility.

As discussed in Note 20, this credit agreement was replaced upon Fair, Isaac's execution of a new credit agreement in November 2002.

## 10. Restructuring and Merger-Related Expenses

***Fiscal 2002 restructuring and merger-related expenses***

During fiscal 2002, in connection with our acquisition of HNC, we incurred charges totaling $7,224, consisting of the following: (i) $5,015 in restructuring charges, including $3,221 in charges associated with our abandonment of a Fair, Isaac facility lease concurrent with the merger, representing future cash obligations under the lease net of estimated sublease income, and $1,794 in severance costs associated with a reduction in Fair, Isaac staff in connection with the merger, and (ii) $2,209 in other non-recurring merger related costs, consisting primarily of retention bonuses earned through September 30, 2002 by employees with future severance dates and employee outplacement costs.

The following table summarizes our fiscal 2002 restructuring activity related to the above actions:

| | 2002 Expense | Cash Payments | Remaining Accrual at September 30, 2002 |
|---|---|---|---|
| Facilities charges | $3,221 | $(145) | $3,076 |
| Employee separation | 1,794 | (264) | 1,530 |
| | $5,015 | $(409) | $4,606 |

***Fiscal 2000 restructuring expenses***

In October 1999, we announced the discontinuance of our Healthcare Receivables Management System product line, and in connection therewith recorded a restructuring charge totaling $1,935 during fiscal 2000. We also recorded a restructuring charge totaling $988 related to a reduction in staff during fiscal 2000. These restructuring actions were completed during fiscal 2000 and resulted in a combined restructuring charge of $2,923 in fiscal 2000, $263 of which related to the write-down of operating assets. At September 30, 2000, we had an outstanding restructuring liability of $385 related to these charges, which was included in other accrued liabilities. During fiscal 2001, we made cash payments of $221 and wrote off $164 in remaining operating assets such that no remaining restructuring liability existed at September 30, 2001.

FAIR, ISAAC AND COMPANY, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands, except per share amounts)

## 11. Income Taxes

The provision for income taxes consisted of the following during fiscal 2002, 2001 and 2000:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Current:** | | | |
| Federal | $23,754 | $22,638 | $17,755 |
| State | 4,933 | 5,310 | 3,954 |
| Foreign | 1,212 | 364 | 217 |
| | 29,899 | 28,312 | 21,926 |
| **Deferred:** | | | |
| Federal | 4,371 | 2,150 | (2,188) |
| State | 944 | 279 | (299) |
| | 5,315 | 2,429 | (2,487) |
| **Total** | $35,214 | $30,741 | $19,439 |

During fiscal 2002, 2001 and 2000, we realized certain tax benefits related to nonqualified and incentive stock options in the amounts of $14,350, $8,449 and $1,786, respectively. The tax benefits from these stock option tax deductions were credited directly to paid-in-capital.

The tax effects of significant temporary differences resulting in deferred tax assets and liabilities at September 30, 2002 and 2001 are as follows:

| | 2002 | 2001 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 39,021 | $ — |
| Research and development credit carryforwards | 15,953 | — |
| Depreciation | 18,568 | 891 |
| Accrued lease costs | 3,318 | 75 |
| Compensated absences | 3,860 | 2,767 |
| Employee benefit plans | 1,760 | 1,838 |
| Deferred revenue | — | 2,131 |
| Investments | 2,412 | — |
| Deferred compensation | 2,382 | 536 |
| Bad debt provision | 2,096 | 1,005 |
| Other | 1,581 | 3,076 |
| | 90,951 | 12,319 |
| Less valuation allowance | (11,167) | (222) |
| | 79,784 | 12,097 |

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

| | 2002 | 2001 |
|---|---|---|
| Deferred tax liabilities: | | |
| Amortization | (23,439) | — |
| Convertible subordinated notes | (2,263) | — |
| Other | (689) | (1,376) |
| | (26,391) | (1,376) |
| Deferred tax assets, net | $ 53,393 | $10,721 |

We acquired net operating losses and research credits in connection with our acquisition of HNC. As of September 30, 2002, we had available federal and state net operating loss carryforwards of approximately $104,974 and $43,854, respectively. We also have available federal and California research and development tax credit carryforwards of approximately $10,803 and $7,923, respectively. The federal net operating loss and credit carryforwards will expire at various dates beginning in fiscal 2019 through fiscal 2021, if not utilized. The state net operating loss carryforwards will begin to expire in fiscal 2004 through fiscal 2021, if not utilized. Utilization of our net operating loss carryforwards and credits may be subject to an annual limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state provisions.

Based upon the level of historical taxable income and projections for future taxable income over the periods that the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowance, at September 30, 2002. In connection with the HNC acquisition, we recorded a valuation allowance of $11,167 against acquired deferred tax assets. If these deferred tax assets are later realized, the release of the related valuation allowance will result in a credit to goodwill.

The reconciliation between the federal statutory income tax rate of 35% and the our effective tax rate is shown below for fiscal 2002, 2001 and 2000:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Income tax provision at federal statutory rates** | $18,584 | $26,898 | $16,475 |
| State income taxes, net of federal benefit | 3,820 | 3,633 | 2,376 |
| In-process research and development charge | 14,070 | — | — |
| Research and development credits | (1,442) | (216) | — |
| Increase (decrease) in valuation allowance | (222) | 7 | (196) |
| Other | 404 | 419 | 784 |
| **Recorded income tax provision** | $35,214 | $30,741 | $19,439 |

Cash paid for income tax payments totaled $17,791, $18,490 and $17,518 during fiscal 2002, 2001 and 2000, respectively.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

## 12. Earnings Per Share

The following reconciles the numerators and denominators of basic and diluted earnings per share ("EPS") for fiscal 2002, 2001 and 2000:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Numerator — net income | $17,884 | $46,112 | $27,631 |
| Denominator — shares: | | | |
| Basic weighted-average shares | 36,534 | 32,979 | 32,085 |
| Effect of dilutive securities | 1,016 | 1,610 | 843 |
| Diluted weighted-average shares | 37,550 | 34,589 | 32,928 |
| Earnings per share | | | |
| Basic | $ 0.49 | $ 1.40 | $ 0.86 |
| Diluted | $ 0.48 | $ 1.33 | $ 0.84 |

The computation of diluted EPS for fiscal 2002, 2001 and 2000, excludes stock options to purchase 1,424, 76 and 189 shares of common stock, respectively, because the exercise prices for such options were greater than the respective average market prices of the common shares and their inclusion would be antidilutive. The computation of diluted EPS for fiscal 2002 also excludes 2,703 shares of common stock issuable upon conversion of our convertible subordinated notes, as the inclusion of such shares would have been antidilutive after adjusting interest expense, net of tax, in the numerator of the diluted EPS calculation.

## 13. Stockholders' Equity

***Common Stock***

On April 22, 2002, our Board of Directors authorized a three-for-two stock split effected in the form of a 50% stock dividend with cash payment in lieu of fractional shares, payable on June 5, 2002 to holders of our common stock on record on May 15, 2002 at the close of business. On May 1, 2001, our Board of Directors authorized a three-for-two stock split effected in the form of a 50% stock dividend with cash payment in lieu of fractional shares, payable on June 4, 2001 to holders of our common stock on record on May 14, 2001 at the close of business. All share and per share amounts within the accompanying consolidated financial statements and notes have been restated to reflect these stock splits that occurred in fiscal 2002 and 2001.

During fiscal 2002, our stockholders approved an amendment to our Restated Certificate of Incorporation, as previously amended, to increase the number of shares of common stock authorized for issuance from 35,000 shares to 100,000 shares.

We paid quarterly dividends on common stock of two cents per share, or eight cents per year, during each of fiscal 2002, 2001 and 2000.

***Stockholder Rights Plan***

In August 2001, our Board of Directors adopted a stockholder rights plan pursuant to which one right to purchase preferred stock was distributed for each outstanding share of common stock held of record on August 21, 2001. Since this distribution, all newly issued shares of common stock, including the shares issued in connection with the acquisition of HNC Software, have been accompanied by a preferred stock purchase right. In general, the rights will become exercisable and trade independently from the common stock if a person or group acquires or obtains the right to acquire 15 percent or more of the outstanding shares of

common stock or commences a tender or exchange offer that would result in that person or group acquiring 15 percent or more of the outstanding shares of common stock, either event occurring without the consent of the Board of Directors. Each right represents a right to purchase Series A Participating Preferred Stock in an amount and at an exercise price which are subject to adjustment. The person or group who acquired 15 percent or more of the outstanding shares of common stock would not be entitled to make this purchase. The rights will expire in August 2011, or they may be redeemed by the Company at a price of $0.001 per right prior to that date.

**14. Employee Benefit Plans**

***Defined Contribution Plans***

We sponsor a Fair, Isaac 401(k) plan for eligible employees. Under this plan, eligible employees may contribute up to 15% of compensation, not to exceed statutory limits. We also provide a company matching contribution. In connection with the HNC merger, we also assumed the HNC 401(k) plan, which we froze and consolidated into the Fair, Isaac 401(k) plan in September 2002. Our contributions into all 401(k) plans, including other former company sponsored plans that have since merged into the Fair, Isaac 401(k) plan or have been frozen, totaled $4,457, $3,799 and $3,618 during fiscal 2002, 2001 and 2000, respectively.

***Employee Stock Ownership Plans***

Prior to fiscal 2000, we made annual contributions into a domestic Employee Stock Ownership Plan (“Domestic ESOP”) that covered eligible employees, as determined annually by our Board of Directors. Effective at the beginning of fiscal 2000, we stopped accepting new participants into the Domestic ESOP and during fiscal 2000 and subsequent years we made no provisions for contributions into this plan. Effective October 31, 2001, the Domestic ESOP was formally terminated and during fiscal 2002 we distributed the assets held in the plan. The Internal Revenue Service issued a Favorable Determination Letter regarding this plan termination.

We maintain a Non-U.S. Employee Stock Ownership Plan (“Non-U.S. ESOP”) that covers eligible employees working in the United Kingdom and contributions into the Non-U.S. ESOP are determined annually by our Board of Directors. During fiscal 2002, we recorded a provision of $154 for contributions into this plan. During fiscal 2001 and 2000, no contribution provisions were made into this plan.

***Employee Incentive Plans***

We maintain various employee incentive plans for the benefit of eligible employees, including officers. Awards under these plans have been calculated and awarded quarterly during fiscal 2002 and 2001, and annually in fiscal 2000. Awards are based on the achievement of certain financial and performance objectives. We also maintained a separate incentive plan through fiscal 2000 for the benefit of officers. This officers’ incentive plan was consolidated with our employee incentive plans during fiscal 2000. Total expenses under our employee incentive plans were $4,915, $4,841 and $1,661 during fiscal 2002, 2001 and 2000, respectively. Total expenses under the officers’ incentive plan during fiscal 2000 were $1,348.

***Employee Stock Purchase Plans***

Under the 1999 Employee Stock Purchase Plan (the “Purchase Plan”), we are authorized to issue up to 3,375 shares of common stock to eligible employees. Employees may have up to 10% of their base salary withheld through payroll deductions to purchase Fair, Isaac common stock during semi-annual offering periods. The purchase price of the stock is the lower of 85% of (i) the fair market value of the common stock on the enrollment date (the first day of the offering period), or (ii) the fair market value on the exercise date

(the last day of each offering period). Offering period means approximately six-month periods commencing (a) on the first trading day on or after January 1 and terminating on the last trading day in the following June, and (b) on the first trading day on or after July 1 and terminating on the last trading day in the following December.

A total of 102, 123 and 50 shares of our common stock with a weighted average fair value of $30.82, $17.48 and $16.62 per share were issued under the Purchase Plan during fiscal 2002, 2001 and 2000, respectively. At September 30, 2002, 3,102 shares remained available for issuance.

In connection with our acquisition of HNC, we agreed to assume HNC's Employee Stock Purchase Plan (the "HNC Purchase Plan") for the remaining semi-annual purchase period ending on January 31, 2003. In connection with this plan assumption, we became authorized to issue up to 793 shares of our common stock to eligible employee participants, which consisted of former HNC employees that participated in the HNC Purchase Plan prior to the acquisition. This plan will be terminated by us at the end of the final purchase period on January 31, 2003. Until its termination, existing participants may contribute up to 10% of their base salary into this plan to purchase Fair, Isaac stock at the lower of 85% of (i) the fair market value of HNC common stock at the beginning of the applicable offering period, adjusted to reflect the merger exchange ratio into Fair, Isaac stock, and (ii) the fair market value of Fair, Isaac common stock on January 31, 2003. None of our common stock was issued under the HNC Purchase Plan during fiscal 2002.

**15. Stock Option Plans**

We maintain a Fair, Isaac stock option plan under which we may grant stock options, stock appreciation rights, restricted stock and common stock to officers, key employees and non-employee directors. Under this plan, a number of shares equal to 4% of the number of shares of Fair, Isaac common stock outstanding on the last day of the preceding fiscal year is added to the shares available under the plan each fiscal year, provided that the number of shares for grants of incentive stock options for the remaining term of the plan shall not exceed 3,375 shares. As of September 30, 2002, 363 shares remained available for grant under this plan. We maintain individual stock option plans for certain of our officers and the chairman of the board. There are no shares available for future grant under these plans. Granted awards generally have a maximum term of ten years and vest over four years.

We also assumed all outstanding stock options held by former employees and non-employee directors of HNC, who as of our acquisition date, held unexpired and unexercised stock option grants under the various HNC stock option plans. As of September 30, 2002, 1,087 shares remained available for future grant under these option plans, however, the issuance of these shares may be subject to further approval by our stockholders under proposed New York Stock Exchange corporate governance rules.

During the fourth quarter of fiscal 2002, we granted 163 shares of restricted stock to various key employees, for which we recorded deferred compensation of $5,000 based upon the aggregate market value of the shares at the grant date. The shares of the restricted stock vest in 25% increments at each annual anniversary from the grant date. We are amortizing this deferred compensation on a straight-line basis over the total four-year vesting period. Amortization of deferred compensation related to these grants totaled $198 during fiscal 2002, and is recorded in cost of revenues, research and development, and sales, general and administrative expense within the accompanying statement of operations.

During fiscal 2000, we granted 945 stock options to an officer and recorded associated deferred compensation of $3,990. The deferred compensation is being amortized on a straight-line basis over the four-year vesting period of the options. Amortization of deferred compensation related to these options totaled $998, $998 and $831 during fiscal 2002, 2001 and 2000, respectively, and is recorded in sales, general and administrative expense in the accompanying statement of operations.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

Option activity under our plans during fiscal 2002, 2001 and 2000 is summarized as follows:

| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | Options | Weighted-average Exercise Price | Options | Weighted-average Exercise Price | Options | Weighted-average Exercise Price |
| Outstanding at beginning of year | 6,422 | $19.60 | 6,597 | $16.47 | 5,333 | $14.76 |
| Granted | 1,946 | $38.19 | 2,287 | $25.36 | 3,432 | $17.27 |
| Assumption of HNC options | 3,898 | $32.87 | — | — | — | — |
| Exercised | (1,383) | $17.10 | (2,078) | $16.48 | (1,089) | $10.31 |
| Forfeited | (841) | $28.78 | (384) | $17.01 | (1,079) | $16.80 |
| Outstanding at end of year | 10,042 | $27.93 | 6,422 | $19.60 | 6,597 | $16.47 |
| Options exercisable at year end | 3,675 | $24.54 | 1,388 | $16.90 | 1,253 | $15.91 |

The weighted-average fair value of options granted during fiscal 2002, 2001 and 2000 was $16.88, $15.96 and $11.82, respectively.

The following table summarizes information about stock options outstanding at September 30, 2002:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| | Number Outstanding | Weighted-average Remaining Contractual Life | Weighted-average Exercise Price | Number Outstanding | Weighted-average Exercise Price |
| $ 0.21 to $16.33 | 2,049 | 6.04 | $14.38 | 1,157 | $13.97 |
| $16.42 to $21.81 | 1,907 | 6.21 | $18.91 | 927 | $18.43 |
| $21.93 to $30.40 | 1,996 | 7.06 | $27.90 | 539 | $26.98 |
| $30.58 to $38.73 | 1,769 | 7.08 | $33.33 | 455 | $33.16 |
| $38.88 to $44.92 | 1,866 | 7.56 | $40.96 | 425 | $42.75 |
| $45.88 to $64.55 | 455 | 5.04 | $52.45 | 172 | $53.13 |
| $ 0.21 to $64.55 | 10,042 | 6.70 | $27.93 | 3,675 | $24.54 |

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions during fiscal 2002, 2001 and 2000:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Expected life (years) | 4 | 5 | 5 |
| Interest rate | 3.3% | 5.1% | 6.4% |
| Volatility | 51% | 49% | 41% |
| Dividend yield | 0% | 0% | 0% |

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

Stock-based compensation under SFAS No. 123 would have had the following pro forma effects for fiscal 2002, 2001 and 2000:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net income, as reported | $17,884 | $46,112 | $27,631 |
| Pro forma net income (loss) | $ (554) | $33,573 | $19,010 |
| Earnings per share, as reported: | | | |
| Basic | $ 0.49 | $ 1.40 | $ 0.86 |
| Diluted | $ 0.48 | $ 1.33 | $ 0.84 |
| Pro forma earnings (loss) per share: | | | |
| Basic | $ (0.02) | $ 1.02 | $ 0.59 |
| Diluted | $ (0.02) | $ 0.97 | $ 0.58 |

**16. Segment Information**

As a result of the merger with HNC on August 5, 2002, we reorganized into four reportable segments worldwide to align with the new internal management of our business operations based on products. The reportable segments are Scoring Solutions, Strategy Machine Solutions, Professional Services, and Analytic Software Tools.

The Scoring Solutions segment includes scoring services distributed through major credit reporting agencies and through ChoicePoint; the ScoreNet service; the PreScore services; and insurance bureau scoring services sold through credit reporting agencies and ChoicePoint. It consists of products previously reported in our Scoring segment. These products and services were previously reported in the Global Data Repositories & Processors segment in fiscal year 2001.

The Strategy Machine Solutions segment includes the following Strategy Machine products: TRIAD credit account management services distributed through third-party bankcard processors and Fair, Isaac MarketSmart Decision System (MarketSmart), LiquidCredit, TelAdaptive, consumer services available through our myFICO.com Web site and strategic alliance partners' Web sites, List Processing and Strategy Science products. The Strategy Machine Solutions segment also includes products we acquired with the HNC merger, notably Falcon Fraud Manager, CompAdvisor/ AutoAdvisor Medical Bill Review, and CardAlert Fraud Manager. The Strategy Machine Solutions segment includes the products and services that were part of our previous Strategy Machines segment, as well as software license fees and maintenance revenues related to our SEARCH, ScoreWare, StrategyWare and TRIAD end-user products. Our TRIAD credit account management services distributed through third-party bankcard processors were included under the Global Data Repositories & Processors segment in fiscal year 2001, and the remaining products in this new segment were included in either the Global Financial Services segment or the Other segment in fiscal 2001.

The Professional Services segment includes all consulting and custom analytics services, which were previously reported as part of our Consulting segment. In fiscal 2001, custom analytics were included in the Other segment and most other consulting services were reported in the segment in which the revenues from the related products and services were reported.

The Analytic Software Tools segment principally includes the Fair, Isaac Blaze Decision system (formerly Fair, Isaac Decision System software), the Fair, Isaac Model Builder software products and the

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

Fair, Isaac Blaze Advisor software. These products were previously reported under our Software & Maintenance segment, while the Blaze Advisor product was previously offered by HNC.

Our Chief Executive and Operating Officers evaluate segment financial performance based on segment revenues and operating income. Segment operating expenses consist principally of personnel, facilities, consulting, travel and other expenses both directly related and allocated to the segments. The Chief Executive and Operating Officers do not evaluate the financial performance of each segment based on their respective assets or capital expenditures.

Segment information for fiscal 2001 and 2000 has been restated to conform to the fiscal 2002 presentation.

| | Fiscal 2002 | | | | |
|---|---|---|---|---|---|
| | Scoring | Strategy Machines | Professional Services | Analytic SW Tools | Total |
| Revenues | $126,626 | $ 190,007 | $ 63,941 | $ 11,844 | $ 392,418 |
| Operating expenses | (62,942) | (162,856) | (60,981) | (11,103) | (297,882) |
| Segment operating income | 63,684 | 27,151 | 2,960 | 741 | 94,536 |
| Unallocated merger-related expenses | | | | | (47,424) |
| Operating income | | | | | 47,112 |
| Unallocated interest expense — convertible subordinated notes | | | | | (1,471) |
| Unallocated interest and other income, net | | | | | 7,457 |
| Income before income taxes | | | | | $ 53,098 |
| Depreciation and amortization | $ 7,027 | $ 19,016 | $ 4,051 | $ 891 | $ 30,985 |

| | Fiscal 2001 | | | | |
|---|---|---|---|---|---|
| | Scoring | Strategy Machines | Professional Services | Analytic SW Tools | Total |
| Revenues | $122,144 | $ 161,828 | $ 38,847 | $ 6,329 | $ 329,148 |
| Operating expenses | (67,316) | (146,580) | (34,927) | (8,218) | (257,041) |
| Segment operating income (loss) | 54,828 | 15,248 | 3,920 | (1,889) | 72,107 |
| Unallocated interest and other income, net | | | | | 4,746 |
| Income before income taxes | | | | | $ 76,853 |
| Depreciation and amortization | $ 6,532 | $ 15,661 | $ 2,472 | $ 409 | $ 25,074 |

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

| | Fiscal 2000 | | | | |
|---|---|---|---|---|---|
| | Scoring | Strategy Machines | Professional Services | Analytic SW Tools | Total |
| Revenues | $111,692 | $ 145,631 | $ 39,668 | $ 1,639 | $ 298,630 |
| Operating expenses | (61,506) | (151,216) | (36,399) | (4,895) | $(254,016) |
| Segment operating income (loss) | 50,186 | (5,585) | 3,269 | (3,256) | 44,614 |
| Unallocated interest and other income, net | | | | | 2,456 |
| Income before income taxes | | | | | $ 47,070 |
| Depreciation and amortization | $ 6,337 | $ 12,895 | $ 2,080 | $ 149 | $ 21,461 |

Our revenues and percentage of revenues by reportable market segments are as follows for fiscal 2002, 2001 and 2000, the majority of which are derived from the sale of products and services within the consumer credit, financial services and insurance industries:

| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| Scoring Solutions | $126,626 | 32% | $122,144 | 37% | $111,692 | 37% |
| Strategy Machine Solutions | 190,007 | 49% | 161,828 | 49% | 145,631 | 49% |
| Professional Services | 63,941 | 16% | 38,847 | 12% | 39,668 | 13% |
| Analytic SW Tools | 11,844 | 3% | 6,329 | 2% | 1,639 | 1% |
| | $392,418 | 100% | $329,148 | 100% | $298,630 | 100% |

In addition, our revenues and percentage of revenues on a geographical basis are summarized below for fiscal 2002, 2001 and 2000. No individual country outside of the United States accounted for 10% or more of revenue in any of these years.

| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| United States | $316,241 | 81% | $269,161 | 82% | $241,487 | 81% |
| International | 76,177 | 19% | 59,987 | 18% | 57,143 | 19% |
| | $392,418 | 100% | $329,148 | 100% | $298,630 | 100% |

The following table presents summary information regarding significant customers whose revenues contributed to 10% or more of our total consolidated revenues during fiscal 2002, 2001 and 2000:

| | Percent of Revenue | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Customer A | 12% | 11% | 10% |
| Customer B | — | — | 12% |

At September 30, 2002, no individual customer contributed to 10% or more of total consolidated receivables. At September 30, 2001, receivables due from one customer accounted for 12% of total consolidated receivables.

FAIR, ISAAC AND COMPANY, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands, except per share amounts)

## 17. Related Party Transaction

We are party to a consulting service agreement with Cherry Tree Development, in which a director of Fair, Isaac holds a 50% beneficial equity interest. The agreement expires in November 2002. During fiscal 2002 and 2001, we recorded $404 and $159 in sales, general and administrative expenses related to this agreement. Accounts payable under this agreement totaled $60 at September 30, 2002. No payable amounts were outstanding under this agreement at September 30, 2001.

## 18. Commitments

Minimum future commitments under non-cancelable operating leases are as follows as of September 30, 2002:

| Fiscal Year | Future Minimum Lease Payments |
|---|---|
| 2003 | $18,383 |
| 2004 | 14,688 |
| 2005 | 13,080 |
| 2006 | 11,933 |
| 2007 | 10,457 |
| Thereafter | 8,098 |
| | $76,639 |

The above amounts will be reduced by contractual sublease commitments totaling $844, $498, $194, $194 and $145 in fiscal 2003 through 2007, respectively. We occupy the majority of our facilities under non-cancelable operating leases with lease terms in excess of one year. Such facility leases generally provide for annual increases based upon the Consumer Price Index or fixed increments. Rent expense under operating leases, including month-to-month leases, totaled $11,992, $10,260 and $9,135 during fiscal 2002, 2001 and 2000, respectively.

In fiscal 2001, we entered into a fixed-price mainframe service agreement that expires in fiscal 2005. Expense recorded by us under this agreement totaled $12,352 during fiscal 2002. No expense was recorded by us under this agreement in fiscal 2001 as the service period had not yet commenced. Future commitments under this service agreement are as follows as of September 30, 2002:

| Fiscal Year | |
|---|---|
| 2003 | $12,498 |
| 2004 | 12,498 |
| 2005 | 1,042 |
| | $26,038 |

We are party to employment agreements with three of our executive officers that stipulate, among other things, base salary levels and performance-based incentive bonus targets. In the event that we terminate employment with any of these executive officers without cause, as defined, we would be obligated to pay certain severance amounts to the executive officers. These agreements also contain change in control provisions that could require us, or an entity acquiring us, to make cash payments to the executive officers in certain instances.

## 19. Contingencies

We are involved in various 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 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.

On April 30, 2002, Douglas Tidwell, seeking to act on behalf of a class of all holders of common stock of HNC Software Inc., filed suit in the Superior Court of the State of California, County of San Diego, and named as defendants all of the then current directors of HNC. The complaint alleges, among other things, that HNC's directors breached their fiduciary duties to HNC's stockholders by approving the Agreement and Plan of Merger that HNC entered into with Fair, Isaac on April 28, 2002 and that the individual defendants engaged in self-dealing in connection with the transaction. The complaint seeks injunctive relief, including enjoining consummation of the merger transaction with Fair, Isaac. The complaint also seeks an award of attorneys' and experts' fees. On July 18, 2002, HNC announced that it had entered into a memorandum of understanding with plaintiff's counsel setting forth the terms of a proposed settlement of the suit. A Stipulation of Settlement implementing the terms of the memorandum of understanding has been entered into by which the case will be dismissed and HNC will pay $492 in attorneys' fees to plaintiffs subject to approval by the court. A substantial portion of HNC's costs in connection with the pending settlement will be reimbursed by HNC's directors' and officers' insurance carrier, and we have accrued estimated incremental costs that will be borne by us. The settlement has been preliminarily approved by the court and a hearing before the court for final approval of the settlement is currently scheduled for December 11, 2002.

## 20. Subsequent Events

In October 2002, we executed an asset purchase agreement with OSI pursuant to which we sold to OSI HNC's former Profit Vision product line, associated customer base, intellectual property rights and other related assets in exchange for a $950 secured promissory note from OSI and OSI's assumption of certain related product line liabilities. The promissory note received bears interest at the rate of 4.75% per annum and all principal and interest is payable in full in October 2005. The note is secured by the assets sold to OSI.

In November 2002, we executed an asset purchase agreement with Bridium, Inc. ("Bridium") pursuant to which we sold to Bridium HNC's former Connectivity Manager product line, associated customer base, intellectual property rights and other related assets in exchange for $3,000 in cash and a $3,000 secured promissory note from Bridium, as well as Bridium's assumption of certain related product line liabilities. The promissory note received bears interest at the rate of 7.0% per annum and is due and payable in twelve quarterly installments commencing in April 2003 and ending in April 2006. The note is secured by the assets sold to Bridium.

In November 2002, we executed a credit agreement with a financial institution that provides for a $15,000 revolving line of credit through February 2004. Under the agreement 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% (which would have amounted to 3.1% at September 30, 2002) or at the financial institution's Prime Rate (which would have amounted to 4.75% at September 30, 2002), payable monthly. This agreement replaces a former $15,000 revolving credit facility that was held by HNC (see Note 9). The agreement also includes a letter of credit subfeature that allows us to issue commercial and standby letters of credit up to maximum amount of $5,000 and a foreign exchange facility that allows us to enter into contracts with the financial institution to purchase and sell certain currencies, subject to a maximum aggregate amount of $20,000 and other specified limits.

**FAIR, ISAAC AND COMPANY, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(in thousands, except per share amounts)**

## 21. Supplementary Financial Data (Unaudited)

The following table presents selected unaudited consolidated financial results for each of the eight quarters in the two-year period ended September 30, 2002. In the opinion of management, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the consolidated financial information for the period presented.

| | Dec. 31, 2001 | Mar. 31, 2002 | Jun. 30, 2002 | Sept. 30, 2002(1) |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| Revenues | $85,061 | $87,050 | $91,014 | $129,293 |
| Cost of revenues | 38,585 | 39,127 | 40,724 | 57,593 |
| Gross profit | $46,476 | $47,923 | $50,290 | $ 71,700 |
| Net income (loss) | $13,547 | $14,185 | $14,352 | $ (24,200) |
| Earnings (loss) per share(3): | | | | |
| Basic | $ 0.40 | $ 0.41 | $ 0.43 | $ (0.55) |
| Diluted | $ 0.38 | $ 0.39 | $ 0.41 | $ (0.55) |
| Shares used in computing earnings (loss) per share: | | | | |
| Basic | 34,190 | 34,532 | 33,629 | 43,717 |
| Diluted | 35,946 | 36,287 | 35,233 | 43,717 |

| | Dec. 31, 2000 | Mar. 31, 2001 | Jun. 30, 2001 | Sept. 30, 2001(2) |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| Revenue | $77,123 | $81,331 | $84,233 | $86,461 |
| Cost of revenues | 35,265 | 37,458 | 37,991 | 37,845 |
| Gross profit | $41,858 | $43,873 | $46,242 | $48,616 |
| Net income | $ 8,817 | $10,659 | $12,352 | $14,284 |
| Earnings per share(3): | | | | |
| Basic | $ 0.26 | $ 0.33 | $ 0.37 | $ 0.42 |
| Diluted | $ 0.27 | $ 0.32 | $ 0.35 | $ 0.40 |
| Shares used in computing earnings per share: | | | | |
| Basic | 33,702 | 32,316 | 33,192 | 33,698 |
| Diluted | 33,252 | 33,666 | 34,956 | 35,793 |

(1) Results of operations for the quarter ended September 30, 2002 include HNC of results of operations since the merger date of August 5, 2002. Results also include a $40.2 million charge associated with the write-off of in-process research and development in connection with the merger and $7.2 million in restructuring and other merger-related charges.

(2) During the quarter ended September 30, 2001, we recognized $6.2 million of revenue related to the resolution of usage fees associated with a large client account. Associated costs of sales were insignificant.

(3) Net income (loss) per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts does not equal the totals for the respective years.

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosures***

Not applicable.

**PART III**

**Item 10.** ***Directors and Executive Officers of the Registrant***

The required information regarding our Directors is incorporated by reference from the information under the caption "Election of Directors — Nominees" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 3, 2003.

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

The required information regarding compliance with Section 16(a) of the Securities Exchange Act is incorporated by reference from the information under the caption "Section 16(a) Beneficial Ownership Reporting Employer Compliance" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 3, 2003.

**Item 11.** ***Executive Compensation***

Incorporated by reference from the information under the captions "Directors Compensation," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Certain Relationships And Related Transactions" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 3, 2003.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Incorporated by reference from the information under the caption "Security Ownership Of Certain Beneficial Owners And Management" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 3, 2003.

The following table provides certain information as of September 30, 2002 with respect to our equity compensation plans:

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options | Weighted Average Exercise Price of Outstanding Options | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|---|---|---|---|
| Equity compensation plans approved by security holders(1) | 7,687,438 | $28.68 | 362,792(2) |
| Equity compensation plans not approved by security holders(3) | 2,354,182(4) | $25.48 | —(5) |
| **Total** | **10,041,620** | **$27.93** | **362,792** |

(1) Includes compensation plans approved by security holders of entities acquired by us.

(2) Under the 1992 Long-Term Incentive Plan, a number of shares equal to 4% of the number of shares of our common stock outstanding on the last day of the preceding fiscal year is available for grant under the Plan in each fiscal year. The amount shown in the table does not include (i) the additional shares that became available for grant on October 1, 2002, or (ii) options to purchase 1,016,198 shares available for issuance under plans assumed by us in connection with the HNC acquisition, the issuance of which may be subject to further approval by our stockholders under proposed New York Stock Exchange corporate governance rules.

(3) The equity compensation plans not approved by security holders consist of (i) individual option grants to some of our executive officers and our Chairman of the Board and (ii) grants under the 1998 Stock Option Plan of HNC which has been assumed by us in connection with the acquisition of HNC. Under each of the individual option grants, the exercise price of the options was equal to the fair market value on the date of grant and, except in one case noted below, the options vest in equal installments over four years. The recipients of these options, the grant date and the number of outstanding shares covered by the options are as follows: Thomas Grudnowski, August 1999, 795,000 shares (options vest 25% on the first anniversary of the grant date and in equal monthly installments thereafter during ensuing three years); Thomas Grudnowski; May and November 2001, 150,000 shares; Mark Pautsch, August 2000, 194,062 shares; Henk Evenhuis, October 1999, 56,250 shares; Kenneth Saunders, August 2002, 200,000 shares; and A. George Battle, February 2002, 11,250 shares. The 1998 Stock Option Plan of HNC covers 947,620 shares. All options granted under the Plan must have an exercise price equal to the fair market value on the date of grant and generally vest over four years.

(4) Includes outstanding options to purchase 1,406,562 shares under individual option agreements and 947,620 shares under the 1998 Stock Option Plan of HNC, which has been assumed by us.

(5) Excludes options to purchase 70,454 shares under the 1998 Stock Option Plan of HNC, the issuance of which may be subject to further approval by our stockholders under proposed New York Stock Exchange corporate governance rules.

For additional information concerning our equity compensation plans, refer to the discussion in Note 15 to the consolidated financial statements.

**Item 13.** ***Certain Relationships and Related Transactions***

Incorporated by reference from the information under the captions “Certain Relationships And Related Transactions” and “Compensation Committee Interlocks and Insider Participation” in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 3, 2003.

**PART IV**

**Item 14.** ***Controls and Procedures***

Within 90 days prior to the date of this report, 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-14(c) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). 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 Securities and Exchange Commission rules and forms. Subsequent to the date of that evaluation, there were no significant changes in Fair, Isaac’s internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies or material weaknesses.

**Item 15.** ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) **1. Consolidated Financial Statements:**



**2. Financial Statement Schedules**

All financial statement schedules are omitted because the required information is not applicable or because the information required is included in the consolidated financial statements and the related notes.

**3. Exhibits:**

| Exhibit Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of April 28, 2002, among Company, Northstar Acquisition Inc. and HNC Software Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed April 29, 2002.) |
| 3.1* | By-laws of the Company (as amended effective August 5, 2002). |
| 3.2 | Certificate of Amendment of Amended and Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.2 to Company's report on Form 10-Q for the fiscal quarter ended December 31, 2001). |
| 4.1 | Indenture, dated as of August 24, 2001, between HNC and State Street Bank and Trust Company of California, N.A., as Trustee. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-3 Registration Statement, File No. 333-72804, filed November 6, 2001.) |
| 4.2 | Form of Note for HNC's 5.25% Convertible Subordinated Note due September 1, 2008. (Included in Exhibit 4.02.) |
| 4.3 | Registration Rights Agreement, dated as of August 24, 2001, between HNC and Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and U.S. Bancorp Piper Jaffray Inc. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-3 Registration Statement, File No. 333-72804, filed November 6, 2001.) |
| 4.4 | Rights Agreement dated as of August 8, 2001 between Fair, Isaac and Company, Incorporated and Mellon Investor Services LLC, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights. (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A relating to the Series A Participating Preferred Stock Purchase Rights filed August 10, 2001.) |
| 4.5 | For Form of Right Certificate. (Included in Exhibit 4.4.) |
| 10.1 | HNC's 1995 Equity Incentive Plan, as amended through March 30, 2000. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-40344, filed June 28, 2000.)(1) |
| 10.2 | Form of 1995 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 10.02 to HNC's Form S-4 Registration Statement, File No. 333-64527, as amended December 21, 1998.)(1) |

| Exhibit Number | Description |
|---|---|
| 10.3 | HNC's 2001 Equity Incentive Plan and related form of Stock Option Agreement. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-62492, filed June 7, 2001.)(1) |
| 10.4 | HNC's 1995 Directors Stock Option Plan, as amended through April 30, 2000. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-40344, filed June 28, 2000.)(1) |
| 10.5 | Form of 1995 Directors Stock Option Plan Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 10.01 to HNC's Form 10-Q for the quarter ended June 30, 1999.)(1) |
| 10.6 | HNC's 1995 Employee Stock Purchase Plan, as amended through January 1, 2002.(1) (Incorporated by reference to Exhibit 10.07 to HNC's report on Form 10K for the fiscal year ended December 31, 2001.) |
| 10.7 | HNC's 1998 Stock Option Plan, as amended through September 1, 2000 and related form of option agreement. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-45442, filed September 8, 2000.)(1) |
| 10.8 | Aptex Software Inc. 1996 Equity Incentive Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-71923, filed February 5, 1999.)(1) |
| 10.9 | Form of Aptex Software Inc. 1996 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-71923, filed February 5, 1999.)(1) |
| 10.10 | Office Building Lease, Regency Center, by and between The Joseph and Eda Pell Revocable Trust and the Company dated June 13, 2001. (Incorporated by reference to Exhibit 10.13 to Company's Annual Report on Form 10-K, as amended, for the year ended September 30, 2001.) |
| 10.11 | First Amendment to Lease by and between 111 Partners and the Company, effective July 1, 2001. (Incorporated by reference to Exhibit 10.13 to Company's Annual Report on Form 10-K, as amended, for the year ended September 30, 2001.) |
| 10.12 | Form of Advanced Information Management Solutions, Inc. Stock Option Agreement. (Incorporated by reference to Exhibit 4.02 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1) |
| 10.13 | ONYX Technologies, Inc. 1999 Stock Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1) |
| 10.14 | Lease dated May 1, 1995, between Control Data Corporation and DynaMark, Inc. (Incorporated by reference to Exhibit 10.18 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.) |
| 10.15 | Form of ONYX Technologies, Inc. Stock Option Agreement. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1) |
| 10.16 | Fair, Isaac Supplemental Retirement and Savings Plan and Trust Agreement effective November 1, 1994 (Incorporated by reference to Exhibit 10.16 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.)(1) |
| 10.17 | The Center for Adaptive Systems Applications, Inc. 1995 Stock Option Plan assumed by HNC. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1) |
| 10.18* | Third Amendment to Lease Agreement by and between W9/PC Limited Partnership and HNC Software, Inc., dated as of March 27, 2002. |
| 10.19 | Forms of The Center for Adaptive Systems Applications, Inc. Stock Option Agreements. (Incorporated by reference to Exhibit 4.06 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1) |

| Exhibit Number | Description |
|---|---|
| 10.20* | Separation Agreement entered into effective as of September 20, 2002, by and between Fair, Isaac and Company, Inc. and Henk J. Evenhuis. |
| 10.21 | eHNC Inc. 1999 Equity Incentive Plan, as amended, assumed by HNC. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1) |
| 10.22 | Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Equity Incentive Plan. (Incorporated by reference to Exhibit 4.02 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1) |
| 10.23 | eHNC Inc. 1999 Executive Equity Incentive Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1) |
| 10.24 | Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Executive Equity Incentive Plan. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1) |
| 10.25 | Systems/ Link Corporation 1999 Stock Option Plan assumed by HNC and related forms of agreements. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-45442, filed September 8, 2000.)(1) |
| 10.26* | Form of Management Agreement entered into as of August 14, 2002, with certain of the Company's officers. |
| 10.27 | Lease dated April 28, 1995, between CSM Investors, Inc., and DynaMark, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.) |
| 10.28 | Second Amendment to Employment Agreement entered into effective as of December 26, 2001, by and between Fair, Isaac and Company, Inc. and Thomas G. Grudnowski (Incorporated by reference to Exhibit 10.13 to Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2001.)(1) |
| 10.29 | Employee Option Exercise Assistance documents used under HNC's option plans, consisting of forms of Secured Full Recourse Promissory Note, Stock Pledge Agreement and related documents. (Incorporated by reference to Exhibit 10.01 to HNC's Form 10-Q for the quarter ended September 30, 2000.)(1) |
| 10.30 | Amended Employee Option Exercise Assistance documents, consisting of forms of Secured Full Recourse Promissory Note, Stock Pledge Agreement and related documents. (Incorporated by reference to Exhibit 10.33 to HNC's Form 10-K, as amended, for the year ended December 31, 2000.)(1) |
| 10.31 | Strategic Partnership Agreement dated as of October 23, 2000, between HNC and GeoTrust, Inc., as amended by Amendment No. 1 dated March 6, 2001. (Incorporated by reference to Exhibit 10.35 to HNC's Form 10-K, as amended, for the year ended December 31, 2000.) |
| 10.32* | Office Building Lease dated as of December 1, 1993, as amended effective February 1, 1994 and June 1, 1994, between HNC and PacCor Partners. (Previously filed as Exhibit 10.09 to the HNC IPO S-1.) |
| 10.33* | Credit Agreement dated November 1, 2002, by and between Fair, Isaac and Company, Inc. and Wells Fargo Bank, National Association. |
| 10.36* | Lease Agreement dated as of June 17, 1996, between HNC and Williams Properties I, LLC & Williams Properties II, LLC. (Previously filed as Exhibit 10.12 to HNC's Form 10-K, as amended, for the year ended December 31, 1996.) |
| 10.37 | Lease dated June 1, 2001 by and between The Prudential Assurance Company Limited and Fair, Isaac International UK Corporation (Incorporated by reference to Exhibit 10.4 to Company's Annual Report on Form 10-K, as amended, for the year ended September 30, 2001.) |
| 10.38 | Office Building Lease dated June 17, 1993, between Linsco/Private Ledger Corp. and PacCor Partners and Assignment of the lease to HNC (Incorporated by reference to Exhibit 10.17 to HNC Annual Report on Form 10-K, as amended, for the year ended December 31, 1997.) |

| Exhibit Number | Description |
|---|---|
| 10.39 | First Amendment to Lease Agreement between Williams Properties I, LLC and Williams Properties II, LLC and HNC dated June 17, 1996, amended October 28, 1997. (Incorporated by reference to Exhibit 10.16 to HNC's Form S-4 Registration Statement, as amended, File No. 333-64527.) |
| 10.40 | Second Amendment to Lease between the HNC and W9/PC Real Estate Limited Partnership dated as of April 13, 1998. (Incorporated by reference to Exhibit 10.17 to HNC's Form S-4 Registration Statement, as amended, File No. 333-64527.) |
| 10.41 | Industrial Lease dated as of October 2, 1998, between HNC and The Irvine Company. (Incorporated by reference to Exhibit 99.01 to HNC's Registration Statement on Form S-8, File No. 333-71923, filed February 5, 1999.) |
| 10.42 | Multi-Tenant Industrial Lease between LBA VF-1, LLC and eHNC. (Incorporated by reference to Exhibit 10.01 to HNC's Form 10-Q for the quarter ended March 31, 2000.) |
| 10.43 | Industrial Building Lease between the HNC and Coppell Commerce Center, Ltd dated as of December 13, 2000. (Incorporated by reference to Exhibit 10.45 to HNC's report on Form 10K for the fiscal year ended December 31, 2001.) |
| 10.44 | Sublease Agreement between the HNC and Federal Insurance Company dated as of October 31, 2001. (Incorporated by reference to Exhibit 10.46 to HNC's report on Form 10K for the fiscal year ended December 31, 2001.) |
| 10.45 | Lease dated July 1, 1993, between The Joseph and Eda Pell Revocable Trust and the Company and the First Addendum thereto (Incorporated by reference to Exhibit 10.7 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.) |
| 10.46 | The Company's 1992 Long Term Incentive Plan as amended and restated effective November 16, 2001. (Incorporated by reference to Exhibit 10.8 to Company's Registration Statement on Form S-8, File No. 333-71923, filed February 5, 1999.) |
| 10.47* | Employment Agreement entered into effective as of August 5, 2002, by and between Fair, Isaac and Company, Inc. and Kenneth J. Saunders. |
| 10.48* | Nonstatutory Stock Option Agreement with Kenneth J. Saunders entered into as of August 5, 2002. (See Exhibit 10.47.) |
| 10.49* | Form of Indemnity Agreement entered into by the Company with the Company's directors and executive officers. |
| 10.52 | The Thomas G. Grudnowski Stock Option Plan (Incorporated by reference to Company's Form S-8 Registration Statement, File No. 333-32396, filed March 14, 2000.)(1) |
| 10.53 | The Henk J. Evenhuis Stock Option Plan (Incorporated by reference to Company's Form S-8 Registration Statement, File No. 333-32396, filed March 14, 2000.)(1) |
| 10.54 | The Thomas G. Grudnowski Stock Option Plan (Incorporated by reference to Company's Form S-8 Registration Statement, File No. 333-66332, filed July 31, 2001.)(1) |
| 10.55 | The Mark Pautsch Stock Option Plan (Incorporated by reference to Company's Form S-8 Registration Statement, File No. 333-66332, filed July 31, 2001.)(1) |
| 10.56 | 2002 Stock Bonus Plan of Company (Incorporated by reference to Exhibit 99.1 of the Company's Form S-8 Registration Statement, File No. 333-97695, filed August 6, 2002.)(1) |
| 10.57 | Second Supplemental Indenture, dated as of October 31, 2002, between Fair, Isaac and State Street Bank and Trust Company of California, N.A., as trustee. (Incorporated by reference to Exhibit 4.3 to Company's Form S-3 Registration Statement, File No. 333-101033, filed November 6, 2002.) |
| 10.58* | Stock Option Agreement with A. George Battle entered into as of February 5, 2002. |
| 10.59* | Nonstatutory Stock Option Agreement with Thomas Grudnowski entered into as of November 16, 2002. |
| 10.60* | Form of Company's Nonstatutory Stock Option Agreement effective October 7, 2002. |
| 21.1* | List of Company's subsidiaries. |
| 23.1* | Consent of KPMG LLP. |

(1) Management contract or compensatory plan or arrangement.

* Filed herewith.

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

We filed a Current Report on Form 8-K on August 19, 2002, announcing the completion of the merger with HNC Software Inc. ("HNC") on August 5, 2002. We amended this Current Report on Form 8-K on October 21, 2002 and October 22, 2002, reporting in Item 7 updated pro forma financial information for the merger with HNC Software Inc.

**SIGNATURES**

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

FAIR, ISAAC AND COMPANY, INCORPORATED

By /s/ KENNETH J. SAUNDERS

Kenneth J. Saunders
*Vice President and Chief Financial Officer*

DATE: November 14, 2002

**POWER OF ATTORNEY**

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

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

| | | |
|---|---|---|
| /s/ THOMAS G. GRUDNOWSKI<br>Thomas G. Grudnowski | President, Chief Executive Officer (Principal Executive Officer) and Director | November 14, 2002 |
| /s/ KENNETH J. SAUNDERS<br>Kenneth J. Saunders | Vice President, Chief Financial Officer (Principal Financial Officer) | November 14, 2002 |
| /s/ HENK J. EVENHUIS<br>Henk J. Evenhuis | Vice President (Principal Accounting Officer) | November 14, 2002 |
| /s/ A. GEORGE BATTLE<br>A. George Battle | Director | November 14, 2002 |
| /s/ TONY J. CHRISTIANSON<br>Tony J. Christianson | Director | November 14, 2002 |
| /s/ THOMAS F. FARB<br>Thomas F. Farb | Director | November 14, 2002 |
| /s/ ALEX W. HART<br>Alex W. Hart | Director | November 14, 2002 |

| | | |
|---|---|---|
| /s/ PHILIP G. HEASLEY | Director | November 14, 2002 |
| Philip G. Heasley | | |
| /s/ GUY R. HENSHAW | Director | November 14, 2002 |
| Guy R. Henshaw | | |
| /s/ DAVID S. P. HOPKINS | Director | November 14, 2002 |
| David S. P. Hopkins | | |
| /s/ MARGARET L. TAYLOR | Director | November 14, 2002 |
| Margaret L. Taylor | | |

**CERTIFICATIONS**

I, Thomas G. Grudnowski, certify that:

1. I have reviewed this annual report on Form 10-K of Fair, Isaac and Company, Incorporated;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19, 2002

/s/ THOMAS G. GRUDNOWSKI

Thomas G. Grudnowski
*Chief Executive Officer*

**CERTIFICATIONS — (Continued)**

I, Kenneth J. Saunders, certify that:

1. I have reviewed this annual report on Form 10-K of Fair, Isaac and Company, Incorporated;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 19, 2002

/s/ KENNETH J. SAUNDERS

Kenneth J. Saunders
*Chief Financial Officer*

**EXHIBIT INDEX**

**To Fair, Isaac and Company, Incorporated**

**Report On Form 10-K For The Fiscal Year Ended September 30, 2002**

| Exhibit No. | Exhibit Name |
|---|---|
| 3.1 | By-laws of the Company (as amended effective August 5, 2002). |
| 10.18 | Third Amendment to Lease Agreement by and between W9/PC Limited Partnership and HNC Software, Inc., dated as of March 27, 2002. |
| 10.20 | Separation Agreement entered into effective as of September 20, 2002, by and between Fair, Isaac and Company, Inc. and Henk J. Evenhuis. |
| 10.26 | Form of Management Agreement entered into as of August 14, 2002, with certain of the Company's officers. |
| 10.32 | Office Building Lease dated as of December 1, 1993, as amended effective February 1, 1994 and June 1, 1994, between HNC and PacCor Partners. (Previously filed as Exhibit 10.09 to the IPO S-1.) |
| 10.33 | Credit Agreement dated November 1, 2002, by and between Fair, Isaac and Company, Inc. and Wells Fargo Bank, National Association. |
| 10.36 | Lease Agreement dated as of June 17, 1996, between HNC and Williams Properties I, LLC & Williams Properties II, LLC. (Previously filed as Exhibit 10.12 to HNC's Form 10-K, as amended, for the year ended December 31, 1996.) |
| 10.47 | Employment Agreement entered into effective as of August 5, 2002, by and between Fair, Isaac and Company, Inc. and Kenneth J. Saunders. |
| 10.48 | Nonstatutory Stock Option Agreement with Kenneth J. Saunders entered into as of August 5, 2002. (Included in Exhibit 10.47.) |
| 10.49 | Form of Indemnity Agreement entered into by the Company with the Company's directors and executive officers. |
| 10.58 | Stock Option Agreement with A. George Battle entered into as of February 5, 2002. |
| 10.59 | Nonstatutory Stock Option Agreement with Thomas Grudnowski entered into as of November 16, 2002. |
| 10.60 | Form of Company's Nonstatutory Stock Option Agreement effective October 7, 2002. |
| 21.1 | List of Company's subsidiaries. |
| 23.1 | Consent of KPMG LLP. |

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

(as amended effective August 5, 2002)

## ARTICLE I

## Offices

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

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

## ARTICLE II

## Stockholders

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

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

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

The Chairman of the Board of Directors (or such other person presiding at the meeting in accordance with Section 2.7 of these by-laws) shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 2.1, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

2.2 Special Meetings. Special meetings of stockholders may be called at any time only by the Chairman of the Board of Directors, if any, the Vice Chairman of the Board of Directors, if any, the President or the Board of Directors, to be held at such date, time and place (if any) as may be stated in the notice of the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice of the meeting.

2.3 Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, notice of the meeting shall be given in accordance with Section 2.4 which shall state the place (if any), date and hour of the meeting, the means of remote communication (if any) by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

2.4 Manner Of Giving Notice. Notice of any meeting of stockholders shall be given personally, by mail, by electronic transmission or by other written communication, addressed to the stockholder at the address, number, electronic mail address or other location of that stockholder appearing on the books of the Corporation or given by the stockholder to the Corporation for the purpose of notice. If no such address, number, email address or other location appears on the Corporation's books or is given, notice shall be deemed to have been given if sent to that stockholder by mail or telegraphic or other written communication to the

Corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or, if sent by electronic transmission, as follows: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice, (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice, (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (a) such posting and (b) the giving of such separate notice, and (iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of mailing or of electronic transmission of any notice or report in accordance with the provisions of this Section 2.4, executed by the Secretary, Assistant Secretary or any transfer agent or other agent, shall be prima facie evidence of the giving of the notice.

2.5 Adjournments. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place (if any), and notice need not be given of any such adjourned meeting if the time and place (if any) thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

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

If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication:

(1) participate in a meeting of stockholders; and

(2) be deemed present in person and vote at a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the Corporation shall implement reasonable measures to

verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the Corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

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

2.8 Voting; Proxies. Unless otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting, whether in person or by other means provided for in these by-laws or the certificate of incorporation, and voting or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy at such meeting shall so determine. If authorized by the Board of Directors, votes may be submitted by electronic transmission, provided that any such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxyholder. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. With respect to other matters, unless otherwise provided by law or by the certificate of incorporation or these by-laws, the affirmative vote of the holders of a majority of the shares of all classes of stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, provided that (except as otherwise required by law or by the certificate of incorporation) the Board of Directors may require a larger vote upon any such matter. Where a separate vote by class is required, the affirmative vote of the holders of a majority of the shares of each class present in person or represented by proxy at the meeting shall be the act of such class, except as otherwise provided by law or by the certificate of incorporation or these by-laws.

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

2.10 List of Stockholders Entitled To Vote. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Nothing contained herein shall require the Corporation to include electronic mail address or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours at the principal place of business of the Corporation. In the event the meeting is to be held at a place, the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

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

ARTICLE III

Board of Directors

3.1 Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the certificate of incorporation. The number of directors which shall constitute the Board of Directors shall be nine (9). Directors need not be stockholders.

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

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors at the annual meeting, by or at the direction of the Board of Directors, may be made by any Nominating Committee or person appointed by the Board of Directors; nominations may also be made by any stockholder of record of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 3.2. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received at the principal executive offices of the Corporation addressed to the attention of the Secretary of the Corporation not less than 60 days nor more than 90 days prior to the scheduled date of the meeting (regardless of any postponements, deferrals or adjournments of that meeting to a later date); provided, however, that, in the case of an annual meeting and in the event that the annual meeting is held at a date other than the first Tuesday of February, or the next business day if such Tuesday is a legal holiday and less than 70 days' notice or prior public disclosure of the date of the scheduled meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the earlier of (a) the close of business on the 10th day following the day on which such notice of the date of the scheduled meeting was mailed or such public disclosure was made, whichever first occurs, or (b) two days prior to the date of the scheduled meeting. Such stockholder's notice to the Secretary shall set forth (a) as to each

person whom the stockholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class, series and number of shares of capital stock of the Corporation that are owned beneficially by the person, (iv) a statement as to the person's citizenship, and (v) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice, (i) the name and record address of the stockholder and (ii) the class, series and number of shares of capital stock of the Corporation that are owned beneficially by the stockholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein.

In connection with any annual meeting, the Chairman of the Board of Directors (or such other person presiding at such meeting in accordance with Section 2.7 of these by-laws) shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

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

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

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

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

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

3.8 Action by Directors Without a Meeting. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing or electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. All such actions by written consent or electronic transmission shall have the same force and effect as a unanimous vote of such directors.

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

## ARTICLE IV

## Committees

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

4.2 Committees. In addition to the Executive Committee, the Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more other committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have power or authority in reference to amending the certificate of incorporation (except that a committee may, to the

extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the General Corporation Law of Delaware fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of dissolution, removing or indemnifying directors or amending these by-laws; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock or adopt a certificate of ownership and merger.

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

## ARTICLE V

## Officers

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

5.2 Term of Office; Resignation; Removal; Vacancies. Except as otherwise provided in the resolution of the Board of Directors electing any officer, each officer shall hold office until the first meeting of the Board of Directors after the annual meeting of stockholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board of Directors or to the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board of Directors

may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

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

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

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

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

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

requiring it and when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature.

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

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

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

## ARTICLE VI

## Stock

6.1 Certificates. The shares of stock of the Corporation shall either be represented by certificates or uncertificated, as determined by the Board of Directors; provided, however, that every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman or Vice Chairman of the Board of Directors, if any, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or any Assistant Secretary, of the Corporation, certifying the number of shares owned by such holder in the Corporation. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

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

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

6.3 Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Transfer of uncertificated shares of stock shall be made on the books of the Corporation upon receipt of proper transfer instructions from the registered owner of the uncertificated shares, an instruction from an approved source duly authorized by such owner or from an attorney lawfully constituted in writing. The Corporation may impose such additional conditions to the transfer of its stock as may be necessary or appropriate for compliance with applicable law or to protect the Corporation, a transfer agent or the registrar from liability with respect to such transfer.

6.4 Fixing Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

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

## ARTICLE VII

## Miscellaneous

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

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

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

7.4 Interested Directors; Quorum. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or her or their votes are counted for such purpose, if: (1) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the Corporation as of the time it is authorized,

approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

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

EXHIBIT 10.18

# THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE ("AMENDMENT") is made and entered into as of _____, 2002, by and between W9/PC LIMITED PARTNERSHIP, a Delaware limited partnership ("LANDLORD") and HNC SOFTWARE, INC., a Delaware corporation ("TENANT").

## RECITALS:

A. WHEREAS, Williams Properties I, LLC and Williams Properties II, LLC (collectively, the "ORIGINAL LANDLORD"), and Tenant entered into that certain Lease dated as of June 17, 1996 (the "ORIGINAL LEASE"), as amended by that certain First Amendment to Lease dated as of October 28, 1997 by and between Original Landlord and Tenant ("FIRST AMENDMENT") and by that certain Second Amendment to Lease dated as of April 13, 1998 by and between Landlord as successor-in-interest to Original Landlord and Tenant ("SECOND AMENDMENT") whereby Original Landlord leased to Tenant and Tenant leased from Original Landlord office space located in the building known as Cornerstone Plaza located at 6020 Cornerstone Court West, San Diego, California 92121. The Original Lease, as amended by the First Amendment and the Second Amendment may be collectively referred to herein as the "LEASE".

B. WHEREAS, by this Amendment, Landlord and Tenant desire to correct the name of the Landlord; and

C. WHEREAS, unless otherwise defined herein, capitalized terms as used herein shall have the same meanings as given thereto in the Lease.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## AGREEMENT:

1. Landlord's name is hereby amended and corrected to read as follows: "W9/PC LIMITED PARTNERSHIP, a Delaware limited partnership" wherever Landlord's name appears in the Lease.

[signatures on following page]

IN WITNESS WHEREOF, this Amendment has been executed as of the day and year first above written.

"LANDLORD"

W9/PC LIMITED PARTNERSHIP,
a Delaware limited partnership

By: W9/PC, Inc., a Delaware corporation,
general partner

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

"TENANT"

HNC SOFTWARE, INC.,
a Delaware corporation

By: /s/ MARY BURNSIDE
Print Name: Mary Burnside
Title: COO

By: _____
Print Name: _____
Title: _____

EXHIBIT 10.20

# SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (this "Agreement") is made and entered into on September 20, 2002 by and between Henk J. Evenhuis, a California resident ("Evenhuis"), and Fair, Isaac and Company, Incorporated, a Delaware corporation (the "Company").

## BACKGROUND

A. Evenhuis is employed by the Company as Vice President, Finance and Chief Accounting Officer.

B. The parties have agreed that it is in their mutual interests that Evenhuis resign from his position as Vice President, Finance and Chief Accounting Officer, effective January 1, 2003.

C. After such resignation, the Company desires to continue to employ Evenhuis through April 30, 2003 on a reduced basis to assist with the performance of certain financial responsibilities for the Company and to transition his responsibilities to other Company personnel.

D. The parties are concluding their employment relationship amicably, but mutually recognize that such a transition and relationship may give rise to potential claims or liabilities.

E. The parties expressly deny that they may be liable to each other on any basis or that they have engaged in any unlawful or improper conduct toward each other or treated each other unfairly.

F. The parties have agreed to a full settlement of all issues now in dispute between them.

NOW THEREFORE, in consideration of the mutual promises and provisions contained in this Agreement and in the Evenhuis Release referred to below, the parties, intending to be legally bound, agree as follows:

AGREEMENTS

1. RELEASE OF CLAIMS BY EVENHUIS. At the same time Evenhuis executes this Agreement, he also will execute a Release, in the form attached to this Agreement as Exhibit A (the "Evenhuis Release"), in favor of the Company and its affiliates, divisions, committees, directors, officers, employees, agents, predecessors, successors, and assigns. This Agreement will not be interpreted or construed to limit the Evenhuis Release in any manner. The existence of any dispute respecting the interpretation of this Agreement or the alleged breach of this Agreement will not nullify or otherwise affect the validity or enforceability of the Evenhuis Release.

2. RESIGNATIONS. By executing this Agreement, Evenhuis confirms his resignation as an officer of the Company effective January 1, 2003. Evenhuis further confirms his resignation as an employee of the Company, effective as of the end of the Transition Period (as defined below). The Company confirms its acceptance of Evenhuis's resignations. At the same time he signs this Agreement, Evenhuis will also sign a letter affirming his resignation as an officer of the Company and as an employee, in the form attached to this Agreement as Exhibit B.

3. TRANSITION PERIOD. Evenhuis and the Company agree that Evenhuis's employment as Vice President, Finance and Chief Accounting Officer, will end on January 1, 2003. The Company will continue to employ Evenhuis from January 1, 2003 through April 30, 2003, or until such earlier date that Evenhuis's employment ends pursuant to subparagraph 3.e.

below (the "Transition Period"), only if: (i) Evenhuis has not revoked this Agreement or the Evenhuis Release within the applicable revocation period set forth in paragraph 21 below; (ii) Evenhuis is in material compliance with the terms of paragraph 14 of this Agreement, the Evenhuis Release, the Non-Disclosure Agreement between Evenhuis and the Company dated October 20, 1999 (the "Non-Disclosure Agreement"), and the Customer Information Confidentiality Agreement between Evenhuis and the Company dated October 20, 1999 (the "Customer Confidentiality Agreement").

4. DUTIES.

a. From the date hereof through December 31, 2002, the Company will employ Evenhuis and Evenhuis will serve the Company in a transition role which will include but not be limited to, providing assistance to the Company for the preparation and filing of the Company annual report on Form 10-K for the Company's 2002 fiscal year with the Securities and Exchange Commission on or before the due date (the "Filing") and any certifications of the Filing required by law. Such assistance will include but is not limited to, signing management representation letters to outside auditors and internal company personnel; and providing certifications and participating in reviews of past filings and all other reviews deemed necessary by the Company to prepare the Filing so that it complies with generally accepted accounting principles and meets the attestation standards for certifications required by applicable law.

b. During the Transition Period, the Company will employ Evenhuis and Evenhuis will serve the Company in a transition role assisting the Company as requested in connection with the completion and transition of his responsibilities as Vice President, Finance and Chief Accounting Officer for the Company.

c. From the date hereof through December 31, 2002, Evenhuis will be employed by the Company on a full-time basis. During the Transition Period, Evenhuis will be employed by the Company on a reduced time basis equal to ten percent (10%) of a full-time position; and Evenhuis's duties and hours will be as directed by the Company from time to time consistent with his reduced hours and subparagraph 4.b above.

5. SALARY. While he is employed from the date hereof through December 31, 2002, Evenhuis will be paid a salary on a bi-weekly basis in arrears based on an annual rate of $245,000; and while he is employed during the Transition Period, will be paid on a bi-weekly basis in arrears based on an annual rate of $24,500. Evenhuis acknowledges that if Company's current payroll practices change during the above-stated periods, his salary will be payable at such other intervals and in such amounts in accordance with the then-customary payroll practices of Company for the payment of its employees.

6. BONUS. Evenhuis will not receive any bonus payment under the Company's FY03 Management Incentive Plan for the first quarter of fiscal year 2003 or for any time worked during the Transition Period.

7. BENEFITS. While he is employed during the Transition Period, Evenhuis will receive such employee benefits as are made generally available to other employees of the Company, subject to the eligibility requirements and other terms and conditions of the applicable plans or programs. So long as Evenhuis remains a full-time employee of the Company, through December 31, 2002, he will be eligible to continue his participation in the Company's group medical, dental and life insurance plans. Thereafter, he will be eligible to continue such group coverages at his own expense in accordance with the applicable laws and plans. Evenhuis will not be eligible for any benefit plans or programs of the Company after December 31, 2002,

except to the extent specifically permitted for part-time employees under the terms and conditions of such plans or programs.

8. STOCK OPTIONS. Evenhuis agrees and acknowledges that the options listed in this paragraph below are his only options to purchase shares of the Company's Common Stock and that such options are exercisable as of the date of this Agreement in accordance with the terms of, and only to the extent provided for, in the CFO Option Plan and the Company's 1992 Long-Term Incentive Plan (the "Plans") and the applicable option agreements. Evenhuis further agrees and acknowledges that additional options may become exercisable during the Transition Period if his employment continues through April 30, 2003, and that his reduced-time status will not affect the vesting of options under the Plans and the applicable option agreements. Evenhuis further agrees and acknowledges that all of his options to purchase the Company's Common Stock will lapse and cease to be outstanding as of 90 days after the termination of his employment with the Company, except as expressly provided in the Plans and the applicable option agreements unless previously exercised in accordance with the terms of the Plans and the applicable option agreements.

| Date of Grant | Exercise Price | Number of Shares |
|---|---|---|
| 10/19/99 | $14.5278 | 56,250 |
| 4/4/00 | $16.3333 | 43,875 |
| 4/24/01 | $27.1111 | 22,500 |

9. EARLY TERMINATION OF EMPLOYMENT. Evenhuis and the Company agree that Evenhuis's employment with the Company shall continue through April 30, 2003 in accordance with the terms and conditions of this Agreement, except that such employment will end earlier if (i) Evenhuis resigns or abandons his employment, (ii) Evenhuis dies, (iii) the

Company notifies Evenhuis of termination of Evenhuis's employment for material breach by Evenhuis of the terms of this Agreement, the Non-Disclosure Agreement, or the Customer Confidentiality Agreement, (iv) the Company notifies Evenhuis of termination of Evenhuis's employment for willful refusal by Evenhuis to perform reasonable duties or responsibilities requested by the Company, or (v) the Company notifies Evenhuis of termination of Evenhuis's employment for unlawful conduct or gross misconduct by Evenhuis that is willful and deliberate on Evenhuis's part and that, in either event, is materially injurious to the reputation or financial interests of the Company.

10. RETIREMENT PLANS. To the extent that Evenhuis is currently a participant in any retirement, pension, or profit sharing plans of the Company, Evenhuis will be entitled to begin drawing his benefits at the times and under the terms and conditions set forth in any such plan.

11. PAID TIME OFF. The Company will pay Evenhuis for any earned but unused paid time off as of December 31, 2002, in accordance with the Company's regular policies and practices. Evenhuis acknowledges that he will not accrue any paid time off after December 31, 2002.

12. EXPENSE REIMBURSEMENT. The Company will reimburse Evenhuis for his regular and necessary business expenses incurred through the Transition Period according to the Company's regular policies and practices. Evenhuis will submit all requests for reimbursement to the Company no later than May 15, 2003.

13. FUTURE REFERENCES. It is Evenhuis's responsibility to direct or cause to be directed all future official requests for references concerning him to the Vice President, Human Resources, of the Company, who will respond to such requests by confirming the dates of

Evenhuis's employment, identifying the position he held, describing his duties and responsibilities, and, at his request, confirming his base salary.

14. NON-DISCLOSURE AND NON-SOLICITATION AGREEMENTS.

a. PROPRIETARY INFORMATION. During his employment with the Company and after termination of such employment, Evenhuis will not divulge, furnish, or make accessible to anyone or use in any way (other than in the ordinary course of the business of the Company) any Proprietary Information of the Company that Evenhuis has acquired during the period of his employment by the Company, whether developed by himself or by others. "Proprietary Information" means all things tangible and intangible in which the Company has an actual or claimed property or other right and shall include, but not necessarily be limited to, ideas, inventions, discoveries, computer languages, computer programs, information of any type stored in computer usable form, any data, information, program or materials input on a Company computer, records, files, drawings, documents, equipment, lists of customers, either current, past or prospective, mailing or address lists, financial data, strategic plans, or marketing or sales plans, not otherwise known to the public, and irrespective of whether any or all of these shall be protected by copyright, patent, or any other process. Evenhuis acknowledges that the above-described Proprietary Information constitutes a unique and valuable asset of the Company and represents a substantial investment of time and expense by the Company, and that any disclosure or other use of such knowledge or information other than for the sole benefit of the Company would be wrongful and would cause irreparable harm to the Company. The foregoing obligations of confidentiality will not apply to any knowledge or information that (i) is now or subsequently becomes generally publicly known, other than as a direct or indirect result of the breach by Evenhuis of this Agreement or of the Non-Disclosure Agreement, (ii) is independently

made available to Evenhuis in good faith by a third party who has not violated a confidential relationship with the Company, or (iii) is required to be disclosed by law or legal process. Evenhuis further acknowledges and affirms his continuing obligation to comply with the terms and conditions of the Non-Disclosure Agreement. Evenhuis understands and agrees that his obligations under this paragraph to maintain the confidentiality of the Company's Proprietary Information are in addition to any obligations he has under applicable statutory or common law.

b. CUSTOMER INFORMATION. During his employment with the Company and after termination of such employment, Evenhuis will not divulge, furnish, or make accessible to anyone or use in any way any data provided to the Company by a customer of the Company. Evenhuis further acknowledges and affirms his continuing obligation to comply with the terms and conditions of the Customer Confidentiality Agreement.

c. AGREEMENT NOT TO HIRE. For a period of 12 consecutive months after Evenhuis's employment with the Company ends, Evenhuis will not, directly or indirectly, hire, engage, or solicit any person who is an employee of the Company or who was an employee of the Company at any time during the 180-day period immediately preceding the date Evenhuis's employment ends, in any manner or capacity, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, consultant, or otherwise.

d. ACKNOWLEDGMENT. Evenhuis agrees that the restrictions and agreements contained in this paragraph 14 are reasonable and necessary to protect the legitimate interests of the Company and that any violation of this paragraph 14 will cause substantial and irreparable harm to the Company that would not be quantifiable and for which no adequate remedy would

exist at law and accordingly injunctive relief will be available for any violation of this paragraph 14.

e. BLUE PENCIL DOCTRINE. If the duration or geographical extent of this paragraph 14 are in excess of what is valid and enforceable under applicable law, such provision will be construed to cover only that duration, geographical extent, or activities that are valid and enforceable. Evenhuis acknowledges the uncertainty of the law in this respect and expressly stipulates that this paragraph 14 be given the construction which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable laws.

15. MUTUAL CONFIDENTIALITY.

a. GENERAL STANDARD. It is the intent of the parties that the terms of Evenhuis's separation from the Company, including the provisions of this Agreement and the Evenhuis Release (collectively "Confidential Separation Information"), will be forever treated as confidential. Accordingly, Evenhuis will not disclose Confidential Separation Information to anyone at any time, except as provided in subparagraph 15.b. below.

b. EXCEPTIONS.

i. It will not be a violation of this Agreement for Evenhuis to disclose Confidential Separation Information in reports to governmental agencies as required by law, including, but not limited to, any federal or state tax authority.

ii. It will not be a violation of this Agreement for Evenhuis to disclose Confidential Separation Information to his wife, his immediate family, his attorneys, his accountants or tax advisors.

iii. It will not be a violation of this Agreement for Evenhuis to disclose to employers and/or prospective employers that he is constrained from certain activities as a result of the terms of subparagraphs 14.a., 14.b., or 14.c. Nor will it be a violation of this Agreement for Evenhuis to inform Company employees who ask him about employment opportunities outside the Company that the terms of paragraph 14.c. of this Agreement preclude him from engaging in certain activities that could interfere with their employment with the Company.

iv. It will not be a violation of this Agreement for Evenhuis to disclose Confidential Separation Information in connection with any litigation involving the parties' rights or obligations under this Agreement or the Evenhuis Release.

10. NON-DISPARAGEMENT. Evenhuis will not at any time disparage, defame, or besmirch the reputation, character, image, products, or services of the Company, or the reputation or character of its directors, officers, employees, or agents.

11. CLAIMS INVOLVING THE COMPANY. Evenhuis will not recommend or suggest to any potential claimants or plaintiffs or their attorneys or agents that they initiate claims or lawsuits against the Company, any of its affiliates or divisions, or any of its or their directors, officers, employees, or agents, nor will Evenhuis voluntarily aid, assist, or cooperate with any claimants or plaintiffs or their attorneys or agents in any claims or lawsuits now pending or

commenced in the future against the Company, any of its affiliates or divisions, or any of its or their directors, officers, employees, or agents; provided, however, that this Agreement will not be interpreted or construed to prevent Evenhuis from giving testimony in response to questions asked pursuant to a legally enforceable subpoena, deposition notice, or other legal process, during any legal proceedings or arbitrations involving the Company, any of its affiliates or divisions, or any of its or their directors, officers, employees, or agents.

12. RECORDS, DOCUMENTS, AND PROPERTY. Evenhuis hereby represents that, on or before the date his employment ends, he will deliver to the Company any and all Company records and any and all Company property in his possession or under his control, including without limitation manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, printouts, computer disks, computer tapes, source codes, data, tables, calculations, or copies thereof, all trade secrets and confidential information of the Company, including, but not limited to, all documents that in whole or in part contain any trade secrets or confidential information of the Company, and all equipment, vehicles, personal computers, laptops, printers, telephones, and pagers, which in any of such cases are in his possession or under his control.

13. EVENHUIS'S REPRESENTATIONS. Evenhuis hereby represents that, during the entire period that he was an employee or officer of the Company, he acted in good faith, had no reasonable cause to believe that his conduct was unlawful, and reasonably believed that his conduct was in the best interests of the Company. Evenhuis represents and agrees that he will continue to carry out his duties as an employee of the Company in good faith, using his best efforts and abilities, and acting in the best interests of the Company.

14. TIME TO CONSIDER AGREEMENT. Evenhuis understands that he may take at least 21 calendar days to decide whether to sign this Agreement and the Evenhuis Release, which 21-day period will commence on the day after the date on which Evenhuis first received copies of this Agreement and the Evenhuis Release for review. Evenhuis represents that if he signs this Agreement and the Evenhuis Release before the expiration of the 21-day period, it is because he has decided that he does not need any additional time to decide whether to sign this Agreement and the Evenhuis Release. Evenhuis also acknowledges that any changes made to this Agreement or the Evenhuis Release before he executes either of them, whether such changes are material or immaterial, will not cause the 21-day period to commence again.

15. RIGHT TO RESCIND OR REVOKE. Evenhuis understands that he has the right to rescind or revoke this Agreement and the Evenhuis Release for any reason within seven (7) calendar days after he signs them. Evenhuis understands that this Agreement and the Evenhuis Release will not become effective or enforceable unless and until he has not revoked this Agreement and the Evenhuis Release and the revocation period has expired. Evenhuis understands that if he wishes to rescind, the revocation must be in writing and hand-delivered or mailed to the Company. If hand-delivered, the revocation must be (a) addressed to the Company, c/o Richard Deal, Vice President, Human Resources, 4295 Lexington Avenue North, St. Paul, MN 55126-6164, and (b) delivered to Richard Deal within the seven-day period. If mailed, the revocation must be: (a) postmarked within the seven-day period; and (b) addressed to Richard Deal, Vice President, Human Resources, 4295 Lexington Avenue North, St. Paul, MN 55126-6164.

16. FULL COMPENSATION. Evenhuis understands that the continued employment and other consideration provided by the Company under this Agreement will fully

compensate Evenhuis for and extinguish any and all of the potential claims Evenhuis is releasing in the Evenhuis Release, including, but not limited to, his claims for attorneys' fees and costs and any and all claims for any type of legal or equitable relief.

17. NO ADMISSION OF WRONGDOING. Evenhuis understands that this Agreement does not constitute an admission that the Company has violated any local ordinance, state or federal statute, or principle of common law, that the Company has engaged in any unlawful or improper conduct toward Evenhuis, or that the Company has treated Evenhuis unfairly. Evenhuis will not characterize this Agreement or the payment of any money or other consideration in accordance with this Agreement as an admission that the Company has engaged in any unlawful or improper conduct toward him or treated him unfairly.

18. AUTHORITY. Evenhuis represents and warrants that he has the authority to enter into this Agreement and the Evenhuis Release, and that no causes of action, claims, or demands released pursuant to this Agreement and the Evenhuis Release have been assigned to any person or entity not a party to this Agreement and the Evenhuis Release.

19. REPRESENTATION. Evenhuis hereby acknowledges that he has been advised by the Company to consult with his own attorney before executing this Agreement and the Evenhuis Release, that he has had the opportunity to be represented by his own attorney in this matter, that he has had a full opportunity to consider this Agreement and the Evenhuis Release, that he has had a full opportunity to ask any questions that he may have concerning this Agreement, the Evenhuis Release, or the settlement of his potential claims against the Company, and that he has not relied upon any statements or representations made by the Company or its attorneys, written or oral, other than the statements and representations that are explicitly set forth in this Agreement, the CFO Plan, the 1992 Long-Term Incentive Plan, any written stock

option agreement between Evenhuis and the Company, and any other employee benefit plans or programs sponsored by the Company in which Evenhuis is a participant.

20. SUCCESSORS AND ASSIGNS. This Agreement is binding on Evenhuis and on the Company and its successors and assigns. The rights and obligations of the Company under this Agreement may be assigned to a successor, including, but not limited to, a purchaser of substantially all the business or assets of the Company. No rights or obligations of Evenhuis hereunder may be assigned by Evenhuis to any other person or entity.

21. INVALIDITY. In the event that any provision of this Agreement or the Evenhuis Release is determined by a court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect, such a determination will not affect the validity, legality, or enforceability of the remaining provisions of this Agreement or the Evenhuis Release, and the remaining provisions of this Agreement and the Evenhuis Release will continue to be valid and enforceable, and any court of competent jurisdiction may modify the objectionable provision so as to make it valid and enforceable.

22. ENTIRE AGREEMENT. Before signing this Agreement and the Evenhuis Release, the parties engaged in discussions and generated certain documents, in which the parties considered the matters that are the subject of this Agreement and the Evenhuis Release. In such discussions and documents, the parties may have expressed their judgments and beliefs concerning the intentions, capabilities, and practices of the parties, and may have forecast future events. The parties recognize, however, that all business transactions, including the transactions upon which the parties' judgments, beliefs, and forecasts are based, contain an element of risk, and that it is normal business practice to limit the legal obligations of contracting parties only to those promises and representations that are essential to the transaction so as to provide certainty

as to their respective future rights and remedies. Accordingly, this Agreement, the Evenhuis Release, the 1992 Long-Term Incentive Plan, any written stock option agreement between Evenhuis and the Company, the Non-Disclosure Agreement, the Customer Confidentiality Agreement, and any employee benefit plans or programs sponsored by the Company in which Evenhuis is a participant are intended to define the full extent of the legally enforceable contractual undertakings of the parties, and no promises or representations, written or oral, that are not set forth explicitly in this Agreement, the Evenhuis Release, the CFP Plan, the 1992 Long-Term Incentive Plan, any written stock option agreement between Evenhuis and the Company, the Non-Disclosure Agreement, the Customer Confidentiality Agreement, or any employee benefit plans or programs sponsored by the Company in which Evenhuis is a participant are intended by either party to be legally binding, and all other agreements and understandings between the parties are hereby superseded.

23. REMEDIES. Evenhuis acknowledges that it would be difficult to fully compensate the Company for damages resulting from any breach by him of the provisions of paragraph 14 of this Agreement. Accordingly, in the event of any actual or threatened breach of such provisions, the Company will (in addition to any other remedies it may have) be entitled to temporary and/or permanent injunctive and other equitable relief to enforce such provisions, and such relief may be granted without the necessity of proving actual damages.

24. AMENDMENTS. No amendment or modification of this Agreement shall be deemed effective unless made in writing and signed by the parties hereto.

25. NO WAIVER. No term or condition of this Agreement shall be deemed to have been waived, except by a statement in writing signed by the party against whom enforcement of the waiver is sought. Any written waiver shall not be deemed a continuing

waiver unless specifically stated, shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

26. HEADINGS. The descriptive headings of the paragraphs and subparagraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

27. COUNTERPARTS. This Agreement may be executed simultaneously in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

28. GOVERNING LAW. This Agreement and the Evenhuis Release will be interpreted and construed in accordance with, and any dispute or controversy arising from any breach or asserted breach of this Agreement or the Evenhuis Release will be governed by, the laws of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date stated above.

/s/ Henk J. Evenhuis
---
HENK J. EVENHUIS

FAIR, ISAAC AND COMPANY, INCORPORATED

BY: /s/ Richard S. Deal
---
Its Vice President, Human Resources

EXHIBIT A

RELEASE BY HENK J. EVENHUIS

DEFINITIONS. I intend all words used in this Release to have their plain meanings in ordinary English. Specific terms that I use in this Release have the following meanings:

A. I, me, and my include both me and anyone who has or obtains any legal rights or claims through me.

B. FIC means Fair, Isaac and Company, Incorporated, any company related to Fair, Isaac and Company, Incorporated in the present or past (including without limitation, its predecessors, parents, subsidiaries, affiliates, joint venture partners, and divisions), and any successors of Fair, Isaac and Company, Incorporated.

C. Company means FIC; the present and past officers, directors, committees, shareholders, and employees of FIC; any company providing insurance to FIC in the present or past; the present and past fiduciaries of any employee benefit plan sponsored or maintained by FIC (other than multiemployer plans); and anyone who acted on behalf of FIC or on instructions from FIC.

D. Agreement means the Separation Agreement between FIC and me that I am executing on the same date on which I execute this Release, including all of the documents attached to the Agreement.

E. My Claims mean all of my rights that I now have to any relief of any kind from the Company, including without limitation:

1. all claims arising out of or relating to my employment with FIC or the termination of that employment;

2. all claims arising out of or relating to the statements, actions, or omissions of the Company;

3. all claims for any alleged unlawful discrimination, harassment, retaliation or reprisal, or other alleged unlawful practices arising under any federal, state, or local statute, ordinance, or regulation, including without limitation, claims under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, 42 U.S.C. Section 1981, the Employee Retirement Income Security Act, the Equal Pay Act, the Worker Adjustment and Retraining Notification Act, the Minnesota Human Rights Act, the California Fair

Employment and Housing Act, the Fair Credit Reporting Act, and workers' compensation non-interference or non-retaliation statutes (such as Minn. Stat. Section 176.82);

4. all claims for alleged wrongful discharge; breach of contract; breach of implied contract; failure to keep any promise; breach of a covenant of good faith and fair dealing; breach of fiduciary duty; estoppel; my activities, if any, as a "whistleblower"; defamation; infliction of emotional distress; fraud; misrepresentation; negligence; harassment; retaliation or reprisal; constructive discharge; assault; battery; false imprisonment; invasion of privacy; interference with contractual or business relationships; any other wrongful employment practices; and violation of any other principle of common law;

5. all claims for compensation of any kind, including without limitation, bonuses, commissions, stock-based compensation or stock options, vacation pay, and expense reimbursements;

6. all claims for back pay, front pay, reinstatement, other equitable relief, compensatory damages, damages for alleged personal injury, liquidated damages, and punitive damages;

7. all rights I have under California Civil Code section 1542, which states that: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor;" and

8. all claims for attorneys' fees, costs, and interest.

However, My Claims do not include any claims that the law does not allow to be waived, any claims that may arise after the date on which I sign this Release, or any claims for breach of the Agreement.

AGREEMENT TO RELEASE MY CLAIMS. I will receive consideration from FIC as set forth in the Agreement if I sign and do not rescind this Release as provided below. I understand and acknowledge that that consideration is in addition to anything of value that I would be entitled to receive from FIC if I did not sign this Release or if I rescinded this Release. In exchange for that consideration I give up and release all of My Claims including but not limited to my rights under California Civil Code section 1542, which provide as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

I will not make any demands or claims against the Company for compensation or damages relating to My Claims. The consideration that I am receiving is a fair compromise for the release of My Claims.

ADDITIONAL AGREEMENTS AND UNDERSTANDINGS. Even though FIC will provide consideration for me to settle and release My Claims, the Company does not admit that it is responsible or legally obligated to me. In fact, the Company denies that it is responsible or legally obligated to me for My Claims, denies that it engaged in any unlawful or improper conduct toward me, and denies that it treated me unfairly.

CONFIDENTIALITY. I understand that the terms of this Release are confidential and that I may not disclose those terms to any person except under the circumstances described in the Agreement.

ADVICE TO CONSULT WITH AN ATTORNEY. I understand and acknowledge that I am hereby being advised by the Company to consult with an attorney prior to signing this Release. My decision whether to sign this Release is my own voluntary decision made with full knowledge that the Company has advised me to consult with an attorney.

PERIOD TO CONSIDER THE RELEASE. I understand that I have 21 days from the day that I receive this Release, not counting the day upon which I receive it, to consider whether I wish to sign this Release. If I sign this Release before the end of the 21-day period, it will be my voluntary decision to do so because I have decided that I do not need any additional time to decide whether to sign this Release. I also agree that any changes made to this Release or to the Agreement before I sign it, whether material or immaterial, will not restart the 21-day period.

MY RIGHT TO RESCIND THIS RELEASE. I understand that I may rescind this Release at any time within seven (7) days after I sign it, not counting the day upon which I sign it. This Release will not become effective or enforceable unless and until the 7-day rescission period has expired without my rescinding it.

PROCEDURE FOR ACCEPTING OR RESCINDING THE RELEASE. To accept the terms of this Release, I must deliver the Release, after I have signed and dated it, to FIC by hand or by mail within the 21-day period that I have to consider this Release. To rescind my acceptance, I must deliver a written, signed statement that I rescind my acceptance to FIC by hand or by mail within the 7-day rescission period. All deliveries must be made to FIC at the following address:

Richard Deal
Vice President, Human Resources
4295 Lexington Avenue North
St. Paul, MN 55126-6164

If I choose to deliver my acceptance or the rescission of my acceptance by mail, it must be (1) postmarked within the period stated above and (2) properly addressed to FIC at the address stated above.

INTERPRETATION OF THE RELEASE. This Release should be interpreted as broadly as possible to achieve my intention to resolve all of My Claims against the Company. If this Release is held by a court to be inadequate to release a particular claim encompassed within My Claims, this Release will remain in full force and effect with respect to all the rest of My Claims. This Agreement shall be governed by, and interpreted under, the laws of the State of California without regard to its choice of law principles. In the event that any part or provision of this Agreement is determined to be unenforceable, all other parts and provisions shall remain in full force and effect.

MY REPRESENTATIONS. I am legally able and entitled to receive the consideration being provided to me in settlement of My Claims. I have not been involved in any personal bankruptcy or other insolvency proceedings at any time since I began my employment with FIC. No child support orders, garnishment orders, or other orders requiring that money owed to me by FIC be paid to any other person are now in effect.

I have read this Release carefully. I understand all of its terms. In signing this Release, I have not relied on any statements or explanations made by the Company except as specifically set forth in the Agreement. I am voluntarily releasing My Claims against the Company. I intend this Release and the Agreement to be legally binding.

Dated: 9/20/02

/s/ Henk J. Evenhuis
---
Henk J. Evenhuis

EXHIBIT B

October 23, 2002

Richard Deal
Vice President, Human Resources
Fair, Isaac and Company, Inc.
4295 Lexington Avenue North
St. Paul, MN 55126-6164

Dear Mr. Deal:

This will confirm my resignation, effective January 1, 2003, from my position with Fair, Isaac and Company, Inc. as Vice President, Finance and Chief Accounting Officer and as an officer of Fair, Isaac or any of its affiliates. This also confirms my resignation as an employee of Fair, Isaac, effective as of May 1, 2003.

Sincerely,

/s/ Henk J. Evenhuis
---

Henk J. Evenhuis

EXHIBIT 10.26

# MANAGEMENT AGREEMENT

This Management Agreement (this "Agreement") is entered into as of August 14, 2002, by and between Fair, Isaac and Company, Incorporated, a Delaware corporation (the "Company"), and _____ ("Executive").

WHEREAS, Executive is a key member of the management of the Company and has heretofore devoted substantial skill and effort to the affairs of the Company; and

WHEREAS, it is desirable and in the best interests of the Company and its shareholders to continue to obtain the benefits of Executive's services and attention to the affairs of the Company; and

WHEREAS, it is desirable and in the best interests of the Company and its shareholders to provide inducement for Executive (A) to remain in the service of the Company in the event of any proposed or anticipated change in control of the Company and (B) to remain in the service of the Company in order to facilitate an orderly transition in the event of a change in control of the Company, without regard to the effect such change in control may have on Executive's employment with the Company; and

WHEREAS, it is desirable and in the best interests of the Company and its shareholders that Executive be in a position to make judgments and advise the Company with respect to proposed changes in control of the Company; and

WHEREAS, the Executive desires to be protected in the event of certain changes in control of the Company; and

WHEREAS, for the reasons set forth above, the Company and Executive desire to enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements contained herein, the Company and Executive agree as follows:

1. EVENTS. No amounts or benefits shall be payable or provided for pursuant to this Agreement unless an Event shall occur during the Term of this Agreement.

(a) For purposes of this Agreement, an "Event" shall be deemed to have occurred if any of the following occur:

(i) Any "person" (as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, or any successor statute thereto (the "Exchange Act")) acquires or becomes a "beneficial owner" (as defined in Rule 13d-3 or any successor rule under the Exchange Act), directly or indirectly, of securities of the

Company representing 30% or more of the combined voting power of the Company's securities entitled to vote generally in the election of directors ("Voting Securities") then outstanding or 30% or more of the shares of common stock of the Company ("Common Stock") outstanding, provided, however, that the following shall not constitute an Event pursuant to this Section 1(a)(i):

(A) any acquisition or beneficial ownership by the Company or a subsidiary of the Company;

(B) any acquisition or beneficial ownership by any employee benefit plan (or related trust) sponsored or maintained by the Company or one or more of its subsidiaries;

(C) any acquisition or beneficial ownership by any corporation (including without limitation an acquisition in a transaction of the nature described in Section 1(a)(ii)) with respect to which, immediately following such acquisition, more than 70%, respectively, of (x) the combined voting power of the Company's then outstanding Voting Securities and (y) the Common Stock is then beneficially owned, directly or indirectly, by all or substantially all of the persons who beneficially owned Voting Securities and Common Stock, respectively, of the Company immediately prior to such acquisition in substantially the same proportions as their ownership of such Voting Securities and Common Stock, as the case may be, immediately prior to such acquisition; or

(D) any acquisition of Voting Securities or Common Stock directly from the Company; and

Continuing Directors shall not constitute a majority of the members of the Board of Directors of the Company. For purposes of this Section 1(a)(i), "Continuing Directors" shall mean: (A) individuals who, on the date hereof, are directors of the Company, (B) individuals elected as directors of the Company subsequent to the date hereof for whose election proxies shall have been solicited by the Board of Directors of the Company or (C) any individual elected or appointed by the Board of Directors of the Company to fill vacancies on the Board of Directors of the Company caused by death or resignation (but not by removal) or to fill newly-created directorships, provided that a "Continuing

Director" shall not include an individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the threatened election or removal of directors (or other actual or threatened solicitation of proxies or consents) by or on behalf of any person other than the Board of Directors of the Company; or

(ii) Consummation of a reorganization, merger or consolidation of the Company or a statutory exchange of outstanding Voting Securities of the Company (other than a merger or consolidation with a subsidiary of the Company), unless immediately following such reorganization, merger, consolidation or exchange, all or substantially all of the persons who were the beneficial owners, respectively, of Voting Securities and Common Stock immediately prior to such reorganization, merger, consolidation or exchange beneficially own, directly or indirectly, more than 70% of, respectively, (x) the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger, consolidation or exchange and (y) the then outstanding shares of common stock of the corporation resulting from such reorganization, merger, consolidation or exchange in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or exchange, of the Voting Securities and Common Stock, as the case may be; or

(iii) (x) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company or (y) the sale or other disposition of all or substantially all of the assets of the Company (in one or a series of transactions), other than to a corporation with respect to which, immediately following such sale or other disposition, more than 70% of, respectively, (1) the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (2) the then outstanding shares of common stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the persons who were the beneficial owners, respectively, of the Voting Securities and Common Stock immediately prior to such sale or other disposition in substantially the same proportions as their ownership, immediately prior to such sale or other disposition, of the Voting Securities and Common Stock, as the case may be; or

(iv) A majority of the members of the Board of Directors of the Company shall have declared that an Event has occurred or that an Event will occur upon satisfaction of specified conditions, in which case the Event shall be deemed to occur upon satisfaction of such specified conditions; or

(v) The Company enters into a letter of intent, an agreement in principle or a definitive agreement relating to an Event described in Section 1(a)(i), 1(a)(ii) or 1(a)(iii) hereof that ultimately results in such an Event, or a tender or exchange offer or proxy contest is commenced which ultimately results in an Event described in Section 1(a)(i) hereof; or

(vi) There shall be an involuntary termination of employment of the Executive or Termination for Good Reason (as defined in Section 4(c)), and the Executive reasonably demonstrates that such event (x) was requested by a party other than the Board of Directors of the Company that had previously taken other steps reasonably calculated to result in an Event described in Section 1(a)(i), 1(a)(ii), 1(a)(iii) or 1(a)(iv) hereof and which ultimately results in an Event described in Section 1(a)(i), 1(a)(ii), 1(a)(iii) or 1(a)(iv) hereof, or (y) otherwise arose in connection with or in anticipation of an Event described in Section 1(a)(i), 1(a)(ii), 1(a)(iii) or 1(a)(iv) hereof that ultimately occurs.

Notwithstanding anything stated in this Section 1(a), an Event shall not be deemed to occur with respect to Executive if (x) the acquisition or beneficial ownership of the 30% or greater interest referred to in Section 1(a)(i) is by Executive or by a group, acting in concert, that includes Executive or (y) a majority of the then combined voting power of the then outstanding voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of the Company shall, immediately after a reorganization, merger, exchange, consolidation or disposition of assets referred to in Section 1(a)(ii) or 1(a)(iii), be beneficially owned, directly or indirectly, by Executive or by a group, acting in concert, that includes Executive.

(b) For purposes of this Agreement, a "subsidiary" of the Company shall mean any entity of which securities or other ownership interests having general voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Company.

2. PAYMENTS AND BENEFITS. If any Event shall occur during the Term of this Agreement, then the Executive shall be entitled to receive from the Company or its successor (which term as used herein shall include any person acquiring all or substantially all of the assets of

the Company) a cash payment and other benefits on the following basis (unless the Executive's employment by the Company is terminated voluntarily or involuntarily prior to the occurrence of the earliest Event to occur (the "First Event"), in which case Executive shall be entitled to no payment or benefits under this Section 2):

(a) If at the time of, or at any time after, the occurrence of the First Event and prior to the end of the Transition Period, the employment of Executive with the Company is voluntarily or involuntarily terminated for any reason (unless such termination is a voluntary termination by Executive other than for Good Reason, is on account of the death or Disability of the Executive or is a termination by the Company for Cause), subject to the limitations set forth in Sections 2(d) and 2(e), Executive shall be entitled to the following:

(i) The Company shall pay Executive's full base salary through the Termination Date at the rate then in effect.

(ii) The Company or its successor, within 90 days after the Termination Date, shall make a cash payment to Executive in an amount equal to one (1) times the sum of (A) the annual base salary of Executive in effect immediately prior to the First Event plus (B) the cash bonus or cash incentive compensation received by the Executive from the Company for the fiscal year preceding the First Event.

(iii) For a 12-month period after the Termination Date, the Company shall allow Executive to participate in any health, disability and life insurance plan or program in which the Executive was entitled to participate immediately prior to the First Event as if Executive were an employee of the Company during such 12-month period; provided, however, that in the event that Executive's participation in any such health, disability or life insurance plan or program of the Company is barred, the Company, at its sole cost and expense, shall arrange to provide Executive with benefits substantially similar to those which Executive would be entitled to receive under such plan or program if Executive were not barred from participation. Benefits otherwise receivable by Executive pursuant to this section 2(a)(iii) shall be reduced to the extent comparable benefits are received by Executive from another employer or other third party during such 12-month period, and Executive shall promptly report receipt of any such benefits to the Company.

(iv) Any outstanding and unvested stock options granted to Executive shall be accelerated and become immediately exercisable by Executive (and shall remain exercisable for the terms specified in the applicable stock option agreements) and any restricted stock awarded

to Executive and subject to forfeiture shall be fully vested and shall no longer be subject to forfeiture.

(b) The Company shall also pay to Executive all legal fees and expenses incurred by the Executive as a result of such termination, including, but not limited to, all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement.

(c) In addition to all other amounts payable to Executive under this Section 2, Executive shall be entitled to receive all benefits payable to Executive under any other plan or agreement relating to retirement benefits.

(d) Executive shall not be required to mitigate the amount of any payment or other benefit provided for in Section 2 by seeking other employment or otherwise, nor shall the amount of any payment or other benefit provided for in Section 2 be reduced by any compensation earned by Executive as the result of employment by another employer after the Termination Date or otherwise, except as specifically provided in this Agreement.

(e) Notwithstanding any other provision of this Agreement, the Company will not pay to Executive, and Executive will not be entitled to receive, any payment pursuant to Section 2(a)(ii) unless and until:

(i) Executive executes, and there shall be effective following any statutory period for revocation or rescission, a release that irrevocably and unconditionally releases the Company, any company acquiring the Company or its assets, and their past and current shareholders, directors, officers, employees and agents from and against any and all claims, liabilities, obligations, covenants, rights and damages of any nature whatsoever, whether known or unknown, anticipated or unanticipated; provided, however, that the release shall not adversely affect Executive's rights to receive benefits to which he is entitled under this Agreement or Executive's rights to indemnification under applicable law, the charter documents of the Company, any insurance policy maintained by the Company or any written agreement between the Company and Executive; and

ii) Executive executes an agreement prohibiting Executive for a period of one (1) year following the Termination Date from soliciting, recruiting or inducing, or attempting to solicit, recruit or induce, any employee of the Company or of any company acquiring the Company or its assets to terminate the employee's employment.

(f) The obligations of the Company under this Section 2 shall survive the termination of this Agreement.

3. CERTAIN REDUCTION OF PAYMENTS BY THE COMPANY.

(a) Notwithstanding anything contained herein to the contrary, prior to the payment of any amounts pursuant to Section 2(a) hereof, an independent national accounting firm designated by the Company (the "Accounting Firm") shall compute whether there would be any "excess parachute payments" payable to Executive, within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), taking into account the total "parachute payments," within the meaning of Section 280G of the Code, payable to Executive by the Company or any successor thereto under this Agreement and any other plan, agreement or otherwise. If there would be any excess parachute payments, the Accounting Firm will compute the net after-tax proceeds to Executive, taking into account the excise tax imposed by Section 4999 of the Code, if (i) the payments hereunder were reduced, but not below zero, such that the total parachute payments payable to Executive would not exceed three (3) times the "base amount" as defined in Section 280G of the Code, less One Dollar ($1.00), or (ii) the payments hereunder were not reduced. If reducing the payments hereunder would result in a greater after-tax amount to Executive, such lesser amount shall be paid to Executive. If not reducing the payments hereunder would result in a greater after-tax amount to Executive, such payments shall not be reduced. The determination by the Accounting Firm shall be binding upon the Company and Executive subject to the application of Section 3(b) hereof.

(b) As a result of uncertainty in the application of Sections 280G of the Code, it is possible that excess parachute payments will be paid when such payment would result in a lesser after-tax amount to Executive; this is not the intent hereof. In such cases, the payment of any excess parachute payments will be void ab initio as regards any such excess. Any excess will be treated as an overpayment by the Company to Executive. Executive will return the overpayment to the Company, within fifteen (15) business days of any determination by the Accounting Firm that excess parachute payments have been paid when not so intended, with interest at an annual rate equal to the rate provided in Section 1274(d) of the Code (or 120% of such rate if the Accounting Firm determines that such rate is necessary to avoid an excise tax under Section 4999 of the Code) from the date Executive received the excess until it is repaid to the Company.

(c) All fees, costs and expenses (including, but not limited to, the cost of retaining experts) of the Accounting Firm shall be borne by the Company and the Company shall pay such fees, costs, and expenses as they become due. In performing the computations required hereunder, the Accounting Firm shall assume that taxes will be paid for state and federal purposes at the highest possible marginal tax rates which could be applicable to Executive in the year of receipt of the payments, unless Executive agrees otherwise.

4. DEFINITION OF CERTAIN ADDITIONAL TERMS.

(a) "Cause" shall mean, and be limited to, (i) willful and gross neglect of duties by the Executive or (ii) an act or acts committed by the Executive constituting a felony and substantially detrimental to the Company or its reputation.

(b) "Disability" shall mean Executive's absence from his duties with the Company on a full time basis for 180 consecutive business days, as a result of Executive's incapacity due to physical or mental illness, unless within 30 days after written notice of intent to terminate is given by the Company following such absence Executive shall have returned to the full time performance of Executive's duties.

(c) "Good Reason" shall mean if, without Executive's express written consent, any of the following shall occur:

(i) the assignment to Executive of any material duties inconsistent with Executive's status or position with the Company, or any other action by the Company that results in a substantial diminution in such status or position, excluding any isolated, insubstantial, or inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof from Executive; notwithstanding the foregoing, a change in title and/or reporting relationship alone shall not constitute a substantial diminution in an Executive's status or position.

(ii) a material reduction by the Company in Executive's annual base salary or target incentive in effect immediately prior to the First Event;

(iii) the failure by the Company to continue to provide Executive with benefits at least as favorable in the aggregate to those enjoyed by Executive under the Company's pension, life insurance, medical, health and accident, disability, deferred compensation, incentive awards, employee stock options or savings plans in which Executive was participating at the time of the First Event, the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive Executive of any material fringe benefit enjoyed at the time of the First Event, or the failure by the Company to provide Executive with the number of paid vacation days to which Executive is entitled at the time of the First Event, but excluding any failure or action by the Company that is not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof from Executive; or

(iv) the Company requiring Executive to relocate to any place other than a location within forty miles of the location at which Executive performed his primary duties immediately prior to the First Event or, if Executive is based at the Company's principal executive offices, the relocation of the Company's principal executive offices to a location more than forty miles from its location immediately prior to the First Event, except for required travel on the Company's business to an extent substantially consistent with Executive's prior business travel obligations;

(v) the failure of the Company to obtain agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5(b).

(d) As used herein, other than in Section 1(a) hereof, the term "person" shall mean an individual, partnership, corporation, estate, trust or other entity.

(e) "Termination Date" shall mean the date of termination of Executive's employment, which in the case of termination for Disability shall be the 30th day after notice is given as required in Section 4(b).

(f) "Transition Period" shall mean the one-year period commencing on the date of the earliest to occur of an Event described in Section 1(a)(i), 1(a)(ii), 1(a)(iii) or 1(a)(iv) hereof (the "Commencement Date") and ending on the first anniversary of the Commencement Date.

5. SUCCESSORS AND ASSIGNS.

(a) This Agreement shall be binding upon and inure to the benefit of the successors, legal representatives and assigns of the parties hereto; provided, however, that the Executive shall not have any right to assign, pledge or otherwise dispose of or transfer any interest in this Agreement or any payments hereunder, whether directly or indirectly or in whole or in part, without the written consent of the Company or its successor.

(b) The Company will require any successor (whether direct or indirect, by purchase of a majority of the outstanding voting stock of the Company or all or substantially all of the assets of the Company, or by merger, consolidation or otherwise), by agreement in form and substance satisfactory to Executive, to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession (other than in the case of a merger or consolidation) shall be a breach of this Agreement and shall entitle Executive to compensation from the Company in the same amount and on the same terms as Executive

would be entitled hereunder in the event of termination by Executive for Good Reason, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Termination Date. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that is required to execute and deliver the agreement as provided for in this Section 5(b) or that otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

6. GOVERNING LAW. This Agreement shall be construed in accordance with the laws of the State of Minnesota.

7. NOTICES. All notices, requests and demands given to or made pursuant to this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage pre-paid, addressed to the last known residence address of Executive or in the case of the Company, to its principal executive office to the attention of each of the then directors of the Company with a copy to its Secretary, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

8. REMEDIES AND CLAIM PROCESS. If Executive disputes any determination made by the Company regarding Executive's eligibility for any benefits under this Agreement, the amount or terms of payment of any benefits under this Agreement, or the Company's application of any provision of this Agreement, then Executive shall, before pursuing any other remedies that may be available to Executive, seek to resolve such dispute by submitting a written claim notice to the Company. The notice by Executive shall explain the specific reasons for Executive's claim and basis therefor. The Board of Directors shall review such claim and the Company will notify Executive in writing of its response within 60 days of the date on which Executive's notice of claim was given. The notice responding to Executive's claim will explain the specific reasons for the decision. Executive shall submit a written claim hereunder before pursuing any other process for resolution of such claim. This Section 8 does not otherwise affect any rights that Executive or the Company may have in law or equity to seek any right or benefit under this Agreement.

9. SEVERABILITY. In the event that any portion of this Agreement is held to be invalid or unenforceable for any reason, it is hereby agreed that such invalidity or unenforceability shall not affect the other portions of this Agreement and that the remaining covenants, terms and conditions or portions hereof shall remain in full force and effect.

10. INTEGRATION. The benefits provided to Executive under this Agreement shall be in lieu of any other severance pay or benefits available to Executive under any other agreement, plan or program of the Company. In the event that any payments or benefits become payable to Executive pursuant to Section 2 of this Agreement, then this Agreement will supersede and replace any other agreement, plan or program applicable to Executive to the extent that such other

agreement, plan or program provides for payments or benefits to Executive arising out of the involuntary termination of Executive's employment or termination by Executive for Good Reason. In addition, the acceleration of stock options and lapsing of forfeiture provisions of restricted stock provided pursuant to Section 2(a)(iv) of this Agreement shall not be subject to the provisions of Article 13 of the Company's 1992 Long-Term Incentive Plan (or similar successor provision or plan).

11. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the parties. No waiver by either party hereto at any time of any breach by the other party to this Agreement of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior to similar time.

12. TERM. This Agreement shall commence on the date of this Agreement and shall terminate, and the Term of this Agreement shall end, on the later of (A) December 31, 2007, provided that such period shall be automatically extended for one year and from year to year thereafter until notice of termination is given by the Company or Executive to the other party hereto at least 60 days prior to December 31, 2007 or the one-year extension period then in effect, as the case may be, or (B) if the Commencement Date occurs on or prior to December 31, 2007 (or prior to the end of the extension year then in effect as provided for in clause (A) hereof), the first anniversary of the Commencement Date.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

FAIR, ISAAC AND COMPANY, INCORPORATED

By
---

NAME OF EXECUTIVE

By
---

EXHIBIT 10.32

# OFFICE BUILDING LEASE

BETWEEN

PACCOR PARTNERS

("Landlord")

and

HNC, INC.

("Tenant")

Date: December 1, 1993

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# OFFICE LEASE

This Office Lease and Exhibits ("Lease") is made and entered into this 1st day of December 1993 between PACCOR PARTNERS, a California general partnership ("Landlord"), and HNC, Inc. a California corporation ("Tenant"), who for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, agree as follows:

## SECTION 1
## BASIC LEASE INFORMATION

1.1 Parties:

Landlord: PacCor Partners, a California general partnership.

Tenant: HNC, INC.

1.2 "Project" shall mean: (i) the Premises; (ii) the building located at 5930 Cornerstone Court West, San Diego, California (the "Building"); (iii) building located at 5935 Cornerstone Court West, San Diego, California ("Adjacent Building"), Building and Adjacent Building are referred to collectively as "Buildings"; (iv) Common Area as shown in Exhibit B and described in Section 6.1(c); (v) the real property defined in Exhibit B ("Real Property"); and (vi) all other improvements on the Real Property or any future improvements, including additional buildings, to the Real Property.

1.3 "Premises" shall mean all of the second floor and that portion of the third floor of the Building as shown on Exhibit "A".

(a) "Rentable Square Footage" shall mean 25,259 rentable square feet of the Premises consisting of 17,846 rentable square feet on the second floor and 7,413 rentable square feet on the third floor.

(b) "Usable Square Footage" shall mean 22,936 usable square feet of the Premises consisting of 16,434 usable square feet on the second floor and 6,502 usable square feet on the third floor.

1.4 "COMMENCEMENT DATE" shall mean March 15, 1994, or later as set forth below.

If, as of March 15, 1994 Substantial Completion (defined in Section 5.1) has not occurred, then the Commencement Date shall be the earlier of Substantial Completion or Substantial Completion less the number of days Tenant demonstrably delayed the Schedule in the Work Letter (see Exhibit "C"), and neither party shall incur any liability to the other party on account of such delay in Substantial Completion. Notwithstanding any other provision of this Lease, this Lease shall terminate upon written notice by

Tenant if Substantial Completion has not occurred by June 15, 1994, unless the delay in Substantial Completion is caused by factors beyond Landlord's reasonable control including but not limited to material shortages, labor strikes, acts of God, inability to obtain permits or other necessary approvals, moratoriums, and/or Tenant's failure to comply with the Schedule in the Work Letter. If the Lease terminates pursuant to this Section 1.4, neither party shall incur any liability to the other party. If Substantial Completion has not occurred by December 31, 1994 due to factors beyond Landlord's reasonable control, then this Lease shall automatically terminate as of December 31, 1994 and neither party shall incur any liability to the other party.

1.5 "Term of Lease" shall mean Eighty-Four (84) full calendar months from and after the Commencement Date or, if the Commencement Date is not the first day of a calendar month, from and after the first day of the calendar month following the Commencement Date, provided, however, that notwithstanding the foregoing, Tenant may terminate this Lease effective at the end of sixty (60) months after the Commencement Date without incurring any liability to Landlord, except as set forth in Section 3.3.

1.6 "Option to Extend Term" shall mean one (1) option to extend the term of the Lease, for a period of five (5) years following the Expiration Date (Section 3.1) in accordance with Section 3.2.

1.7 "Base Rent" shall be payable monthly in accordance with the "Schedule of Base Rent" as set forth below, except that Base Rent for Month 1 in the amount of $25,259 shall be paid to Landlord upon the execution of this Lease:

SCHEDULE OF BASE RENT

| MONTH | | BASE RENT RATE PER RENTABLE SQ. FT. | RENTABLE SQUARE FOOTAGE* | BASE RENT | |
|---|---|---|---|---|---|
| Month 1 | 1 | $1.00 | 25,259 | $25,259 | 25,259 |
| Months 2-3 | 2 | $0 | 25,259 | $0 (rent abated) | 0 |
| Months 4-30 | 27 | $1.00 | 25,259 | $25,259/ month | 681,993 |
| Months 31-60 | 30 | $1.10 | 25,259 | $27,785/ month | 833,550 |
| Months 61-84 | 24 | $1.20 | 25,259 | 30,311/ month | 727,464 |
| | 84 | | | | 2,268,266 |
| | | | | | 1.07/MD. |

1.8 "Security Deposit" shall mean the amount of Twenty-Five Thousand Two Hundred Fifty-Nine and no/100ths Dollars ($25,259.00).

1.9 "Tenant's Share of Common Area Operating Expenses and Building Operating Expenses" (Section 6.1(e)) shall mean an amount due Landlord, beginning June 1, 1995, which is Twenty-Six percent (26%) of the increase in Common Area Operating Expenses and Fifty-Two and 3/10ths percent (52.3%) of the increase in Building Operating Expenses over the Base Year, as specifically set forth in Sections 6.3 and 6.4.

1.10 "Tenant Improvement Allowance" shall mean the amount Landlord shall pay and apply towards the cost of the Work, as follows:

(a) $410,850.00 for improvements to the second floor of the Premises (16,434 usable square feet multiplied by $25.00 per usable square foot);

(b) $55,800.00 for improvements to the shell space on the third floor of the Premises (2,232 usable square feet multiplied by $25.00 per usable square foot);

(c) That portion of the Premises on the third floor previously occupied by Telesoft, consisting of 4,270 usable square feet, shall be demolished and tenant improvements completed in accordance with a mutually agreed upon plan, drafted by Tenant's architect, utilizing existing improvements where possible, to be consistent with the material and furnishings of the third floor shell space, all at Landlord's expense.

(d) Tenant's architect shall provide design plans for the refurbishment of the present third floor elevator lobby area and existing corridor to reflect a multi-tenant building standard quality appearance. Upon Landlord's approval of the plans, which approval shall not be unreasonably withheld or demonstrably delayed, Landlord will complete the refurbishment of the present third floor elevator lobby area and existing corridor at Landlord's expense.

Tenant shall pay for the cost of the Work referenced in Subsections (a) and (b) hereinabove which exceeds the Tenant Improvement Allowance.

1.11 Additional Insureds: Tenant shall name as additional insureds the following entities:

PacCor Partners, a California general partnership (Landlord)
11939 Rancho Bernardo Road, Suite 200
San Diego, California 92128
Attn: Robert C. Henkel

PacCor Management Company, a California corporation (a general partner)
11939 Rancho Bernardo Road, Suite 200
San Diego, California 92128
Attn: Terrence L. Vogel

PR Land Corp., a Delaware corporation (a general partner)
c/o Paul Revere Investment Management Corporation
18 Chestnut Street
Worcester, MA 01608

1.12 Notice Address (Section 16.2): All notices shall be addressed as follows:

Landlord: PacCor Partners
11939 Rancho Bernardo Road, Suite 200
San Diego, California 92128
Attn: Robert C. Henkel

Copy to: PacCor Management Company
11939 Rancho Bernardo Road, #200
San Diego, California 92128
Attn: Terrence L. Vogel

To Tenant prior to Tenant's taking possession of the Premises:
HNC, Inc.
5501 Oberlin Drive
San Diego, California 92121
Attn: Hugh D. Gerfin

Tenant after Tenant's taking possession of the Premises:
HNC, Inc.
5930 Cornerstone Court West
San Diego, California 92121
Attn: Hugh D. Gerfin

Copy of all notices to Tenant to:
Kenneth A. Linhares, Esq.
Fenwick & West
Two Palo Alto Square, Suite 800
Palo Alto, California 94306

1.13 EXHIBITS:

Exhibit "A": Description of Premises (Floor Plans)
Exhibit "B": Project Site Plan (including legal description of Real Property)
Exhibit "C": Work Letter
Exhibit "D": Building/Tenant Improvement Standards for Pacific Corporate Park

SECOND AMENDMENT TO OFFICE BUILDING LEASE
BETWEEN PACCOR PARTNERS AND HNC SOFTWARE, INC.

This Second Amendment To Office Building Lease between PacCor Partners and HNC, Inc. ("Second Amendment"), is made and entered into as of the 1st day of June, 1994 between PACCOR PARTNERS, a California general partnership ("Landlord") and HNC SOFTWARE, INC., a California corporation ("Tenant"), with regard to the following:

A. Landlord and Tenant entered into an Office Building Lease dated December 1, 1993 ("Lease").

B. Landlord and Tenant amended the Lease by the First Amendment to Office Building Lease between PacCor Partners and HNC, Inc. effective February 1, 1994 ("First Amendment"). Generally, the First Amendment substituted Bycor General Contractors, Inc. for Roel Construction Company, Inc. as the general contractor to complete the tenant improvements on the second and a portion of the third floors of the building at 5930 Cornerstone Court West, San Diego, California ("Building"). The Lease and First Amendment shall be referred to as "Lease".

C. Landlord and Tenant desire to amend the Lease to provide for the expansion of the Premises in the third and first floors, whereby the Premises shall include all of the interior of the Building. HNC, Inc. changed its name to HNC Software, Inc.

NOW, THEREFORE, for valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties agree to amend the Lease as follows:

1. Section 1.3 of the Lease entitled "Premises" shall be deleted in its entirety and substituted in its place shall be the following:

1.3 "Premises" shall mean all of the interior of the Building as shown on Exhibit A Amended attached to the Second Amendment. _

(a) "Rentable Square Footage" shall mean 48,984 square feet.

(b) "Usable Square Footage" shall mean 43,568 square feet.

(c) "Original Premises" shall mean all of the second floor and that portion of the third floor shown on Exhibit A of the Lease (being the area leased pursuant to the terms of the Lease dated December 1, 1993).

(d) "Third Floor Expansion Space" shall mean that portion of the Premises on the third floor not previously included on Exhibit A of the Lease dated December 1, 1993 consisting of 6,325 usable square feet (for purposes of determining Tenant Improvement Allowance and refurbishment allowance for the Third Floor Expansion

Space) and 7936 rentable square feet (for purposes of determining the Base Rent), as shown on Exhibit A Amended.

(e) "Area 1" shall mean that portion of the Premises on the first floor of the Building consisting of 4353 usable square feet (for purposes of determining the Tenant Improvement Allowance and refurbishment allowance for Area 1) and 5130 rentable square feet (for purposes of determining the Base Rent), as shown on Exhibit A Amended.

(f) "Area 2" shall mean that portion of the Premises on the first floor of the Building consisting of 4528 usable square feet (for purposes of determining the Tenant Improvement Allowance and refurbishment allowance for Area 2) and 4528 rentable square feet (for purposes of determining the Base Rent), as shown on Exhibit A Amended.

(g) "Area 3" shall mean that portion of the Premises on the first floor of the Building consisting of 5426 usable square feet (for purposes of determining the Tenant Improvement Allowance and refurbishment allowance for Area 3) and 6131 rentable square feet (for purposes of determining the Base Rent), as shown on Exhibit A Amended.

2. Section 1.4 of the Lease entitled "Commencement Date" shall be deleted in its entirety and substituted in its place shall be the following:

1.4 "Commencement Date" shall be the collective term for the commencement dates for the Premises as set forth below.

(a) "Original Premises Commencement Date" shall mean March 15, 1994.

(b) "Third Floor Expansion Space Commencement Date" shall mean October 1, 1994 or when the Work for the Third Floor Expansion Space is Substantially Complete, if earlier than October 1, 1994.

(c) "Area 1 Commencement Date" shall mean May 1, 1995 or when the Work for Area 1 is Substantially Complete, if earlier than May 1, 1995;

(d) "Area 2 Commencement Date" shall mean November 1, 1995 or when the Work for Area 2 is Substantially Complete, if earlier than November 1, 1995;

(e) "Area 3 Commencement Date" shall mean May 1, 1996 or when the Work for Area 3 is Substantially Complete, if earlier than May 1, 1996.

3. Section 1.5 of the Lease entitled "Term of Lease" shall be deleted in its entirety and substituted in its place shall be the following:

1.5 "Term of Lease" shall mean the period from March 15, 1994 through April 30, 2003.

4. Section 1.7 of the Lease entitled "Base Rent" shall be deleted in its entirety and substituted in its place shall be the following:

1.7 "Base Rent" shall be payable monthly in accordance with the "Schedule of Base Rent" as set forth below:

SCHEDULE OF BASE RENT

| Month | Base Rent Rate Per Rentable Sq. Ft. | Orig. Prem | 3rd Flr Exp | Rentable Sq. Footage Area 1 | Area 2 | Area 3 | Total Base Rent Per Month |
|---|---|---|---|---|---|---|---|
| 3/15/94-3/31/94 | $1.00 | 25,259 sf | | | | | $13,852 (17 days) |
| 4/1-30/94 | $1.00 | 25 259 sf | | | | | $25,259 |
| 5/1/94-6/30/94 | 0 | 25,259 sf | | | | | $0(rent abated) |
| 7/94-9/94 | $1.00 | 25,259 sf | | | | | $25,259 |
| 10/94-4/95 | $1.00 | 25,259 sf | 7,936 sf | | | | $33,195 |
| 5/95-10/95 | $1,00 | 25,259 sf | 7,936 sf | 5130 sf | | | $38,325 |
| 11/95-4/96 | $1.00 | 25,259 sf | 7,936 sf | 5130 sf | 4528 sf | | $42,853 |
| 5/96-9/96 | $1.00 | 25,259 sf | 7,936 sf | 5130 sf | 4528 sf | 6,131 sf | $48,984 |
| 10/96-3/99 | $1.10 | 25,259 sf | 7,936 sf | 5130 sf | 4528 sf | 6,131 sf | $53,882 |
| 4/99-3/01 | $1.20 | 25,259 sf | 7,936 sf | 5130 sf | 4528 sf | 6,131 sf | $58,780 |
| 4/01-3/03 | $1.30 | 25,259 sf | 7,936 sf | 5130 sf | 4528 sf | 6,131 sf | $63,679 |

5. Section 1.8 of the Lease entitled "Security Deposit" shall be amended by adding the following sentence to the end of the Section:

"The Security Deposit shall not be increased due to the leasing of the Third Floor Expansion Space, Area 1, Area 2 or Area 3."

6. Section 1.9 of the Lease entitled "Tenant's Share of Common Area Operating Expenses and Building Operating Expenses" shall be deleted in its entirety and substituted in its place shall be the following:

1.9 "Tenant's Share of Common Area Operating Expenses and Building Operating Expenses" (as defined in Section 6.1) shall mean an amount due Landlord beginning June 1, 1995 which is fifty percent (50%) of the increase in Common Area Operating Expenses and one hundred percent (100%) of the increase in Building Operating Expenses over the Base Year, as specifically set forth in Sections 6.3 and 6.4.

7. Section 1.10 of the Lease entitled "Tenant Improvement Allowance" shall be amended by adding the following:

(e) $158,125 for tenant improvements to the remaining space in the third floor (6,325 usable square feet multiplied by $25 per usable square foot);

(f) $108,825 for tenant improvements to Area 1 on the first floor (4,353 usable square feet multiplied by $25 per usable square foot) increased by three percent (3%) per annum from the date of the Second Amendment until the signing of a contract for the tenant improvements for Area 1;

(g) $113,200 for tenant improvements to Area 2 on the first floor (4,528 usable square feet multiplied by $25 per usable square foot) increased by three percent (3%) per annum from the date of the Second Amendment until the signing of a contract for the tenant improvements for Area 2;

(h) $135,650 for tenant improvements to Area 3 on the first floor (5,426 usable square feet multiplied by $25 per usable square foot) increased by three percent (3%) per annum from the date of the Second Amendment until the signing of a contract for the tenant improvements for Area 3;

(i) $11,360 for improvements to the lobby on the first floor (1,136 usable square feet multiplied by $10 per usable square foot), which is in addition to the $25 per usable square foot allowance for the lobby by virtue of its being included in the usable square footage of Area 1;

(j) $8,500 for improvements to remodel the lobby on the second floor (340 usable square feet multiplied by $25 per usable square foot), which lobby was previously improved as part of the Original Premises;

(k) $7,680 for improvements to the shipping area on the third floor (512 usable square feet multiplied by $15 per usable square foot), which was previously improved as part of the Original Premises.

(l) Tenant shall pay for the cost of the Work referenced in subsections (a) through (k) above which exceeds the Tenant Improvement Allowance.

8. Section 1.13 of the Lease entitled EXHIBITS shall be amended by adding Exhibit A Amended - Description of Premises, and Exhibit C Amended - Second Phase Work Letter

for all of the Premises except the Original Premises, copies of which are attached to this Second Amendment.

9. Section 3.1 of the Lease entitled TERM shall be deleted in its entirety and substituted in its place shall be the following:

> 3.1 TERM: The term of the lease as set forth in Section 1.5. "Expiration Date" shall mean April 30, 2003. The Third Floor Expansion Space Commencement Date, Area 1 Commencement Date, Area 2 Commencement Date and Area 3 Commencement Date shall be confirmed in writing by Landlord and Tenant within fifteen (15) days after the respective Commencement Dates.

10. Section 3.2(c) of the Lease entitled Provisions Applicable To The Extended Term shall be amended by adding the following:

> (vi) The option to extend the Term shall be for the entire Building only and not for any portion or floor thereof.

11. Section 3.2(d) of the Lease entitled Refurbishment Allowance shall be deleted in its entirety and substituted in its place shall be the following:

> (d) Refurbishment Allowance: On April 1, 1999, Landlord shall provide Tenant an allowance of not to exceed One Hundred Forty-Six Thousand Three Hundred Five and no/100 Dollars ($146,305.00 - $5.00 multiplied by Usable Square Footage of 29,261 usable square feet) to refurbish the Original Premises and the Third Floor Expansion Space (i.e., the second and third floors of the Building). In the event Tenant elects to extend the Term for the entire Building pursuant to Section 3.2, then on April 1, 2003, Landlord shall provide Tenant an allowance of not to exceed Seventy-One Thousand Five Hundred Thirty-Five and no/100 Dollars ($71,535.00 - $5.00 multiplied by Usable Square Footage of 14,307 usable square feet) to refurbish Area 1, Area 2 and Area 3 (i.e., the first floor of the Building). Such allowances shall be in addition to the Tenant Improvement Allowance and shall be a reimbursement to Tenant within ten (10) days after Tenant's completing the refurbishments and actually incurring expenses for such refurbishment of the Premises and submitting invoices to Landlord indicating the refurbishment work completed. Refurbishment and/or alterations shall be in accordance with Section 7.9 of this Lease.

12. Section 3.3 of the Lease entitled CANCELLATION OF LEASE shall be deleted in its entirety.

13. Section 4.2 of the Lease entitled Base Rent shall be amended by adding the following subsections:

> (a) In the event Tenant gives Landlord written notice that Tenant shall not cause the Work to be completed in the Third Floor Expansion Space, Area 1, Area 2 and/or

Area 3 prior to the respective Commencement Date, the Base Rent for that portion of the Premises listed in the notice shall be at eighty percent (80%) of the Schedule of Base Rent set forth in Section 1.7 for a period of not to exceed six (6) months. Whether or not the portion of the Premises listed on the notice is improved, Base Rent commencing in the seventh (7th) month shall be as set forth in Section 1.7. Tenant's share of Common Area Operating Expenses and Building Operating Expenses shall be paid notwithstanding any reduction of Base Rent.

(b) In the event the Third Floor Commencement Date, Area 1 Commencement Date, Area 2 Commencement Date and/or Area 3 Commencement Date are earlier than as set forth in Section 1.4 (Second Amendment), the Schedule of Base Rent shall be amended to reflect the proper Commencement Date(s).

14. Section 4.6 of the Lease entitled RENT CREDIT FOR UNUSED TENANT IMPROVEMENT ALLOWANCE shall be deleted in its entirety and substituted in its place, shall be the following:

4.6 RENT CREDIT FOR UNUSED TENANT IMPROVEMENT ALLOWANCE: All Tenant Improvement Allowances [except the allowances set forth in Section 1.10(i), (j) and (k)] not used to pay for Work shall be credited toward Rent commencing on the Commencement Date, not to exceed One Dollar ($1.00) multiplied by the Usable Square Footage of the area being improved. This paragraph shall not apply to any portion of the Premises whereby Tenant gives Landlord written notice that Tenant shall not cause the Work to be completed pursuant to Section 4.2(a) above.

15. Section 5 of the Lease entitled TENANT IMPROVEMENTS shall be deleted in its entirety and substituted in its place shall be the following:

5.1 DEFINITIONS: For purposes of this Lease, the following definitions shall apply:

(a) "Work" shall mean the Tenant improvements as set forth in the approved construction documents and approved change orders as more specifically defined in the Work Letter and Second Phase Work Letter.

(b) "Substantial Completion" shall mean a portion of the Premises has been approved for occupancy by the City of San Diego Building Department, a portion of the Premises has been delivered to Tenant for occupancy, and completion of construction of the Work (defined below) in accordance with the approved construction documents and change orders has occurred with the exception of minor details of construction, installation, decoration, or mechanical adjustments commonly found on a punchlist, none of which materially interferes with Tenant's use or occupancy of that portion of the Premises. Substantial Completion of the Work shall be deemed to have occurred notwithstanding the requirement to complete the punchlist items or similar corrective work as set forth in Section 5.4.

(c) "Work Letter" shall mean Exhibit "C" attached to the Lease.

(d) "Second Phase Work Letter" shall mean Exhibit C Amended attached to this the Second Amendment.

5.2 PREPARATION OF PREMISES: Landlord shall arrange for the timely construction of the Work in accordance with the requirements set forth in the Work Letter, Second Phase Work Letter, the Lease and Amendments to the Lease.

5.3 LANDLORD'S CONTRACTOR: Landlord shall enter into construction contracts in accordance with the Work Letter and Second Phase Work Letter.

5.4 ACCEPTANCE OF PREMISES: Within five (5) days after Substantial Completion, Landlord, Tenant, Tenant's architect and such other of Tenant's Representatives as Tenant deems appropriate shall conduct a walk-through of the respective portion of the Premises. Tenant and Landlord shall at the conclusion of the walk-through jointly prepare a list of any items not completed in accordance with the Lease, Work Letter, Second Phase Work Letter, construction documents, construction contracts, Building/Tenant Improvement Standards for Pacific Corporate Park as set forth in Exhibit "D" ("Building Standards") and/or other applicable codes, laws, regulations or standards ("Corrections List"). Landlord shall reasonably and promptly complete all items on the Corrections List. Except for latent defects in the Building not reasonably discoverable during construction, Tenant shall be deemed to have accepted the Premises in its then "AS IS" condition upon Substantial Completion. If Landlord fails to reasonably complete all items on the Corrections List prior to ninety (90) days after it is prepared, Tenant may complete any items and deduct the reasonable cost from the Rent next due. Any items completed by Tenant shall be in accordance with Section 7.9 except as specifically otherwise provided in this Section.

16. Section 5 of the Lease entitled Tenant Improvements shall be amended by adding the following after subsection 5.4:

5.5 Election as to Area 1 and Area 2: Tenant may elect to complete the tenant improvements for Area 2 prior to Area 1; however, in this event, the first floor lobby as shown on Exhibit A Amended shall be completed at the same time as Area 2.

17. Section 6.1(e) of the Lease entitled "Lease Expenses" shall be deleted in its entirety and substituted in its place shall be the following:

(e) "Lease Expenses" shall mean the sum of (i) Building Operating Expenses, and (ii) Tenant's proportionate share of Common Area Operating Expenses (defined as a fraction, the numerator of which is the Rentable Square Footage and the denominator of which is the Project Rentable Area as defined below in subsection (g) below).

(f) "Lease Year" shall mean each twelve (12) month period during the Term commencing June 1, 1995.

18. Section 17.3 of the Lease entitled RIGHT OF FIRST REFUSAL FOR EXPANSION Space shall be deleted in its entirety.

19. Henceforth "Tenant" shall mean HNC Software, Inc.

20. Except as specifically set forth in this Second Amendment, all other terms and conditions of the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment as of the date first hereinabove set forth.

Landlord: PACCOR PARTNERS, a California general partnership

By: PacCor Management Company, A general partner

By: [SIGNATURE ILLEGIBLE]
---

Its: VICE PRESIDENT
---

Tenant: HNC SOFTWARE, INC., a California corporation

By:
---

Its:
---

18. Section 17.3 of the Lease entitled RIGHT OF FIRST REFUSAL FOR EXPANSION SPACE shall be deleted in its entirety.

19. Henceforth "Tenant" shall mean HNC Software, Inc.

20. Except as specifically set forth in this Second Amendment, all other terms and conditions of the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment as of the date first hereinabove set forth.

Landlord: PACCOR PARTNERS, a California general partnership

By: PacCor Management Company, A general partner

By: ----------

Its: ----------

Tenant: HNC SOFTWARE, INC., a California corporation

By: [SIGNATURE ILLEGIBLE] ----------

Its: PRESIDENT ----------

Exhibit "C" to Second Amendment

SECOND PHASE WORK LETTER

This Second Phase Work Letter is an exhibit to the Lease, as amended, between PacCor Partners, a California general partnership ("Landlord") and HNC Software, Inc., a California corporation ("Tenant") dated December 1, 1993, with regard to the following:

1. CONDITION OF PREMISES AND BUILDING DELIVERED BY LANDLORD.

1.1 Second Phase Premises Shell and Stub-in. Landlord shall provide, at its expense and not as a charge against the Tenant Improvement Allowance, a finished shell for that portion of the Premises and Building consisting of the Third Floor Expansion Space, Area 1, Area 2 and Area 3 ("Second Phase Premises"), which shall include: (a) smooth concrete floors; (b) unfinished ceilings; (c) finished core area, including elevator(s), toilet room(s), electrical room, telephone room(s), janitorial closet(s) and exit stair(s); (d) dry wall (taped and/or finished, but not painted) around surfaces of core walls; (e) existing heating, ventilating and air conditioning service as set forth in Exhibit "F" to the Lease; (f) existing sprinkler service within the Building (not including main loops and branch distribution); (g) main electrical panel; (h) exercise room including existing exercise equipment, and (i) life safety systems as required by the applicable San Diego City Municipal Code for a building shell.

1.2 Building Standards. All improvements in the Building shall be in accordance with Building/Tenant Improvement Standards for Pacific Corporate Park ("Building Standards") attached as Exhibit D of the Lease. If provisions of this Second Phase Work Letter conflict with provisions of the Building Standards, the provisions of the Second Phase Work Letter shall prevail.

1.3 Building Plans. Landlord has delivered to Tenant its best available shell building plans and information ("Building Plans").

1.4 Work. The installation and construction of the Tenant improvements by Landlord in accordance with the permitted and approved Second Phase Construction Documents (defined in paragraph 2.4) and Second Phase Change Orders (defined in paragraph 9) of this Second Phase Work Letter shall constitute the work ("Work").

2. PLANS AND DOCUMENTS.

2.1 Second Phase Preliminary Space Plan. Tenant's Representative shall provide to Landlord a preliminary schematic drawing depicting the Second Phase Premises with walls, doors, windows, columns and structural elements, based on site visits, other information obtained by Tenant or Tenant's Representatives, and the best available Building Plans supplied by Landlord ("Second Phase Preliminary Space Plan"), in accordance with the schedule set forth in paragraph 6 of this Second Phase Work Letter ("Second Phase Schedule") for information only.

2.2 Second Phase Final Space Plan. Tenant's Representative shall furnish to Landlord a final schematic drawing depicting the Second Phase Premises with walls, doors, windows, columns and structural elements, based on site visits, other information obtained by Tenant or Tenant's Representatives, and the Building Plans ("Second Phase Final Space Plan"), in accordance with the Second Phase Schedule. Landlord shall review and approve the Second Phase Final Space Plan with reasonable written conditions, if any, in accordance with the Second Phase Schedule.

2.3 Second Phase Construction Documents. Tenant shall cause to be prepared all documents required to obtain a building permit from the City of San Diego for the Work, including any corrections or changes requested by the City of San Diego ("Second Phase Construction Documents") in accordance with the Second Phase Schedule. The Second Phase Construction Documents shall be consistent with the Second Phase Final Space Plan, design plans, if any, and the Building Standards. Tenant shall submit Second Phase Construction Documents including the list of bid alternates, if any, to Landlord in accordance with the Second Phase Schedule. The Landlord shall review and approve with reasonable conditions, if any, in accordance with the Second Phase Schedule. Tenant shall reasonably comply with Landlord's conditions, if any, by modifying the Second Phase Construction Documents prior to the issuance of building permits.

2.4 Second Phase Design/Engineering Fees. Fees paid to BSHA Architects & Interior Design for preparation of the Second Phase Preliminary Space Plan, the Second Phase Final Space Plan, working drawings, and services for processing and obtaining building permits and Second Phase Change Orders, and other services related to the Work shall not exceed Thirty-Four Thousand Seven Hundred Thirty-Eight and no/100ths Dollars ($34,738.00) ($1.70 times Usable Square Footage of 20,434 usable square feet). Such fees shall be part of the Tenant Improvement Allowance. All above mentioned fees exceeding $34,738 shall be paid by Tenant and not be a part of the Tenant Improvement Allowance.

2.5 Landlord's Review of Plans and Documents. Landlord's review of plans during design and construction of Work is selective for the benefit of Landlord only. A Building Standard, provision in the Amended Planned Industrial Development Permit No. 85-0830 ("PID") or other similar document may only be amended, modified or waived as specifically set forth in writing by Landlord. Any provision of a PID and/or governmental requirement that is amended, modified or waived must be specifically approved by the appropriate government entity prior to final approval by the Landlord.

3. COST ESTIMATES.

3.1 Second Phase Preliminary Cost Estimates. Landlord shall obtain preliminary cost estimates and deliver to Tenant for approval with conditions, if any, in accordance with the Second Phase Schedule.

3.2 Second Phase Final Cost Estimates. Landlord shall deliver to tenant Final Cost Estimates in accordance with the Second Phase Schedule.

3.3 Contractors. Bycor General Contractors, Inc. shall be the general contractor ("Bycor").

4. BUILDING PERMIT. Tenant or Tenant's Representative shall submit to the City of San Diego all Construction Documents required to obtain building permits in accordance with the Second Phase Schedule. The building permits shall be issued to the Landlord and all fees shall be paid by the Landlord as part of the Tenant Improvement Allowance. Furthermore, Tenant, Tenant's Representative and Bycor shall conduct all processing and coordination with the City of San Diego required for the issuance of building permits for the Work.

5. CONSTRUCTION CONTRACTS.

5.1 Tenant or Tenant's Representative shall prepare a bid package for distribution to the subcontractor(s) and submit to Landlord for review. Landlord shall approve the bid package with reasonable conditions, if any, in accordance with the Second Phase Schedule.

5.2 Landlord shall prepare a contract for the Work with Bycor and submit to Tenant for review in accordance with the Second Phase Schedule. Tenant shall approve the contract with conditions, if any, in accordance with the Second Phase Schedule.

5.3 Landlord shall execute a construction contract for the Second Phase Premises ("Second Phase Construction Contract") with Bycor. Landlord shall deliver to Tenant a copy of the Second Phase Construction Contract in accordance with the Second Phase Schedule.

6. SECOND PHASE SCHEDULE. Tenant and Landlord shall comply with the following Second Phase Schedule. All dates not in this Second Phase Schedule shall be determined by Landlord and Tenant prior to the due date for item a) for the respective area.

SCHEDULE

| # | ACTION | RESPON-SIBILITY | DUE DATE | DUE DATE | DUE DATE | DUE DATE |
|---|---|---|---|---|---|---|
| | | | 3D FLOOR | AREA 1 | AREA 2 | AREA 3 |
| a) | Deliver to Landlord for approval Preliminary Space Plan | Tenant | 6/24/94 | 11/25/94 | 6/29/95 | 12/26/95 |
| b) | Deliver to Tenant written notice approving Preliminary Space Plan or disapproving with detailed written comments | Landlord | 6/29/94 | | | |
| c) | Deliver to Landlord preliminary cost estimate | Tenant | 7/7/94 | | | |
| d) | Deliver to Tenant written approval of preliminary cost estimate with conditions, if any | Landlord | 7/7/94 | | | |
| e) | Deliver to Landlord for approval Final Space Plan | Tenant | 7/7/94 | | | |
| f) | Deliver to Tenant written notice approving Final Space Plan with conditions, if any | Landlord | 7/7/94 | | | |
| g) | Deliver to Landlord Construction Documents | Tenant | 7/8/94 | | | |
| h) | Deliver to Tenant written approval of Construction Documents with conditions, if any | Landlord | 7/8/94 | | | |
| i) | Submit Construction Documents to City of San Diego for permits | Tenant | 7/5/94 | | | |
| j) | Prepare bid package and deliver to Landlord for approval | Tenant | 7/7/94 | | | |
| k) | Deliver to Bycor bid package as approved by Landlord | Landlord | 7/8/94 | | | |
| l) | Deliver to Tenant Construction Contact, bids and recommended subcontractors in each line item of budget | Landlord | 7/7/94 | | | |
| m) | Deliver to Landlord written approval with conditions, if any, of Construction Contract and bids in each line item of budget | Tenant | 7/8/94 | | | |
| n) | Execute Construction Contract. Deliver to Tenant copies of executed Construction Contract, final budget and construction schedule | Landlord | 7/8/94 | | | |
| o) | Process and obtain City building permits | Tenant | 7/15/94 | | | |
| p) | Commence construction of Work | Landlord | 7/10/94 | 2/3/95 | 8/17/95 | 2/13/96 |
| q) | Substantial Completion of Work | Landlord | 9/4/94 | 4/24/95 | 10/24/95 | 4/23/96 |

NOTE: The documents in the Second Phase Schedule are deemed delivered when received in good condition by the following which may be changed upon written notice:

| | |
|---|---|
| To Tenant: | HNC, Inc.<br>5930 Cornerstone Court West<br>San Diego, California 92121<br>Attn: Hugh D. Gerfin |
| To Tenant's Representative:<br>(Interior Designer) | Ms. Beverly Thompson<br>BSHA Architects & Interior Design<br>919 4th Avenue<br>San Diego, California 92101 |
| To Landlord | PacCor Partners<br>11939 Rancho Bernardo Road, Suite 200<br>San Diego, California 92128<br>Attn: Robert C. Henkel |
| To Landlord's Representative: | Mr. James L. Pulliam or Mr. Robert L. Smith<br>PacCor Management Company<br>11939 Rancho Bernardo Road, Suite 200<br>San Diego, California 92128 |

7. ADMINISTRATION OF CONSTRUCTION. Landlord shall administer the construction of the Work in accordance with the Work Letter, the Second Phase Construction Contract, the Lease and the Amendments to the Lease.

Landlord shall notify Tenant of all regularly scheduled construction meetings during the course of construction of the Work. Tenant shall have the right but not the obligation to attend all construction meetings.

8. PAYMENT OF TENANT IMPROVEMENT ALLOWANCE. Landlord shall make monthly progress payments to Bycor of the Tenant Improvement Allowance pursuant to the following conditions and computations:

8.1 Landlord shall deliver to Tenant copies of Bycor's approved monthly payment request ("Payment Request").

8.2 At such time as Landlord has expended the Tenant Improvement Allowance, Tenant shall reimburse Landlord for the entire remaining balance of the cost of the Work or the amount due under the Second Phase Construction Contract, whichever is greater. After the Tenant Improvement Allowance has been expended, Tenant shall reimburse Landlord the amount of the Payment Request within fourteen (14) days of receipt of the Payment Request by Tenant.

8.3 All utilities expenses reasonably associated with the construction of the Work shall be a part of the Tenant Improvement Allowance.

9. SECOND PHASE CHANGE ORDERS.

9.1 Any deviation from the Second Phase Construction Contract during the construction of the Work shall be via a change order from Landlord to Bycor except for minor changes that are made by Bycor which are within normal construction practices in the San Diego Area ("SECOND PHASE CHANGE ORDER").

9.2 Either Tenant or Landlord may prepare and submit a Second Phase Change Order to the other party for approval. The Second Phase Change Order shall include the change in the contract price and the number of days of delay, if any, in Substantial Completion.

9.3 Within two (2) business days after receipt of a Second Phase Change Order, a party shall give the other party notice of its approval or disapproval including the reason for disapproval. Tenant and Landlord agree to meet and confer within three (3) business days after receipt of the Second Phase Change Order regarding any Second Phase Change Order not approved. Tenant shall reimburse Landlord for outside consultants' fees for the review of a Second Phase Change Order if (i) Landlord does not reasonably have the expertise among its employees to properly review a specific Second Phase Change Order and (ii) Tenant consents to the retaining of an outside consultant.

9.4 Landlord and Tenant agree not to unreasonably disapprove a Second Phase Change Order. Both parties agree to use reasonable effort to process a Second Phase Change Order expeditiously. When a Second Phase Change Order has been signed by Landlord, Bycor and Tenant, the contents thereof shall be binding on all parties.

10. SPECIFIC LANDLORD CONCERNS RE SECOND PHASE CONSTRUCTION DOCUMENTS AND SECOND PHASE CHANGE ORDERS.

10.1 Landlord has identified below certain areas of intense concern which are most likely to generate condition(s) to approval by Landlord during Landlord's review of plans, drawings, specifications and a Second Phase Change Order, and therefore may result in a disapproval or the necessity to retain outside consultants.

10.1.1 Any aspects of the Work that may endanger the structural integrity of the Premises, the Building and/or the Project;

10.1.2 Any aspects of the Work altering the Project utility services or utilities serving Landlord's other tenants;

10.1.3 Any aspect of the Work which is a material deviation from the Building Standards;

10.1.4 Any aspects of the Work which violate the conditions of the PID, any State or municipal code or public agency ordinance, or regulation and the applicable Declaration of Conditions, Covenants & Restrictions ("CC&R's")

10.1.5 Any aspects of the Work to the Premises which will be visually unattractive from the exterior of the Premises.

10.1.6 Penetration or modification of the Building roof or shell.

10.1.7 Reduction in the number of parking stalls in the Project.

10.1.8 Increase in rentable areas which may cause a reduction in buildable area available to Landlord with respect to future expansion of the Project.

11. TENANT'S VISIT TO PREMISES.

11.1 Upon execution of the Second Amendment to Lease, Tenant shall have access to the Second Phase Premises for the purpose of planning and design seven (7) days a week, twenty-four (24) hours a day, subject to all applicable codes, ordinances, law and governmental restrictions, except that Tenant shall not interrupt or interfere with the activities of Landlord or other tenants of the Project.

11.2 Tenant hereby indemnifies and agrees to hold Landlord, Landlord's Representatives and the Project free and harmless of any and all costs, claims, damages, liens, losses and expenses of any kind or nature, arising out of or resulting from such entry and/or activity upon the Project, Building or Second Phase Premises by Tenant and Tenant's Representatives, except to the extent caused by Landlord's negligence or intentional misconduct.

11.3 All of Tenant's personal property brought upon or installed in the Second Phase Premises before the delivery of possession shall be at Tenant's risk, and neither Landlord nor Landlord's Representatives shall be responsible for any damage, losses or destruction thereof, except for Landlord's willful misconduct. All Tenant's installations shall conform with all applicable governmental regulations and codes.

12. BONDS/GUARANTEE. Landlord may at its election require the contractors to provide for the benefit of Landlord from a company acceptable to Landlord a performance and completion bond to assure the completion of the Work and the payment of all labor and material costs.

13. INSURANCE. Landlord shall require contractors to maintain adequate insurance as a cost of Tenant Improvement Allowance, including any cost for naming Landlord as an additional insured.

14. LANDLORD'S FEE. No fee, charge, out-of-pocket costs, general conditions, overhead or profit shall be chargeable by Landlord to Tenant in connection with Landlord's supervision of Work, except as provided in Paragraph 9.3 above.

15. ARBITRATION OF DISPUTES. If either party disapproves any designs, plans and specifications submitted by the other party pursuant to this Second Phase Work Letter, the disapproving party shall as soon thereafter as reasonably possible, submit for the issuing party's approval revised designs, plans and specifications. Within three (3) business days after receipt of such revised designs, plans and specifications, the issuing party shall notify the

disapproving party of approval or disapproval of such revisions. If the issuing party disapproves such revised designs, plans and specifications, then the disapproving party may, at its election, notify the issuing party in writing of the submission of the dispute to arbitration pursuant to this paragraph. Such arbitration shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

16. DEFINED TERMS. All defined terms (capitalized words) shall have same meaning as in the Lease, the First Amendment dated February 1, 1994, and the Second Amendment dated June 1, 1994, concerned with the Second Phase Work Letter. "Business days" shall mean Monday through Friday, excluding all federal and state holidays.

ACCEPTED AND APPROVED:

PACCOR PARTNERS

By: PACCOR MANAGEMENT COMPANY, A general partner

By: /s/ HUGH GERFIN
---
Its: VICE PRESIDENT
---

HNC SOFTWARE , INC., a California corporation

By: [SIGNATURE ILLEGIBLE]
---
Its: CONTROLLER
---

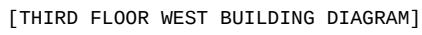


EXHIBIT A

[SECOND FLOOR WEST BUILDING DIAGRAM]

EXHIBIT A

[SITE PLAN DIAGRAM]

EXHIBIT B

[FIRST FLOOR WEST BUILDING DIAGRAM]

EXHIBIT A AMENDED

[THIRD FLOOR WEST BUILDING DIAGRAM]

EXHIBIT A AMENDED

# FIRST AMENDMENT TO OFFICE BUILDING LEASE between PACCOR PARTNERS and HNC, INC.

This First Amendment To Office Building Lease between PacCor Partners and HNC, Inc. ("First Amendment"), is made and entered into effective February 1, 1994 between PACCOR PARTNERS, a California general partnership ("Landlord") and HNC, INC., a California corporation ("Tenant"), with regard to the following:

A. Landlord and Tenant entered into an Office Building Lease dated December 1, 1993 ("Lease").

B. The Work Letter (Exhibit "C" of the Lease) names Roel Construction Company, Inc. ("Roel") as the general contractor.

C. Tenant has requested to substitute Bycor General Contractors, Inc., a California corporation ("Bycor"), for Roel as the general contractor to complete the Work on the Premises.

D. Changing general contractors may delay Substantial Completion (defined in Paragraph 5.1 of the Lease) and/or create a claim for damages by Roel. Tenant desires to assume both of the aforementioned liabilities and indemnify and defend Landlord from any such claim(s).

E. Landlord and Tenant desire to amend the Lease as set forth in this First Amendment.

NOW, THEREFORE, for valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties agree to amend the Lease as follows:

1. The Lease and Work Letter are hereby amended to replace Roel with Bycor as the general contractor. Wherever the term "Roel" appears in the Work Letter or Lease, it shall be substituted by "Bycor".

2. Landlord and Tenant agree that the change of general contractor from Roel to Bycor shall be considered Tenant's delay of the Schedule by seven (7) days for purposes of paragraph 1.4 of the Lease.

3. Tenant agrees to indemnify and defend Landlord for all claims directly or indirectly arising from this substitution of general contractors, specifically, any claim Roel may have for it not being retained as the general contractor. Tenant shall not indemnify and defend Landlord for any claims directly or indirectly arising from Landlord's sole negligence. Landlord shall use reasonable efforts to resolve any claim Roel may have at no cost to Landlord or Tenant.

4. Except as specifically set forth in this First Amendment, all other terms and conditions of the Lease, as amended, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the date first hereinabove set forth.

Landlord: PACCOR PARTNERS, a California general partnership
By: PacCor Management Company, A general partner

By: /s/ HUGH GERFIN
Its: Vice President

Tenant: HNC, INC., a California corporation

By: /s/ [SIGNATURE ILLEGIBLE]
Its: PRESIDENT

Exhibit "E": Rules and Regulations
Exhibit "F": Heating, Ventilation & Air Conditioning ("Tri-Water System")
Exhibit "G": Non-Disturbance Agreement
Exhibit "H": Estoppel Certificate
Exhibit "I": Janitorial Specifications
Exhibit "J": Covenants, Conditions & Restrictions
Exhibit "K": Amended Planned Industrial Development ("PID") Permit No. 85-0830

## SECTION 2
## PREMISES

Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord, subject to the provisions of this Lease.

## SECTION 3
## TERM

3.1 TERM: The Term of this Lease is set forth in Section 1.5. "Expiration Date" shall mean the last day of the initial Term of this Lease. The Commencement Date and Expiration Date shall be confirmed in writing by Landlord and Tenant within fifteen (15) days after the Commencement Date.

3.2 OPTION TO EXTEND TERM:

(a) Option to Extend Term: As a material part of the consideration for the execution of this Lease by Tenant, Tenant is hereby granted an option to extend the Term for the Premises for one (1) five (5) year period ("Extended Term") following the Expiration Date, by giving Landlord written notice of Tenant's exercise of the option ("Option Notice") at least six (6) months before the Expiration Date. If the option to extend is exercised, the "Option Commencement Date" shall be one day after the Expiration Date and the term of this Lease shall be extended to the fifth anniversary of the Expiration Date ("Option Expiration Date").

(b) Provisions Applicable to the Option: The option to extend the Term of this Lease set forth in the preceding Section may be exercised by Tenant provided that, at the time Landlord receives the Option Notice, Tenant is not in material default under this Lease. Notwithstanding Section 3.2(a), if Tenant is in material default of this Lease on the date Landlord receives the Option Notice, the Option Notice shall be void and the Extended Term shall not commence unless Landlord notifies the Tenant in writing within ten (10) days after receipt of the Option Notice that the Option Notice is accepted and will operate to extend the Term of this Lease as provided in this Section 3.2. If Tenant is in material default under this Lease on the date the Extended Term is to commence and Tenant has not commenced any cure of such default within the cure periods set forth in Section 12 below, then, in Landlord's sole election, the Extended Term shall not commence and this Lease shall expire upon the Expiration Date.

Notwithstanding any provision to the contrary in this Lease, Tenant shall in no event be deemed in material default of this Lease if curative action has occurred pursuant to Section 12.

(c) Provisions Applicable To The Extended Term: The Extended Term shall be upon the same terms and conditions as set forth in this Lease except as follows:

(i) The Base Rent for the Extended Term shall be adjusted to ninety-five percent (95%) of the then fair market rental value as more specifically set forth in Sections 4.3 and 4.4.

(ii) Tenant will have no option to extend the Term of this Lease beyond the Option Expiration Date unless the parties agree so in writing.

(iii) Tenant shall accept the Premises in its then "AS IS" condition at the Option Commencement Date.

(iv) If the Lease is extended, then "Term" as used in this Lease shall include the Term and the Extended Term unless specifically provided to the contrary in this Lease.

(v) Landlord shall deliver to Tenant an amendment to this Lease which shall include the Base Rent for the Extended Term as set forth in Section 4.3. Base Rent for the Extended Term shall be as set forth in Sections 4.3 and 4.4 of this Lease. The parties shall execute an amendment to this Lease stating the Base Rent for the Extended Term, provided, however, that the execution of such amendment shall not be a condition precedent to Tenant's obligation to pay Base Rent as set forth in Sections 4.3 and 4.4 of this Lease. If the parties do not agree on the Base Rent for the Extended Term, it shall be determined in accordance with Section 4.3 of this Lease.

(d) Refurbishment Allowance: In the event Tenant elects to extend the Term pursuant to Section 3.2, Landlord shall provide Tenant an allowance of not to exceed One Hundred Fourteen Thousand Six Hundred Eighty and no/100 Dollars ($114,680.00 - $5.00 multiplied by Usable Square Footage of 22,936 usable square feet) to refurbish the Premises. Such allowance shall be in addition to the Tenant Improvement Allowance and shall be a reimbursement to Tenant within ten (10) days of Tenant's completing the refurbishments and actually incurring expenses for such refurbishment of the Premises and submitting invoices to Landlord indicating the work completed. Refurbishment and/or alterations shall be in accordance with Section 7.9 of this Lease.

3.3 CANCELLATION OF LEASE: Tenant shall have the right to cancel this Lease which cancellation shall be effective at the end of the sixtieth (60th) month after the Commencement Date. Tenant's right to cancel shall be exercised by giving to Landlord

written notice by no later than the forty-eighth (48th) month after the Commencement Date and by paying Landlord concurrent with such notice the sum of Twenty-Three Thousand Six Hundred Forty-Two Dollars ($23,642.00), which represents the unamortized lease commission for months 61-84 of the Term.

## SECTION 4
## RENT

4.1 DEFINITIONS: For purposes of this Lease, the following definitions shall apply:

(a) "Base Rent" shall mean the minimum monthly base rent set forth in Section 1.7 subject to any adjustments contained in this Lease or written amendments to this Lease executed by both Landlord and Tenant;

(b) "Additional Rent" shall mean all Monthly Payments and Lease Expense Difference which Tenant is required to pay under Section 6 below.

(c) "Rent" shall mean Base Rent and Additional Rent and any other sum payable by Tenant to Landlord under this Lease.

4.2 BASE RENT: Tenant agrees to pay to Landlord the Base Rent as set forth on the Schedule of Base Rent in Section 1.7, without deduction, setoff, prior notice, or demand (except as specifically set forth in this Lease and except for tenant allowances which Landlord fails to timely pay to Tenant pursuant to this Lease), per month in advance on the first day of each month commencing on the Commencement Date and continuing during the Term of this Lease (except as otherwise provided in the Schedule of Base Rent as provided in Section 1.7). All Rent shall be paid to Landlord at its address specified in Section 1.12. Base Rent in the amount of Twenty-Five Thousand Two Hundred Fifty-Nine and no/100ths Dollars ($25,259.00) shall be paid to Landlord concurrent with the execution of this Lease and shall be applied to month one (1) of the Term.

4.3 BASE RENT FOR EXTENDED TERM: The Base Rent for the Extended Term shall be Ninety-five Percent (95%) of the Fair Market Rental Value of the Premises, as defined in Section 4.4.

(a) On or before the date which is thirty (30) days after receipt of the Option Notice, Landlord shall notify Tenant in writing of Landlord's determination of Fair Market Rental Value (Section 4.4) ("Landlord's Notice"). Tenant may, at its election, either accept such determination of Fair Market Rental Value or attempt to reach an alternative determination of Fair Market Rental Value by mutual agreement with Landlord.

(b) If Landlord and Tenant are unable to agree on the Fair Market Rental Value within thirty (30) days after Tenant's receipt of Landlord's Notice, then the Fair Market Rental Value shall be determined in accordance with the following procedure:

(i) Within sixty (60) days after Tenant's receipt of Landlord's Notice, Landlord and Tenant shall jointly appoint an arbitrator in accordance with the commercial arbitration rules of the American Arbitration Association. If the parties cannot agree on an arbitrator, then Landlord and Tenant shall each appoint one arbitrator and the two arbitrators shall appoint a third arbitrator. All three shall determine Fair Market Rental Value. Such arbitrator(s) shall be experienced with matters involving real estate appraisals in the area in which the Premises are located.

(ii) Concurrent with such appointment(s) of arbitrator(s) by the parties, Landlord and Tenant shall each submit to such arbitrator(s) their respective determination of the Fair Market Rental Value.

(iii) The arbitrator(s) shall select the one of the submitted determinations that is closest to such arbitrator's own appraisal of the Fair Market Rental Value. Such arbitrator(s) shall have no discretion to make any determination other than the selection of either Landlord's or Tenant's determination of Fair Market Rental Value.

(c) The cost of such arbitrator(s) shall be shared equally by Landlord and Tenant.

(d) Landlord and Tenant shall each proceed expeditiously with the arbitration in order to permit the arbitrator's decision to be issued by the Expiration Date.

(e) If the arbitrator's decision has not been received by the Tenant and the Landlord by the Expiration Date, Tenant shall pay Base Rent in an amount of Tenant's determination of Fair Market Rental Value as submitted to the arbitrator(s). Any additional Base Rent as determinated by arbitration shall be due with interest at ten percent (10%) from the time the Base Rent was due and payable.

4.4 FAIR MARKET RENTAL VALUE: "Fair Market Rental Value" shall mean the effective value on a monthly basis of comparable office space in the Sorrento Mesa area of San Diego (which is described as bounded on the west by Interstate 805, on the north by Sorrento Valley Boulevard, on the east by Camino Ruiz, and on the south by Miramar Road) being paid by willing, comparable non-renewal tenants six (6) months prior to the commencement of the Extended Term. For purposes of determination of Fair Market Rental Value, other comparable space in the Project shall be considered the most comparable space to the Premises and the arbitrator(s) shall consider the Refurbishment Allowance as set forth in Section 3.2(d).

4.5 SECURITY DEPOSIT: Upon the execution of this Lease, Tenant shall deposit with Landlord a check in the amount of Twenty-Five Thousand Two Hundred Fifty-Nine and no/100ths Dollars ($25,259.00) as a Security Deposit to secure the performance by Tenant of its obligations under this Lease, including without limitation Tenant's obligations to (a) pay Rent, (b) repair damages to the Premises caused by Tenant, Tenant's agent(s), employee(s), officer(s) and/or independent contractor(s) of or retained by Tenant ("Tenant's Representatives"), and/or Tenant's guests, visitors, customers, invitees and/or licensees ("Tenant's Invitees"), (c) clean the Premises upon termination of this Lease if the Premises are not left in a clean condition by Tenant, and (d) remedy future defaults by Tenant in any obligation under this Lease to restore, replace or return personal property installed or located in or on the Premises, including without limitation trade fixtures, furnishings, equipment and inventory, signs ("Personal Property") or appurtenances. If Tenant defaults under this Lease, including without limitation a default described in the preceding sentence, Landlord may use the Security Deposit to cure such defaults and to compensate Landlord for all or a portion of Landlord's damage resulting from such defaults. Within seven (7) days of written demand by Landlord, Tenant shall promptly pay to Landlord a sum equal to the amount so used by Landlord so as to replenish the Security Deposit. Within thirty (30) days after the Expiration Date, Option Expiration Date or earlier termination of this Lease, Landlord shall deliver to Tenant, at Tenant's address, any portion of such Security Deposit not used by Landlord, together with a detailed statement explaining how any portion of the Security Deposit was used. Landlord may commingle such Security Deposit with Landlord's other funds and Landlord shall not pay to Tenant interest on such Security Deposit. In the event of a bankruptcy or other insolvency or a debtor-creditor proceeding against or by Tenant, the Security Deposit shall be deemed applied first to the payment of Rent and other amounts due Landlord for all periods prior to the date of filing or instigating such proceedings. To the extent any debts, liabilities and obligations of Tenant under this Lease have not been satisfied, Tenant shall remain fully liable to Landlord for their payment and/or performance.

4.6 RENT CREDIT FOR UNUSED TENANT IMPROVEMENT ALLOWANCE: All Tenant Improvement Allowance not used to pay for Work shall be credited toward Rent in month four (4) of the Term of this Lease not to exceed One Dollar ($1.00) multiplied by the Usable Square Footage.

## SECTION 5
## TENANT IMPROVEMENTS

5.1 DEFINITIONS: For purposes of this Lease, the following definitions shall apply:

(a) "Work" shall mean the Tenant improvements as set forth in the approved Construction Documents and approved Change Orders as more specifically defined in the Work Letter.

(b) "Substantial Completion" shall mean that the Premises have been approved for occupancy by the City of San Diego Building Department, the Premises have been delivered to Tenant for occupancy and completion of construction of the Work (defined below) in accordance with the approved Construction Documents and Change Orders has occurred with the exception of minor details of construction, installation, decoration, or mechanical adjustments commonly found on a punchlist, none of which materially interferes with Tenant's use or occupancy of the Premises. Substantial Completion of the Work shall be deemed to have occurred notwithstanding the requirement to complete the punchlist items or similar corrective work as set forth in Section 5.4.

(c) "Work Letter" shall mean Exhibit "C" attached to the Lease.

5.2 PREPARATION OF PREMISES: Landlord shall arrange for the timely construction of the Work in accordance with the requirements set forth in the Work Letter and this Lease.

5.3 LANDLORD'S CONTRACTOR: Landlord shall enter into construction contracts in accordance with the Work Letter.

5.4 ACCEPTANCE OF PREMISES: Within five (5) days after Substantial Completion, Landlord, Tenant, Tenant's architect and such other of Tenant's Representatives as Tenant deems appropriate shall conduct a walk-through of the Premises. Tenant and Landlord shall at the conclusion of the walk-through jointly prepare a list of any items not completed in accordance with the Lease, Work Letter, construction documents, construction contracts, Building/Tenant Improvement Standards for Pacific Corporate Park as set forth in Exhibit "D" ("Building Standards") and/or other applicable codes, laws, regulations or standards ("Corrections List"). Landlord shall reasonably and promptly complete all items on the Corrections List. Except for latent defects in the Building not reasonably discoverable during construction, Tenant shall be deemed to have accepted the Premises in its then "AS IS" condition upon Substantial Completion. If Landlord fails to reasonably complete all items on the Corrections List prior to ninety (90) days after it is prepared, Tenant may complete any items and deduct the reasonable cost from the Rent next due. Any items completed by Tenant shall be in accordance with Section 7.9 except as specifically otherwise provided in this Section.

## SECTION 6
## OPERATING EXPENSES

6.1 DEFINITIONS: For purposes of this Lease, the following definitions shall apply:

(a) "Base Year" shall mean the twelve (12) month period from June 1, 1994 to May 31, 1995.

(b) "Building Operating Expenses" shall mean all costs and expenses paid or incurred by Landlord or on Landlord's behalf with respect to the maintenance and operation of the Building which belong within the following categories:

(i) that portion of Real Property Taxes (as defined below) allocable to the Building provided that Real Property Taxes attributable to the Base Year shall be increased, if required, to reflect the full value of the tenant improvements of the Premises provided for hereunder;

(ii) painting, interior landscape maintenance, window cleaning, janitorial and other cleaning services for the Building, pest control and security services provided in connection with the Building;

(iii) premiums, costs, expenses, deductibles paid or similar costs or charges with respect to insurance Landlord maintains, including without limitation any insurance arranged by Landlord under Section 8.2 below, public liability and property damage insurance, fire and extended coverage insurance, plate glass insurance, rental income insurance, fidelity insurance, and/or any other insurance Landlord may maintain under this Lease provided that the decision to carry such insurance and the premiums for such are commercially reasonable; and if such insurance is not in effect during the Base Year, then the Operating Expenses for the Base Year shall be increased by the insurance premium that would have been paid had the insurance been obtained by Landlord;

(iv) supplies, including without limitation cleaning supplies and other depletable materials, and sales and other taxes on such items;

(v) the cost of the rental of equipment including without limitation all applicable sales taxes;

(vi) the cost of operating and maintaining (but not the cost of purchasing) the Building security or other system used in connection with life or property protection, (including without limitation all machinery, electronic systems, and other equipment comprising any part of such systems);

(vii) direct charges for services of independent contractors who provide services in connection with the maintenance and operation of the Building, to the extent such charges are not in excess of commercially competitive rates;

(viii) the cost of operation, maintenance, repair, replacement and/or repainting of (i) cables, fans, pumps, boilers, cooling equipment, wiring, electrical fixtures, metering, control and distribution equipment, (ii) the unexposed electrical,

plumbing, sewage systems and mechanical systems, elevators and elevator shafts which are not part of the Work; (iii) structural parts of the Building, which are limited to foundations, bearing and exterior walls (excluding glass doors which are part of Tenant's Premises), subflooring, and roof including roof membrane; (iv) windows and window frames, gutters and downspouts on the Building; (v) the Tri-Water System (defined in Section 7.13 below) and any auxiliary system to the Tri-Water System, if any, for the Building; (vi) that portion of the Building not included as part of the Premises and the Common Area; and (vii) any life and/or property protections including without limitation sprinkler systems, lighting and window washing equipment, signs (other than signs to be maintained by a tenant) and/or any other portions of the Building;

(ix) charges for removal of trash from the Building, including the cost of janitorial services provided to tenants of the Building (including without limitation Tenant;

(x) whether or not capitalized under generally accepted accounting principles, costs for alterations and improvements to the Building made by reason of the laws and requirements enacted after the Commencement Date by any public authorities or the reasonable requirements of insurance bodies after the Commencement Date or Landlord's insurer after the Commencement Date, which costs shall be amortized over the reasonable useful life of such alterations and improvements, which in no event shall be less than five (5) years;

(xi) management fee for the Building;

(xii) whether or not capitalized under generally accepted accounting principles, costs of capital improvements, equipment, or machinery installed after the Commencement Date for the purpose of reducing energy consumption or reducing other Building Operating Expenses, which costs shall be amortized over the reasonable useful life of such capital improvements, equipment or machinery, which in no event shall be less than five (5) years, provided that the amount of such costs included in Building Operating Expenses for any year shall never exceed the savings in Building Operating Expenses for such year resulting from the capital improvements, equipment or machinery;

(xiii) the cost of all charges for water and sewer (together with any taxes on such utilities) used at the Building;

(xiv) reasonable accounting fees for the audit and verification of the financial matters relating to the Building;

(xv) reasonable labor expenses, including salaries, wages and benefits, for on-site personnel retained by Landlord to manage the Building;

(xvi) Pacific Corporate Center, Unit 1 Owners' Association fee with respect to the Building; and

(xvii) all other charges properly allocable to the management, repair, operation, and/or maintenance of the Building in accordance with generally accepted accounting practices.

Notwithstanding anything to the contrary in this definition of Building Operating Expenses, Building Operating Expenses shall not include, and Tenant shall not be responsible for payment of any share or portion of, the following:

(A) Interest, principal, points and fees on debt secured by the Building or the Project;

(B) Any ground lease rentals;

(C) Costs of purchasing or renting capital improvements and equipment, except as specifically permitted above;

(D) Costs incurred by Landlord for the repair of damage to the Building, to the extent that Landlord is reimbursed by insurance proceeds;

(E) Costs incurred with respect to the installation or rehabilitation of tenant improvements made at any time for other tenants or other occupants of the Buildings or the Project or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Buildings or the Project;

(F) Costs and expenses (including attorney's fees, leasing commissions, brochures and space planning costs) incurred in connection with negotiations or disputes with present or prospective tenants or other occupants of the Building or the Project;

(G) Landlord's general corporate overhead and general and administrative expenses;

(H) Advertising and promotional expenditures;

(I) Tax penalties;

(J) Costs and expenses incurred by Landlord by reason of a violation by Landlord of this Lease or a violation of another tenant of the terms and conditions of another lease regarding other space in the Building or the Project;

(K) Services provided, taxes attributable to and costs incurred in connection with the operation of any retail or restaurant operations in the Project;

(L) Costs arising from the presence in or about the Project (including ground water or soil) of Hazardous Materials subject to the provisions set forth in Section 7.4 below;

(M) Costs arising from Landlord's charitable or political contributions;

(N) Management, overhead and profit increments paid to Landlord or Landlord's affiliates for services in the Building or the Project to the extent they exceed the reasonable costs of such services if rendered by unaffiliated third parties on a competitive basis;

(O) Depreciation and amortization;

(P) Expenses in connection with services or other benefits which are not offered to Tenant but which are provided to another tenant or occupant of the Building;

(O) All items and services for which Tenant or any tenant or occupant of the Building reimburses Tenant (other than through Tenant's proportionate share of Building Operating Expenses) or which Tenant provides selectively to one or more tenants or occupants (other than Tenant) without reimbursement;

(R) Costs incurred in connection with upgrading the Building to comply with handicap, hazardous material, fire and safety codes which were in effect prior to the date of the Lease, subject to Section 7.3;

(S) All assessments and premiums which can be paid by Tenant in installments without any additional cost shall be paid by Tenant in the maximum number of installments permitted by law and not included as Building Operating Expenses except in the year in which the assessment installment is actually paid;

(T) Costs to repair defects in, or maintain the structural portions of, the Building or of any of the Work installed by Landlord in the Premises;

(U) Capital costs for sculpture, paintings or other objects of art;

(V) Costs (including all related attorneys' fees and costs of settlement judgments) arising from claims, disputes or potential disputes between Landlord and other tenants of the Building;

(W) Measurable costs of overtime, excluding emergencies, incurred by Landlord in curing its defaults or performing work expressly provided in the Lease to be performed by Landlord;

(X) Any legal fees associated with the sale or refinancing of the Building;

and

(Y) Costs for any separate utility meters Landlord may install for other tenants of the Building, unless the installation is required by a utility company or governmental entity.

(c) "Common Area" (as shown on Exhibit "B") shall mean all areas and facilities within the Project designated from time to time by Landlord for the general use and convenience of Tenant and other users of the Project. Common Area includes, without limitation, walkways, parking lots (as designated by landlord for non-exclusive tenant parking), landscape areas, sidewalks, and all other areas of the Project intended for use by Tenant in common with the Project tenants, their authorized representatives and invitees. Tenant has the non-exclusive right to use the Common Area along with others so entitled, subject to rules and regulations promulgated from time to time by Landlord.

(d) "Common Area Operating Expenses" shall mean all costs and expenses paid or incurred by Landlord or on Landlord's behalf with respect to the maintenance and operation of the Common Area and which include but are not limited to the categories listed in the definition of Building Operating Expenses, but in no event shall Common Area Operating Expenses include (i) any Building Operating Expenses or (ii) any expense attributable to the maintenance and/or operation of any interior portion of any building except Building.

(e) "Lease Expenses" shall mean the sum of (i) Tenant's proportionate share of Building Operating Expenses which is fifty-two and 3/10ths percent (52.3%) (defined as Rentable Square Footage of 25,259 divided by 48,327 rentable square feet of the Building), and (ii) Tenant's proportionate share of Common Area Operating Expenses which is twenty-six percent (26%) (defined as Rentable Square Footage of 25,259 rentable square feet divided by Project Rentable Area of 97,311 rentable square feet).

(f) "Lease Year" shall mean each twelve (12) month period during the Term after the Base Year.

(g) "Project Rentable Area" shall mean 97,311 rentable square feet.

(h) "Real Property Taxes" shall mean all real property taxes and general and special assessments levied or assessed against real property of the Premises, including without limitation any tax, fee or excise on (i) rents, (ii) the square footage, (iii) the act of entering into this Lease, or (iv) the occupancy of Tenant, or any other tax, or excise, however described including without limitation value-added tax, levied or assessed by the United States, the State of California or any political subdivision of the State of California, including without limitation any county, city and county, public corporation, district, or any other political entity or public corporation of the State of

California as a direct substitution in whole or in part for, or in addition to, any real property taxes or general or special assessments. Notwithstanding anything to the contrary in the preceding sentence, "Real Property Taxes" shall not mean any municipal, county, state, or federal income, excise, franchise, estate, succession, inheritance or transfer taxes of Landlord. If any Real Property Taxes are assessed or collected on the basis of a fiscal period, a portion of which occurs during the Term and the remainder of which occurs before or after the Term, then the Real Property Taxes payable for such fiscal period shall be apportioned between such periods based upon the number of days during such fiscal period that occur during the Term and the number of days that occur before or after the Term. Real Property Taxes shall also not include, so long as Proposition 13 remains in effect in California, any increase in taxes attributable to any sale or transfer of or change of ownership in the Project (or any part thereof) which occurs during the initial five (5) years of the Term. If Real Property Taxes are assessed in combination with the Adjacent Building, then (for purposes of determining Building Operating Expenses and Common Area Operating Expenses) the Real Property Taxes shall be allocated on the basis of the ratio of the Rentable Square Footage to the Project Rentable Area.

6.2 ADJUSTMENTS TO COMMON AREA OPERATING EXPENSES: Common Area Operating Expenses during the Term (including the Base Year) shall be "grossed up" ("Gross Up") if the Project is less than ninety-five percent (95%) leased and occupied, in accordance with reasonable and generally accepted accounting principles consistently applied to reflect what Common Area Operating Expenses would have been had the Project been ninety-five percent (95%) leased and occupied and fully assessed for tax purposes as leased and occupied buildings provided that in no event shall the Gross Up result in Landlord receiving payment or reimbursement from Tenant for costs or expenses not actually incurred by Landlord.

6.3 RENT ADJUSTMENT: If Lease Expenses for any Lease Year are greater than Lease Expenses for the Base Year (after the Gross Up of Common Area Operating Expenses), Tenant shall pay such increase in Lease Expenses pursuant to this Section 6.3 beginning not earlier than the first Lease Year after the Base Year. Landlord shall deliver to Tenant, at least thirty (30) days prior to the commencement of each subsequent Lease Year during the Term, a written statement ("Estimated Statement") setting forth Landlord's estimate of the amount by which the Lease Expenses for the upcoming Lease Year will be greater or less than the Lease Expenses for the Base Year (the "Lease Expenses Difference"). If the Lease Expenses for the upcoming Lease Year ("Next Year") are estimated to be greater than the Lease Expenses for the Base Year, then Tenant shall pay to Landlord, on the first day of each month of the Next Year during the Term, an amount ("Monthly Payment") equal to one-twelfth (1/12th) of the Lease Expenses Difference, as estimated by Landlord in the most recently delivered Estimated Statement. Landlord may, at its election, no more than one (1) time during any Lease Year, deliver to Tenant a revised Estimated Statement, revising Landlord's estimate of the Lease Expenses, in accordance with Landlord's most current estimate. No later than one hundred twenty (120) days after the end of

each Lease Year, Landlord shall deliver to Tenant a written statement ("Actual Statement") setting forth the actual Lease Expenses Difference allocable to such Lease Year. If the sum of Monthly Payments actually paid by Tenant during any Lease Year exceeds the actual Lease Expenses Difference allocable to such Lease Year, then such excess shall be refunded to Tenant within thirty (30) days after delivery of the Actual Statement to Tenant. If Tenant has made Monthly Payments and the sum of Monthly Payments actually paid by Tenant during any Lease Year is less than the actual Lease Expenses Difference allocable to such Lease Year, then Tenant shall, within thirty (30) days after receipt of the Actual Statement, pay to Landlord the amount of such deficiency. The payment by Tenant of any Monthly Payment or any year-end deficiency of Lease Expenses Difference shall not be deemed a waiver of Tenant's right to contest Landlord's calculation of Lease Expenses.

6.4 LEASE EXPENSES DIFFERENCE CAP: Notwithstanding anything to the contrary in this Lease, Lease Expenses Difference shall not include more than one hundred eight percent (108%) of Controllable Operating Expenses of the preceding Lease Year, or in the case of the first Lease Year, the Base Year. "Controllable Operating Expenses" shall mean landscaping maintenance, parking lot sweeping, plumbing, Tri-Water System maintenance, janitorial services and supplies, trash removal, security and life safety, pest control, elevator maintenance, parking and walkways, locks and keys, window washing, lighting maintenance, roof maintenance, painting and sealing, general maintenance, paving maintenance, windows, doors and screens, signs, common area maintenance, and management fees.

6.5 OPERATING EXPENSE RECORDS: Landlord shall maintain all operating expense records for a period of five (5) years. Tenant or Tenant's Representative shall have the right to inspect and photocopy any or all of the operating expense records at the office of PacCor Management Company during normal working hours upon twenty-four (24) hours written notice. Tenant shall have the right to require an audit of Lease Expenses. Any amounts of Lease Expenses Difference overpaid by Tenant shall be immediately refunded or shall be credited against the Base Rent next due by Tenant. In the event Tenant's audit determines that Lease Expense Difference for any Lease Year is overstated by Six Thousand Two Hundred Fifty and no/100ths Dollars ($6,250.00) or more and the Actual Statement did not reasonably disclose the facts underlying the overstatement, then Landlord shall pay the reasonable cost of Tenant's audit.

## SECTION 7
## USE AND MAINTENANCE OF THE PREMISES

7.1 PERMITTED USE: Tenant may use the Premises for general office use and for any other legally permitted use compatible with comparable office buildings in the Sorrento Mesa area of San Diego, California, including software development and testing.

7.2 INSURANCE: Tenant shall not do, bring or keep anything in or about the Premises which is outside the scope of that which is normally contemplated for the use specified in Section 7.1, that will cause a cancellation of any insurance covering the Premises or the Project. If the rate of any insurance carried by Landlord is increased as a result of Tenant's use (except as contemplated by Section 7.1), Tenant shall pay to Landlord, within ten (10) days after Landlord delivers to Tenant a notice of such increases, the amount of such increase.

7.3 COMPLIANCE WITH LAWS: Tenant shall comply with all laws concerning the Premises and Tenant's use of the Premises. Landlord represents and warrants that, as of the Commencement Date of this Lease, there are no violations within the Project of the Americans With Disabilities Act 42 U.S.C. Section 1281 et. seq. ("ADA") and any similar state and federal laws and that the Building and Common Areas shall comply with ADA and any similar state and federal laws on the Commencement Date. To the extent that the foregoing representation and warranty is inaccurate or untrue, Landlord shall, at its sole expense and not as an expense which shall be added to Building Operating Expenses or Common Area Operating Expenses, be responsible for compliance with the ADA and any similar state or federal law. The Work shall comply with the requirements of the ADA and any similar state and federal laws. If the Premises do not comply with the ADA or similar state or federal law during the Term of the Lease due to a change in the ADA or similar state or federal law after the Commencement Date that requires Tenant to comply with such changes as a condition to Tenant's continued use of the Premises, then Tenant shall at its sole cost be responsible for compliance with the ADA or any similar state and federal laws.

7.4 HAZARDOUS WASTE OR NUISANCE: Landlord represents that to its knowledge the Project is free of Hazardous Materials as defined below. Tenant shall not use the Premises in any manner that will constitute waste, nuisance or unreasonable annoyance to other tenants of the Project, or to owners or occupants of nearby properties. Tenant shall not use the Premises for sleeping, washing clothes, or the preparation, manufacture, or mixing of anything that might emit any odor or objectionable noises or lights onto the Building or nearby properties. Tenant shall neither bring into the Premises, nor permit the bringing into the Premises of, any animal, motorcycle or other vehicle, except for guide dogs or wheelchairs. Tenant and Landlord shall each strictly comply with all statutes, laws, ordinances, rules, regulations, and precautions now or hereafter mandated or advised by any federal, state or local law, regulation, ordinance or rule or by any governmental agency with respect to the use, generation, treatment, storage, disposal, release or threatened release of hazardous, toxic or radioactive substance, materials or waste (collectively "Hazardous Materials"). As used in this Section 7.4, Hazardous Materials includes without limitation those substances identified in Section 66680 through 66685 of Title 22 of the California Administrative Code, Division 4, Chapter 30, as amended from time to time, and those substances defined as "hazardous substances," "hazardous materials," "hazardous wastes," "pollutants," "contaminants," "chemicals known to the State to cause cancer or reproductive toxicity," "asbestos," "hydrocarbons (including

without limitation oil)," "toxic bearing dust" or other similar designations in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Sections 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801, et seq., the Hazardous Substance Account Act, Health & Safety Code Sections 25300, et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986, Health & Safety Code Sections 25249.5, et seq., and any other federal, state or local statutes, laws, ordinances, rules, regulations and precautions. Tenant shall not cause or allow any Tenant's Representatives and/or Tenant's Invitees to cause any Hazardous Materials to be used, generated, treated, stored, disposed of or released in, on or about the Premises, except as allowed by law. Tenant shall indemnify, protect, defend by counsel acceptable to Landlord, and hold Landlord and its successors, assigns and mortgagees harmless from and against any and all claims, losses, liabilities, costs and expenses, including all foreseeable and unforeseeable consequential damages, except to the extent caused by Landlord's or Landlord's Representative's negligence, willful misconduct, omission or breach of obligations under this Lease, directly or indirectly arising out of the use, generation, treatment, storage, disposal, release or threatened release of Hazardous Materials by Tenant or any Tenant's Representatives and/or Tenant's Invitees claiming under Tenant of Hazardous Materials at, on, beneath or from the Project based on the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Sections 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901, et seq., the California Hazardous Substance Account Act, Health & Safety Code Sections 25300, et seq., the California Hazardous Waste Control Law, Health & Safety Code Sections 25100, et seq., the Porter-Cologne Water Quality Control Act, Water Code Sections 13000, et seq., or any other federal, state or local statute, law, regulation, ordinance or rule. Landlord shall indemnify, protect, defend by counsel acceptable to Tenant, and hold Tenant, Tenant's Representatives (as defined in 4.5) and Tenant's successors, assigns and mortgagees harmless from and against any and all claims, losses, liabilities, costs and expenses, including all foreseeable and unforeseeable consequential damages, except to the extent caused by Tenant or Tenant's Representative's negligence, willful misconduct or breach of its obligations under this Lease, directly or indirectly arising out of the past, present or future use, generation, treatment, storage, disposal, release or threatened release of Hazardous Materials at, on, beneath or from the Project based on the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Sections 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901, et seq., the California Hazardous Substance Account Act, Health & Safety Code Sections 25300, et seq., the California Hazardous Waste Control Law, Health & Safety Code Sections 25100, et seq., the Porter-Cologne Water Quality Control Act, Water Code Sections 13000, et seq., or any other federal, state or local statute, law, regulation, ordinance or rule. Neither the written consent by Landlord to the use, generation, storage or disposal of Hazardous Materials nor the strict compliance by Tenant with all statutes, laws, ordinances, rules, regulations and precautions pertaining to Hazardous Materials shall excuse Tenant from Tenant's obligations pursuant to this Section 7.4. Likewise, neither the written consent by Tenant to the use, generation, storage or disposal of Hazardous

Materials nor the strict compliance by Landlord with all statutes, laws, ordinances, rules, regulations and precautions pertaining to Hazardous Materials shall excuse Landlord from Landlord's obligations pursuant to this Section 7.4. Tenant's obligations pursuant to this Section 7.4 shall survive the termination of this Lease. Tenant shall notify Landlord, as required by California Health & Safety Code Section 25359.7, if Tenant knows or has reasonable cause to believe that any Hazardous Material has come to be located on or beneath the Building. On or before January 1, 1995, and each January 1 thereafter during the Term, Tenant shall provide Landlord with a written list of all Hazardous Materials used, generated, treated, stored, disposed of and released in, on or about the Premises by Tenant during the prior calendar year and those Hazardous Materials Tenant proposes to use, generate, treat, store, dispose of and release during the next calendar year, except for substances which are customarily used or found in typical offices, including without limitation copier and printer toner, cleaning supplies, correction fluid and ink.

7.5 DAMAGE AND OVERLOADING: Tenant shall be responsible for any damage to the Premises or the Project caused by Tenant's Invitees and/or Tenant's Representatives. No machinery, apparatus, or other appliance shall be used or operated in or on the Premises that will in any manner injure the Premises or Project. If Tenant, Tenant's Representatives or Tenant's Invitees cause damage to the Premises or the Project, then Landlord shall have the right but not the obligation to repair such damage and Tenant shall promptly reimburse Landlord for Landlord's actual costs of such repair (to the extent that such costs exceed available insurance proceeds) as Rent.

7.6 ACCESS BY LANDLORD:

(a) Landlord and/or Landlord's agent(s), employee(s), officer(s) or independent contractor(s) of or retained by Landlord ("Landlord's Representatives") shall have the right to enter the Premises at all reasonable times upon twenty-four (24) hour prior written notice to Tenant (i) to determine whether the Premises are in Good Condition (defined in Section 7.15) or whether Tenant is complying with its obligations under this Lease, (ii) to do any necessary maintenance or make any restoration to the Premises that the Landlord has the right or obligation to perform under this Lease, (iii) to serve, post, or keep posted any notices required or allowed under this Lease, (iv) to show the Premises to brokers, agents, buyers, tenants or other persons interested in a listing of, financing, sale or exchange of, or occupancy of the Premises or the Project, and (v) to shore the foundations, footings, and walls of the Premises and other improvements on the Real Property and to erect scaffolding and protective barricades around and about the Premises or the Project, but not so as to prevent entry to or use of the Premises and to do any other act or thing necessary for the safety or preservation of the Premises or the Project if any excavation or other construction is undertaken or is about to be undertaken on any adjacent property or nearby street. Landlord shall have the right at any and all times to enter the Premises for emergency purposes.

(b) Landlord shall not be liable for any inconvenience, disturbance, loss of business, nuisance, or other damage arising out of Landlord's entry on the Premises as provided in this Section 7.6, except damage resulting directly from the negligent act, omission or willful misconduct of Landlord or Landlord's Representatives. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations except as otherwise provided in this Lease or as expressly agreed in writing to be performed by Landlord. Landlord shall have the right to run utility or other services and facilities through the Premises as may be reasonably required, whether to service the Premises or other premises, provided that the use of such space does not have a materially adverse effect on or unreasonably interfere with Tenant's use and enjoyment of the Premises. If during the last month of the Term, Tenant shall have removed substantially all of its Personal Property and personnel from the Premises, Landlord may enter the Premises and repair, alter and redecorate the same without abatement of Base Rent or liability to Tenant and such acts shall have no effect on this Lease. Any entry to the Premises obtained by Landlord pursuant to this Section 7.6 shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into or detainer of the Premises, or an eviction of Tenant from the Premises or any portion thereof. Tenant shall not be entitled to an abatement or reduction of Base Rent because of the exercise by Landlord of any rights under this Section 7.6. Landlord shall conduct its activities on the Premises as allowed in this Section 7.6 in a manner that will cause as little inconvenience, annoyance, or disturbance to Tenant as reasonably feasible.

7.7 SIGN: Tenant shall have the right to place, construct and maintain one sign, not to exceed twenty-five (25) square feet in size and located as mutually agreed to by Landlord and Tenant, at the top of the Building ("Sign"). The design, construction and maintenance of the Sign shall be solely at Tenant's expense. Landlord makes no representation with respect to Tenant's ability to obtain such approvals under applicable laws and regulations or pursuant to that certain Declaration of Covenants, Conditions and Restrictions for Unit No. 1 of Pacific Corporate Center, dated May 14, 1985 and recorded as Instrument #85-169398 ("CC&R's", Exhibit "J"). In any event, the Sign shall comply with all laws, regulations, CC&R's, and PID (Exhibit "K"). Tenant shall obtain any approvals required by laws, regulations and CC&R's. All costs to remove the Sign upon the Expiration Date, Option Expiration Date or earlier termination of the Lease shall be the liability of Tenant.

7.8 PARKING: Subject to the terms of this Section 7.8 and so long as Tenant is not in default under this Lease, Landlord grants to Tenant the right to the non-exclusive use in common with other Project tenants of the parking lot adjacent to and serving the Building of ninety (90) parking spaces, five (5) of which will be reserved solely for Tenant, except for reserved parking granted to any other tenants in the Project. Tenant's use of the parking lot shall be subject to such reasonable rules which do not favor other Project tenants to the detriment of Tenant, as Landlord may, in its sole discretion, adopt from time to time with respect to use of the parking lot. Landlord shall cooperate with Tenant, and shall take all reasonable steps necessary, to ensure that

Tenant and Tenant's Representatives and Tenant's Invitees shall have access to all parking spaces to which Tenant is entitled. Tenant shall not be charged for the use of the parking lot unless the City of San Diego or other governmental entity after the execution of this Lease assesses a tax, fee and/or excise on the parking of motor vehicles in the parking lot, and then Tenant shall pay to Landlord that portion of the tax, fee and/or excise based on Tenant's right to non-exclusive parking of the entitled parking spaces.

7.9 ALTERATIONS:

(a) Tenant shall not make any alterations, improvements, repairs, additions, installations, or changes of any nature in or to the Premises (individually and collectively, "Alterations") without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed more than ten (10) days after Landlord's receipt of Tenant's request for Landlord's consent. If written consent is obtained from Landlord, any construction undertaken by Tenant in or to the Premises shall comply with all the terms and provisions of Sections 7.9(b) and 7.9(c). Unless otherwise agreed to in writing by Landlord and Tenant before such Alterations are made, all Alterations made by Tenant shall become the property of Landlord and a part of the realty and shall be surrendered to Landlord upon the Expiration Date, Option Expiration Date or sooner termination of the Lease, or, at Landlord's election shall be removed before the last day of the Term after receiving ninety (90) days prior written notice from Landlord to Tenant or thirty (30) days after notice of Landlord's election is given to Tenant in the event of earlier termination of the Lease. All damage caused by such removal shall be repaired with all due diligence by Tenant at its sole cost and expense.

(b) Tenant must utilize only bondable licensed contractors for any Alterations proposed to be made in or to the Premises. Tenant shall promptly provide Landlord with copies of bid solicitations and bids received for all such work.

(c) Alterations whether installed by Tenant or Tenant's Representatives at any time prior to or during the Term shall be completed only in compliance with the following:

(i) Except as to Alterations which are reasonably expected to cost less than Ten Thousand Dollars ($10,000.00), no work shall commence without (A) Landlord's prior written approval or written waiver of right to approve Tenant's contractor, (B) certificates of insurance acceptable to Landlord from a company or companies approved by Landlord, furnished to Landlord by Tenant's contractor, for general liability and automobile liability with limits of not less than $500,000.00 combined single limit, builder's risk insurance for the value at risk, workers' compensation as required, endorsed to include Landlord as an additional insured, (C) Landlord's prior written approval of detailed plans and specifications for such work which approval may not be unreasonably withheld or delayed more than ten (10) days after Landlord's receipt of Tenant's request for approval, and (D) with respect to any

after Landlord's receipt of Tenant's request for approval, and (D) with respect to any work estimated to cost more the $30,000.00, procurement by Tenant or its contractor, if required by Landlord, of both a performance and labor and materials payment bond (or a single bond including such coverage) guaranteeing lien-free completion of the work of improvements.

(ii) Notwithstanding Section 7.9(c)(i), all work on any Alterations shall be performed in conformity with a valid permit and all other applicable permits or licenses when and where required by cognizant government authority or agency, copies of which shall be furnished to Landlord before the work is commenced, and any work not acceptable to any governmental authority or agency having or exercising jurisdiction over such work, or not reasonably satisfactory to Landlord, shall be promptly corrected at Tenant's sole cost and expense. Notwithstanding any failure by Landlord to object to any such work, Landlord shall have no responsibility thereof either to Tenant or to third parties.

(iii) Notwithstanding Section 7.9(c)(i), all work or any Alterations shall be performed at such time and in such manner as Landlord may reasonably schedule or designate. Tenant shall pay to Landlord, subject to Tenant's prior written approval, any extraordinary costs incurred for monitoring any substantial changes to the Premises.

(iv) Tenant shall reimburse Landlord subject to Tenant's prior written approval, for any extraordinary expense actually incurred by Landlord by reason of faulty work performed by Tenant or its contractors, or by reason of delays caused by such work, or by reason of inadequate cleanup.

(v) Tenant or its contractors will in no event be allowed to install plumbing, mechanical equipment, electrical wiring or fixtures, acoustical or integrated ceilings, or partitions, unless such installation is consistent with plans and specifications previously approved in writing by Landlord.

(vi) All data processing, photocopying, copying and other special electrical equipment shall have a separate duplex outlet and to the extent such equipment requires electrical power in excess of that allotted to the Premises, such equipment shall be installed only under the supervision of Landlord or its electrical contractor. Tenant assumes the risk of all damage, costs, and expense which is incurred by Landlord or other Premises tenants as the result of Tenant's installation of electrical equipment in the Premises without the supervision of Landlord or its electrical contractor. Tenant shall pay any additional costs on account of any increased support to the floor load necessary thereof or for any other equipment.

(vii) Tenant or its contractors shall, before the commencement of any Alterations by Tenant in, on or around the Premises, give sufficient notice thereof to Landlord for Landlord's preparation, posting and recordation of any appropriate notices

successor or similar provision of law. Within ten (10) days after substantial completion of any Alterations or repairs, Tenant or its contractor shall file for record in the Office of the County Recorder in and for the county in which the Premises is located, a notice of completion as permitted by law.

(viii) All Alterations shall conform to the then applicable Building Standards. The Building Standards may be reasonably amended during the Term of the Lease.

7.10 MECHANICS' LIEN: Tenant shall pay all costs for Alterations and other construction done or caused to be done by it on the Premises. Tenant shall keep the Premises free and clear of all mechanics' liens resulting from such Alterations or other construction. Tenant shall have the right to contest the correctness or validity of any such lien if, immediately on demand by Landlord, Tenant procures and records a lien release bond, issued by a corporation satisfactory to Landlord and authorized to issue surety bonds in California, in an amount equal to one hundred fifty percent (150%) of the amount of the claim of lien. The bond shall meet the requirements of California Civil Code Section 3143, shall indemnify Landlord against liability for such claim of lien and shall hold the Project free from the effect of such claim of lien. In addition, Landlord may require Tenant to pay Landlord's reasonable and necessary attorneys' fees and costs in participating in such an action.

7.11 INDEMNITY AND EXEMPTION OF LANDLORD FROM LIABILITY:

(a) Except to the extent caused by the negligence or willful misconduct of Landlord or Landlord's Representatives, Tenant shall indemnify, protect and defend Landlord against all claims arising from (i) the use of the Premises by Tenant, Tenant's Representatives and/or Tenant's Invitees, (ii) the conduct of Tenant's business, (iii) any activity, work or things done, permitted or suffered by Tenant or any of Tenant's Representatives in or about the Premises or elsewhere, (iv) any breach or default in the performance of any obligation to be performed by Tenant under this Lease, or (v) any negligence of Tenant, Tenant's Representatives and/or Tenant's Invitees, and against all reasonable costs, attorneys' fees, expenses and liabilities incurred in the defense of any such claim and any action or proceeding brought on such claim. Notwithstanding any other provision of this Lease, Tenant shall not indemnify, protect or defend Landlord with respect to any past, present or future act or omission relating to the use, generation, storage, discharge or disposal of Hazardous Materials on or about the Project caused by any person other than Tenant, Tenant's Representatives or Tenant's Invitees. If any action or proceeding is brought against Landlord by reason of any such claim, Tenant upon written notice from Landlord shall defend such action or proceeding at Tenant's sole cost by counsel reasonably satisfactory to Landlord. Tenant assumes all risk of damage to property and injury to persons in, upon or about the Premises arising from any cause, and Tenant waives all claims against Landlord in respect of such damage or injury, except to the extent caused by Landlord's or Landlord's Representative's sole and exclusive gross negligent acts or willful misconduct.

Representative's sole and exclusive gross negligent acts or willful misconduct. Tenant's obligations pursuant to this Section 7.11 shall survive the termination of this Lease.

(b) Landlord shall not be liable for injury to Tenant's business or any loss of income from such business or for damage or injury to the goods, wares, merchandise, or other property or the person of Tenant, Tenant's Representatives or Tenant's Invitees or any other persons in, upon or about the Premises, whether such damage, loss or injury is caused by or results from criminal acts, fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures; or from any other cause, whether such damage, loss or injury results from conditions arising upon the Premises or from other sources or places and regardless of whether the cause of such damage, loss or injury or the means of repairing such damages, loss or injury is inaccessible to Tenant.

7.12 PREMISES CHANGES: This Lease shall not be affected or impaired by any physical change to any part of the Project or any sidewalks, streets or improvements nearby the Project, provided that access to the Premises, parking for the Premises and Tenant's use of the Premises are not adversely materially affected by such change and provided that such changes do not significantly and adversely affect the safety of the Project. This Lease shall not be affected or impaired by any change in the use of the Project, provided the Project is for general office use and for any other legally permitted use compatible with comparable office buildings in the Sorrento Mesa area of San Diego, California.

7.13 SERVICES AND UTILITIES:

(a) Heating, Ventilation, Air Conditioning System:

(i) Landlord has installed that portion of the water source heat pump system set forth in the first and second paragraphs of Weather Engineering letter to Roel Construction Company dated April 6, 1993 attached as Exhibit "F" ("Tri-Water System").

(ii) Landlord shall install as a component of the Work and as part of the Tenant Improvement Allowance all portions of the Tri-Water System within the Building which is set forth generally as items 1 through 9 in Exhibit "F".

(iii) Tenant shall pay Landlord the sum of Twenty-Five Dollars ($25.00) for each off-peak hour the Tri-Water System is in operation. Off-peak hours shall mean before 7 a.m. and after 7 p.m. Monday through Friday, before 9 a.m. and after 1 p.m. Saturday, all day Sunday and all day the following public holidays: New Year's Day, the observed Monday or Friday holiday if New Year's Day falls on a Sunday, Memorial Day (observed), Independence Day (observed), Labor Day,

observed Monday or Friday holiday if Christmas Day falls on a Sunday, and New Year's Eve.

(iv) Upon Tenant's written request to Landlord, Landlord shall install as a component of the Work and as part of the Tenant Improvement Allowance a monitoring device to measure off-peak hours use of the Tri-Water System or a bypass system to allow Tenant to operate the Tri-Water System during off-peak hours to a portion of the Premises.

(b) Landlord's Responsibility: Landlord shall provide to the Building telephone service and electrical service to the utilities equipment room in the Building. Landlord shall install water line(s) to the Building at Landlord's expense. Landlord shall furnish elevator service consisting of non-attended automatic elevators, lighting replacement for exterior standard lights, daily janitor services, and such other services and pursuant to the specifications set forth on attached Exhibit "F". If Tenant uses heat generating machines or equipment in the Premises which affect the temperature otherwise maintained by the Tri-Water System for the Premises, Landlord reserves the right to install supplementary air conditioning units in the Premises and the cost thereof, including the cost of installation, operation and maintenance thereof, shall be paid by Tenant to Landlord upon written demand by Landlord.

(c) Interruption of Services: In the event of any interruption of service required to be provided by Landlord hereunder, where such interruption is caused by the negligence or willful misconduct of Landlord, Tenant shall be entitled to abatement of Base Rent and Lease Expenses Difference in proportion to the reasonable denial of use caused by the interruption, beginning on the later of the third day after Tenant provides Landlord with notice of the interruption or the actual date when Tenant stops using all or any affected portion of the Premises because of the interruption, and continuing until the restoration of the interrupted service. Notwithstanding the foregoing, Tenant acknowledges that services to be supplied by Landlord hereunder may be temporarily interrupted because of accidents, repairs, alterations, improvements or other reasons beyond the reasonable control of Landlord. Except as set forth in the next sentence of this Section 7.13(c) no such interruption shall (i) be considered an eviction or disturbance of Tenant's use and possession of the Premises; (ii) make Landlord liable to Tenant for damages; (iii) abate Basic Rent or Lease Expenses Difference or (iv) relieve Tenant from performing its obligations hereunder. Notwithstanding the preceding sentence, if any essential services (such as Tri-Water System, passenger elevators, electricity or water) supplied by Landlord are interrupted and the interruption does not result from the negligence or willful misconduct of Landlord or Landlord's Representatives, Tenant shall only be entitled to an abatement of Base Rent and Lease Expenses Difference beginning on the fourth consecutive business day of the interruption and continuing until the interrupted services are restored.

(d) Tenant's Responsibility: Separate utility meters for electrical, gas and water service to the Premises and any monitoring devices required to measure off-hours use of the Tri-Water System shall be installed as part of the Work. Tenant shall be responsible for the payment for all electrical, gas and water service to the Premises and the Tri-Water System within the Premises during the Term.

(e) Excessive Consumption: Tenant shall not connect any apparatus with electric current except through existing electrical outlets in the premises at the Commencement Date, without Landlord's prior written consent which shall not be unreasonably withheld. Tenant shall not consume water in excess of that usually and reasonably furnished or supplied for the use of other tenants in the Project using their premises as general office space, including limited lunchroom facilities (as reasonably determined by Landlord), without first procuring the written consent of Landlord, which will not be unreasonably withheld provided that Tenant shall be responsible to pay for such excess use, and in the event of consent, Landlord may cause to be installed a water meter for the Premises to measure the amount of water consumed. The cost of any such meter and of its installation, maintenance and repair shall be paid for by the Tenant and Tenant agrees to pay Landlord promptly upon demand for all such water consumed as shown by said meter, at the rates charged for such services by the local public utility company plus any additional reasonable and necessary expense incurred by Landlord in keeping account of the water so consumed. If a separate meter is not installed, the excess cost for such water shall be established by an estimate made by a utility company hired by Landlord at Tenant's expense,

7.14 RULES: Tenant and Tenant's Representatives shall observe faithfully and comply strictly with the rules and regulations that are set forth in attached Exhibit "E" and such other rules as Landlord may from time to time reasonably adopt and disclose to Tenant for the Real Property and the Project ("Rules").

7.15 MAINTENANCE OBLIGATIONS:

(a) Tenant at its sole cost shall maintain (except to the extent janitorial services are supplied by Landlord as set forth in the janitorial specifications in Exhibit "I"), and repair, all in neat, clean and good condition, with allowances for reasonable wear and tear ("Good Condition"), all portions of the Premises, except those portions of the Premises to be maintained by Landlord as expressly described in Section 7.15(b). Tenant shall be liable for any damage to the Project resulting from the acts or omissions of Tenant or Tenant's Representatives. If Tenant fails to maintain the Premises as provided above, then after applicable periods of notice and periods to cure as set forth in Section 12.1(b), Landlord shall have the right but not the obligation to maintain the Premises and Tenant shall promptly reimburse Landlord for Landlord's actual cost of such maintenance.

(b) Landlord shall maintain, repair, replace and repaint (i) the structural parts of the Building, which are limited to foundations, bearing and exterior walls

(excluding glass doors which are part of Tenant's Premises), subflooring, and roof and roof membrane; (ii) the unexposed electrical, plumbing, and mechanical systems which are not part of the Work; (iii) windows and window frames, gutters and downspouts on the Building; (iv) the Tri-Water System and any auxiliary system to the Tri-Water System, if any, for the Building; (v) that portion of the Building not included as part of the Premises; and (vi) the Common Area.

(c) Landlord's failure to perform its obligations set forth in Section 7.15(b) shall not release Tenant of its obligations under this Lease, including without limitation Tenant's obligation to pay Rent. Tenant waives the provisions of California Civil Code Sections 1941 and 1942 with respect to Landlord's obligations for tenantability of the Premises and Tenant's right to make repairs and deduct the expenses of such repairs from rent.

7.16 TENANT TO PAY PERSONAL PROPERTY TAXES: Tenant shall pay before delinquent all taxes, assessments, license fees, and other charges levied or assessed against, or based upon the value of Tenant's Personal Property ("Personal Property Taxes") that become payable during the Term. On written demand by Landlord, Tenant shall furnish Landlord with written satisfactory evidence of such payments. If any Personal Property Taxes are levied against Landlord or Landlord's property, or if the assessed value of the Project is increased by the inclusion of a value placed on Tenant's Personal Property, and if Landlord pays such Personal Property Taxes or any taxes based on the increased assessments caused by such Tenant's Personal Property, then Tenant, on demand, shall immediately reimburse Landlord for the sum of the Personal Property Taxes so levied against Landlord, or the proportion of taxes resulting from such increase in Landlord's assessment. Landlord shall have the right to pay such Personal Property Taxes or such proportion, and receive such reimbursement, regardless of the validity of the levy.

## SECTION 8
## INSURANCE

8.1 TENANT'S INSURANCE:

(a) Public Liability and Property Damage Insurance: Tenant shall procure at its sole cost and expense and keep in effect from the date of this Lease at all times until the end of the Term, comprehensive general liability insurance insuring against liability of Tenant, Tenant's Representatives, Landlord, and Landlord's Representatives, arising out of or in connection with Tenant's use or occupancy of the Premises or any part thereof, or the Project by Tenant or Tenant's Representative. Such insurance shall include contractual liability insurance coverage insuring Tenant's indemnity obligations under this Lease. Such coverage shall have a minimum combined single limit of liability of not less than $1,000,000 with a minimum general aggregate limit of $1,000,000.00. Such policies shall be written to apply to property damage, bodily injury, personal injury, premises medical payments, fire legal liability,

general liability and other covered losses, however occasioned, occurring during the policy term, naming the Landlord and Landlord's lender as additional insureds, providing that such coverage shall be primary and that any insurance maintained by Landlord shall be excess insurance only. Such coverage shall also (i) delete any employee exclusion on personal injury coverage; (ii) include employees as insureds, (iii) include liquor liability and (iv) include employer's automobile non-ownership liability. All such insurance shall provide for severability of interests or contain a cross-liability endorsement and shall provide that an act or omission of one of the named insureds shall not reduce or avoid coverage to the other named insureds; and shall afford coverage for all claims based on acts, omissions, injury and damage, which claims occurred or arose (or the onset of which occurred or arose) in whole or in part during the policy period.

(b) Automobile Liability Insurance: Tenant shall procure at its sole cost and expense and keep in effect from the date of this Lease at all times until the end of the Term, if applicable, Comprehensive Automobile Liability insurance covering owned, non-owned and hired vehicles. Such coverage shall have a minimum combined single limit of liability of not less than $1,000,000.

(c) Workers' Compensation Insurance: Tenant shall, if applicable, maintain Workers' Compensation insurance in accordance with California law, and employer's liability insurance with a limit of not less than $1,000,000. Workers' Compensation insurance shall be endorsed to waive the insurer's right of subrogation against Landlord.

(d) Business Personal Property and Loss of Income Insurance: Tenant shall, if applicable, maintain business personal property insurance to pay for damage to or destruction of the Tenant's property from damage to or destruction of the Premises. Such insurance shall insure against losses on an "all-risk" type policy to the extent of at least one hundred percent (100%) of the full replacement value of business personal property.

(e) Maintaining Insurance: If Tenant fails during the Term to maintain any insurance required to be maintained by Tenant under this Lease, then Landlord may, at its option and in addition to Landlord's other remedies in the event of default by Tenant, arrange for any such insurance, and Tenant shall reimburse Landlord for any premiums for any such insurance within five (5) business days after Tenant receives a copy of the premium notice. If such premiums are allocable to a period, a portion of which occurs during the Term and the remainder of which occurs before or after the Term, then such premiums shall be apportioned between Landlord and Tenant based upon the number of days during such period that occurred during the Term and the number of days that occurred before or after the Term, such that Tenant pays for the premiums that are allocable to the period during the Term. Insurance required to be maintained by Tenant under this Lease (i) shall be issued as a primary policy by insurance companies authorized to do business in the State of California with a Best's rating of a least "A"

and a Best's financial size category rating of at least "VIII", as set forth in the most current edition of Best's insurance reports or such higher rating as may be required by Landlord's lender, (ii) shall name the Additional Insureds as additional named insureds as required by the Lease, (iii) shall constitute "occurrence" based coverage, without provision for subsequent conversion to "claims" based coverage, and (iv) shall not be cancelable or subject to reduction of coverage or other modification except after thirty (30) days' prior written notice to Landlord and any lender. Tenant shall, at least thirty (30) days prior to the expiration of any such policy, furnish Landlord with a renewal or binder of such policy. Tenant shall, upon request from Landlord, promptly deliver to Landlord copies of such policy or policies or certificates evidencing the existence and amounts of such insurance together with evidence of payment of premiums. Any policy required to be maintained by Landlord or Tenant under this Lease may be maintained under a so-called "blanket policy" insuring other parties and/or other locations, so long as the amount of insurance and type of coverage required to be provided under this Lease is not thereby diminished, changed or adversely affected.

(f) All insurance coverage, terms and conditions described in this Section 8.1 shall be evidenced by a Certificate of Insurance issued to Landlord. A copy of all insurance policies issued to Tenant during the Term shall be forwarded to Landlord within sixty (60) days after the Commencement Date.

(g) If at any time during the Term the amount or coverage of insurance which Tenant is required to carry under this Section 8.1 is, in Landlord's reasonable judgment, materially less than that amount or type of insurance coverage typically carried by owners or tenants of properties located in San Diego, California, which are similar in size and used for similar purposes as the Premises, Landlord shall have the right to require Tenant to increase the amount or change the types of insurance coverage required under this Section 8.1.

8.2 Landlord's Insurance: Landlord shall, at its expense, maintain in effect at all times during the Term: a policy or policies of "all risk" fire, general liability and extended coverage insurance, including at least six (6) months rental interruption insurance, with vandalism and malicious mischief endorsements, coverage with respect to increased costs due to building ordinances, demolition coverage, boiler and machinery insurance, sprinkler leakage coverage, in each case to the extent of at least one hundred percent (100%) of the full replacement value of the Building and Adjacent Building and any future building on the Project. If Landlord fails during the Term to maintain any insurance required to be maintained by Landlord under this Lease, then Tenant may, at its election, arrange for any such insurance, and Tenant may require that Landlord reimburse Tenant for any premiums for any such insurance within five (5) days after Landlord or Tenant's receipt of the premium notice. Insurance required to be maintained by Landlord under this Lease (a) shall be issued as a primary policy by insurance companies authorized to do business in California with a Best's Rating of at least "A" and a Best's Financial Size Category rating of at least "VIII," as set forth in the most current edition of "Best's Insurance Reports, or such higher rating as may be

required by any lender, (b) shall name Tenant and any lender or other party as Tenant may elect as additional named insureds, (c) shall constitute "occurrence" based coverage, without provision for subsequent conversion to "claims" based coverage, and (d) shall not be cancelable or subject to reduction of coverage or other modification except after thirty (30) days' prior written notice to Tenant and any lender. Landlord shall, at least thirty (30) days prior to the expiration of each such policy, furnish Tenant with a renewal or "binder" of such policy. Landlord shall, upon request from Tenant, promptly deliver to Tenant copies of such policy or policies or certificates evidencing the existence and amounts of such insurance together with evidence of payment of premiums. The premiums, costs and expenses and deductibles of and/or with respect to any such insurance shall be included in the Building Operating Expenses. Landlord shall not increase the amount of insurance coverage beyond that which was in place during the Base Year, other than reasonable increases to reflect inflation or an increase in value of the insured property. Landlord shall not increase the types of insurance coverages beyond that which was in place during the Base Year unless commercially reasonable and in such event the Operating Expenses for the Base Year shall be increased by the insurance premium that would have been paid had the insurance been obtained by Landlord.

## SECTION 9
## DESTRUCTION

9.1 RISK COVERED BY INSURANCE:

(a) If during the Term the premises is totally or partially destroyed, rendering the Premises totally or partially inaccessible or unusable, Landlord shall, subject to Sections 9.1(b) and 9.1(c), restore the Premises to substantially the same condition as it was in immediately before the destruction. Such destruction shall not terminate this Lease except as provided in this Section. If, however, then-existing laws do not permit such restoration, Landlord or Tenant may terminate this Lease by giving written notice to the other party.

(b) If Landlord determines that the cost of such restoration exceeds the amount of proceeds received by Landlord from any insurance maintained by Landlord, then Landlord may elect to terminate this Lease by giving notice to Tenant within sixty (60) days after such destruction or within sixty (60) days after Landlord's receipt of such proceeds, whichever is later. If Landlord gives such notice of termination, then this Lease shall terminate as of forty-five (45) days after Landlord's notice of termination, unless Tenant provides Landlord with written notice of its election to pay the amount by which the cost of such restoration exceeds the amount of proceeds received by Landlord ("Notice To Restore"), in which event this Lease shall remain in full force and effect. Tenant shall have thirty (30) days after Notice To Restore to pay the excess cost of restoration either to Landlord or to an escrow account to be used for restoration.

(c) Within thirty (30) days after such destruction, Landlord shall notify

Tenant in writing whether or not, based on Landlord's determination, the Premises can be restored within six (6) months after the date of such destruction. If such restoration cannot be completed within such six (6) month period, either party may terminate this Lease by giving written notice to the other party within twenty (20) days after the date of Landlord's written notice. If Landlord determines that the Premises can be restored within such six (6) month period and neither party terminates this Lease pursuant to this Section 9, Landlord shall use its reasonable efforts to restore the Premises within such six (6) month period to substantially the same condition as it was in immediately before the destruction. Notwithstanding the foregoing, if due to any delay or fault on the part of Landlord the Premises are not in fact restored within seven (7) months from the date of destruction, then Tenant may terminate this Lease without further liability to Landlord by giving Landlord written notice of termination, such termination to be effective immediately upon the giving of such notice.

9.2 ABATEMENT OR REDUCTION OF RENT: Except as otherwise provided herein, in case of any destruction to the Premises, all obligations of Tenant under this Lease shall remain in effect, except that Base Rent and Lease Expenses Difference shall be abated or reduced, between the date of such destruction and the date of completion of restoration, by the ratio of (a) the area of the Premises rendered unusable or inaccessible by the destruction to (b) the area of the Premises prior to such destruction.

9.3 LOSS DURING LAST PART OF TERM OR EXCEEDING TWENTY-FIVE PERCENT (25%) OF REPLACEMENT VALUE: Notwithstanding any other provision of this Lease, if any destruction to the Premises occurs during the last year of the Term, or if, at any time during the Term, there is any destruction to the Premises that exceeds twenty-five percent (25%) of the then replacement value of the Premises, Landlord or Tenant may terminate this Lease by giving written notice to the other not more than thirty (30) days after such destruction, in which case (a) neither Landlord nor Tenant shall have any obligation to restore the Premises, (b) Landlord shall retain all insurance proceeds relating to such destruction except for insurance proceeds relating to the loss of or damage to Tenant's Personal Property or loss of business, and (c) this Lease shall terminate as of thirty (30) days after such notice of termination.

9.4 LIMITATION ON LANDLORD'S RESTORATION OBLIGATION: If Landlord is required or elects to restore the Premises as provided in Section 9.1, Landlord shall not be required to restore any of Tenant's Alterations which were constructed without Landlord's written consent or any of Tenant's Personal Property, unless they are an integral part of the Premises and specifically covered by insurance proceeds received by Landlord, such excluded items being the sole responsibility of Tenant to restore.

## SECTION 10
## CONDEMNATION

10.1 DEFINITIONS: For purposes of this Lease, the following definitions shall apply:

(a) "Condemnation" shall mean the exercise of any governmental power, whether by legal proceedings or otherwise, by a Condemnor (as defined below) or a voluntary sale or transfer by Landlord to any Condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending;

(b) "Date of Taking" shall mean the date the Condemnor has a right to possession of the property being condemned;

(c) "Award" shall mean all compensation, sums or anything of value awarded, paid, or received on a total or partial Condemnation of the Project; and

(d) "Condemnor" shall mean any public or quasi-public authority, or private corporation or individual, having the power of Condemnation.

10.2 GOVERNED BY LEASE: If during the Term, or during the period of time between the execution of this Lease and the Commencement Date, there is any taking of all or any part of the Project or any interest in this Lease by Condemnation, the rights and obligations of Landlord and Tenant shall be determined pursuant to this Section 10.

10.3 TOTAL TAKING: If greater than fifty percent (50%) of the Premises are taken by Condemnation or more than thirty percent (30%) of the available parking area is taken by Condemnation, this Lease shall terminate on the Date of Taking.

10.4 PARTIAL TAKING: if any portion, but not all, of the Premises is taken by Condemnation, this Lease shall remain in effect, except that Tenant may elect to terminate this Lease if the remaining portion of the Premises is, in Tenant's reasonable opinion, rendered unsuitable for Tenant's continued use of the Premises. If Tenant elects to so terminate this Lease, Tenant must exercise its right to terminate by giving notice to Landlord within sixty (60) days after the date that the nature and the extent of the taking have been finally determined ("Determination Date"), which notice shall set forth the date of termination. Such termination date shall not be earlier than thirty (30) days nor later than ninety (90) days after Tenant has notified Landlord of its election to terminate; except that this Lease shall terminate on the Date of Taking if the Date of Taking falls on a date before the date of termination as designated by Tenant. If Tenant does not so notify Landlord within sixty (60) days after the Determination Date, all obligations of Tenant under this Lease shall remain in effect, except that Base Rent and Lease Expenses shall be reduced by the ratio of (a) the area of the Premises taken to (b) the area of the Premises immediately prior to the Date of Taking.

10.5 AWARD: The Award shall belong to and be paid to Landlord, Tenant shall have no right to any part of the Award, and Tenant assigns to Landlord all of Tenant's right, title and interest in and to any part of the Award, except that Tenant shall receive from the Award an amount equal to the value of Tenant's leasehold interest and any

sum paid expressly to Tenant from the Condemnor for relocation, the cost of tenant improvements which were paid for by Tenant and not part of the Tenant Improvement Allowance, the value of Alterations and loss of goodwill.

10.6 TEMPORARY TAKING: The taking of the Premises or any part of the Premises by military or other public authorities shall constitute a taking of the Premises by Condemnation only when the use and occupancy by the taking authority is continued for longer than one hundred eighty (180) consecutive days. During the one hundred eighty (180) day period, all obligations of Tenant under this Lease shall remain in effect, except that Base Rent shall be abated or reduced during such period of taking by the ratio of (a) the area of the Premises taken to (b) the area of the Premises immediately prior to the Date of Taking, and Landlord shall be entitled to any Award related to such taking.

10.7 WAIVER OF STATUTE: Landlord and Tenant waive the provision of California Code of Civil Procedure Section 1265.130 allowing Landlord or Tenant to petition the superior court to terminate this Lease in the event of a partial taking of the Premises.

## SECTION 11
## ASSIGNMENT AND SUBLETTING

11.1 ASSIGNMENT:

(a) If Tenant is not in default of the Lease, Tenant may assign any portion of Premises to any related entity, parent company, subsidiary or affiliate ("Affiliate") without Landlord's consent.

() Except for an Affiliate, Tenant shall not assign, enter into a license or concession agreement for, hypothecate or otherwise divest itself of this Lease or any of its rights under this Lease or permit any third party or parties other than Tenant to occupy the Premises or any portion thereof without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed, but is subject to the terms and conditions contained in this Section 11.

(c) For purposes of this Lease, each of the following events shall be deemed to constitute an assignment of this Lease:

(i) any assignment or transfer of this Lease, or any interest in this Lease, voluntarily, involuntarily, by operation of law or otherwise;

(ii) any mortgage, hypothecation, pledge, or collateral assignment of this Lease or any interest in this Lease;

(iii) any sale, transfer, grant of concessions or licenses, or other disposition of this Lease, any interest in this Lease or all or any portion of the Premises;

(iv) any assignment, transfer, disposition, sale, or acquisition of more than fifty percent (50%) of the shares of Tenant's voting stock by any person, entity, or group of related persons or affiliated entities, whether in a single transaction or in a series of related or unrelated transactions that results in a Change of Control (as hereinafter defined). For purposes of this Lease, a "Change of Control" shall mean a change in the identity of the person or persons exercising, or who may exercise, effective control of the management of Tenant's business, unless such change (a) does not materially impair Tenant's financial condition immediately after such change has occurred; or (b) the change results from either (i) a registered public offering of shares of Tenant's stock; (ii) the acquisition of Tenant by a company whose shares are publicly traded; (iii) the trading of shares of Tenant listed on a recognized national securities exchange or a nationally recognized automated quotation system (such as the NASDAQ quotation system); or (iv) the transfer of an equity interest in Tenant for purposes of estate or tax planning or by reason of a distribution of shares held by a partnership to its partners; and

(v) any issuance of voting stock of Tenant to any person, entity, or group of related persons or affiliated entities, whether in a single transaction or in a series of related or unrelated transactions, which results in Change of Control as defined above.

(d) At least fifteen (15) days prior to entering into any assignment of this Lease of all or any portion of the Premises, Tenant shall submit to Landlord the form of such proposed assignment, and a written notice ("Tenant's Notice") setting forth in reasonable detail (i) the name and address of the proposed assignee, (ii) the terms and conditions of the proposed assignment, including without limitation the proposed effective date of the assignment, which shall be at least thirty (30) days after Tenant's notice is given, (iii) the nature and character of the business of the proposed assignee, and (iv) current banking, financial, and other credit information, including prior year's federal tax return, if available, (all of which information Landlord agrees to treat as strictly confidential and not disclose or disseminate to third parties) relating to the proposed assignee, in reasonably sufficient detail, to enable Landlord to determine the proposed assignee's financial responsibility.

(e) Within twenty (20) days after Landlord's receipt of Tenant's Notice and the form of assignment, Landlord shall notify Tenant whether Landlord has consented to the proposed assignment. Any consent granted by Landlord in any instance shall not constitute a consent with respect to any other instance or request. If Landlord consents to any proposed assignment and Tenant fails to consummate such assignment within one hundred eighty (180) days after such consent, then such

consent shall be deemed withdrawn and Tenant shall be required again to comply with this Section 11 before assigning this Lease or any portion of the Premises.

(f) Landlord shall not have unreasonably withheld its consent with respect to any assignment if (i) Landlord shall not have received Tenant's Notice as provided above, (ii) the nature and character of the proposed assignee and the proposed use and occupancy of the Premises by the proposed assignee is not in keeping with the dignity and character of the Premises and the surrounding area, (iii) the proposed assignment will result in the diminution of the value or marketability of the Premises, or (iv) the proposed assignee's use of the Premises may reasonably conflict with other uses in the Premises. Tenant acknowledges that Tenant's Notice shall be ineffective if Tenant is in material default with respect to any provision under this Lease.

(g) Notwithstanding any provision of this Lease to the contrary, a merger or consolidation of Tenant with or into another corporation (including a merger or consolidation that results in assignment or transfer of this Lease) will not require the consent of Landlord, provided that the financial condition of the surviving entity is equal to or greater than Tenant's financial condition immediately prior to the Change of Control.

11.2 SUBLEASE:

(a) If Tenant is not in default of the Lease, Tenant may sublet all or a portion of the Premises to an Affiliate without Landlord's consent.

(b) If Tenant is not in default of the Lease, Tenant may sublease all or a portion of the Premises to anyone, upon Landlord's prior written consent, which consent shall not be unreasonably withheld.

(c) Any sublease of all or a portion of the Premises shall be in accordance with the terms and conditions of this Section 11 and all other applicable terms and conditions of this Lease. Tenant's request to sublease all or a portion of the Premises to anyone other than an Affiliate shall be in the form of the Tenant's Notice as set forth in Section 11.1(d).

(d) Any sublease of all or any portion of the Premises must contain the following provisions, which provisions, whether contained in such sublease nor not, shall apply to such sublessee:

(i) Such sublease shall be subject and subordinate to all of the provisions of this Lease (including all exhibits) and any subsequent amendments of this Lease;

(ii) At Landlord's option, in the event of cancellation or termination of this Lease for any reason or the surrender of this Lease, whether voluntarily, involuntarily, or by operation of law, prior to the expiration of such sublease, the subtenant shall make full and complete attornment to Landlord for the balance of the term of such sublease, provided that Landlord agrees in writing not to disturb subtenant's right to occupy the subleased area as long as such sublessee is in compliance with its obligations under such sublease. The subtenant shall execute and deliver to Landlord an agreement of attornment reasonably satisfactory to Landlord within five (5) days after requested by Landlord; and

(iii) No sublessee shall be permitted to further sublet all or any portion of the subleased space without Landlord's prior written consent.

(e) Tenant shall submit all subleases to Landlord prior to execution for Landlord's review and approval, which shall not be unreasonably withheld or delayed more than seven (7) days after Landlord's receipt of any sublease.

11.3 TENANT AND ASSIGNEE OR SUBLESSEE FULLY LIABLE: No assignment of this Lease nor any sublease of all or any portion of the Premises shall release or discharge Tenant from any liability, whether past, present, or future, under this Lease and Tenant shall continue to remain primarily liable under this Lease except as may be executed by Tenant and Landlord in writing. The assignee of any assignment of this Lease, and the sublessee of any sublease of all or any portion of the Premises, shall execute, acknowledge, and deliver to Landlord an agreement satisfactory to Landlord in which the assignee or sublessee assumes and agrees to be bound by all of the provisions of this Lease.

11.4 ASSIGNMENT OF RENTS: Tenant irrevocably assigns to Landlord, as security for Tenant's obligations under this Lease, all rent from any subletting of all or any portion of the Premises, and Landlord, as assignee and as special attorney-in-fact for Tenant, or a receiver for Tenant appointed on Landlord's application, may collect such rent and apply it toward Tenant's obligations under this Lease, except that, unless Tenant defaults under this Lease, Tenant shall have the sole right to collect such rent.

11.5 EQUAL DIVISION OF SUBLEASE PREMIUM: Landlord and Tenant shall share equally any "Premium" (as defined below) arising from the sublease of any portion of the Premises to any entity which is not an Affiliate. For purposes of this paragraph "Premium" shall mean all sums received by Tenant under the sublease which exceed the Rent attributable to the subleased portion of the Premises, after deducting (a) all reasonable expenses of Tenant incurred in connection with such sublease amortized on a straight line basis over the initial term of the sublease, including without limitation legal costs, brokerage commissions, rent abatement and other concessions, lease takeover, subtenant improvement costs, the unamortized value of Tenant's leasehold improvements, downtime, and cash payments, (b) any utility costs paid by Tenant which is attributable to such subleased premises, and (c) any Additional Rent paid by

Tenant which is attributable to such subleased premises. The determination of Base Rent attributable to the subleased portion of the Premises shall be made on the basis of the ratio of the rentable square footage in the subleased portion to the Rentable Square Footage.

## SECTION 12
## DEFAULT AND REMEDIES

12.1 DEFAULT: The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant:

(a) the failure by Tenant to pay Rent as and when due, where such failure shall continue for a period of five (5) business days after written notice of such failure from Landlord to Tenant. In the event that Landlord serves Tenant with a Notice to Pay Rent or Quit pursuant to applicable statutes set forth in California Code of Civil Procedure, such Notice to Pay Rent or Quit shall also constitute the notice of such failure;

(b) the failure by Tenant to observe or perform any of the provisions of this Lease to be observed or performed by Tenant, other than described in Section 12.1(a), where such failure shall continue for a period of thirty (30) days after written notice of such failure from Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are required for its cure, then Tenant shall not be deemed to be in default if Tenant commenced such cure within such thirty (30) day period and thereafter diligently prosecutes such cure to completion within sixty (60) days after Landlord's written notice; or

(c) the making by Tenant of any general arrangement or assignment for the benefit of creditors; Tenant's becoming bankrupt, insolvent or a "debtor" as defined in 11 U.S.C. Section 101, or any successor statute (unless, in the case of a petition filed against Tenant, such petition is dismissed within sixty (60) days after its original filing); the institution of proceedings under bankruptcy or similar laws in which Tenant is the debtor or bankrupt; the appointing of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease (unless possession is restored to Tenant within sixty (60) days after such taking); or the attachment, execution of judicial seizure of substantially all of Tenant's assets located at the Premises or Tenant's interest in this Lease (unless such attachment, execution or judicial seizure is discharged within sixty (60) days after such attachment, execution or judicial seizure).

12.2 LANDLORD'S REMEDIES: Landlord shall have the following remedies if Tenant commits a default or breach under this Lease; these remedies are not exclusive, but are cumulative in addition to any remedies provided elsewhere in this Lease or now or later allowed by law.

(a) Continuation of Lease: No act by Landlord (including without limitation the acts set forth in this Section 12.2(a)) shall terminate Tenant's right to possession unless Landlord notifies Tenant in writing that Landlord elects to terminate Tenant's right to possession. As long as Landlord does not terminate Tenant's right to possession, Landlord may (i) continue this Lease in effect, (ii) continue to collect rent when due and enforce all the other provisions of this Lease, (iii) enter the Premises and relet them, or any part of them, to third parties for Tenant's account, for a period shorter or longer than the remaining term of this lease, and (iv) have a receiver appointed to collect rent. Tenant shall immediately pay to Landlord all costs Landlord reasonably incurs in such reletting, including, without limitation, brokers' commissions, attorneys' fees, advertising costs and expenses of remodeling the Premises of such reletting.

(b) Rent from Reletting: If Landlord elects to relet all or any portion of the Premises as permitted by Section 12.2(a), rent that Landlord receives from such reletting shall be applied to the payment of, in the following order and priority, (i) any indebtedness due from Tenant to Landlord (other than Base Rent), (ii) all costs reasonably incurred by Landlord in such reletting, including without limitation any brokers', finders', or leasing agents' commissions, charges or fees, and (iii) Base Rent due and unpaid under this Lease. After applying such payments as referred to above, any sum remaining from the rent Landlord receives from such reletting shall be held by Landlord and applied in payment of future Base Rent as it becomes due under this Lease. In no event shall Tenant be entitled to any excess rent received by Landlord.

(c) Termination of Tenant's Right to Possession: Landlord may terminate Tenant's right to possession of the Premises at any time, by notifying Tenant in writing that Landlord elects to terminate Tenant's right to possession. On termination of this Lease, Landlord has the right to recover from Tenant (i) the worth at the time of the award of the unpaid Base Rent which had been earned at the time of such termination, (ii) the worth at the time of the award of the amount by which the unpaid Base Rent which would have been earned after such termination until the time of award exceeds the amount of such loss of Base Rent that Tenant proves could have been reasonably avoided, (iii) the worth at the time of the award of the amount by which the unpaid Base Rent for the balance of the Term after the time of award (had there been no such termination) exceeds the amount of such loss of Base Rent that Tenant proves could be reasonably avoided, and (iv) any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or in the ordinary course of things would be likely to result therefrom. The "worth at the time of the award" of the amounts referred to in Sections 12.2(c)(i) and 12.2(c)(ii) is to be computed by allowing interest at a rate equal to ten percent (10%) per annum, but in no event greater than the maximum rate permitted by applicable law. The "worth at the time of the award" of the amount referred to in Section 12.2(c)(iii) is to be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%), but in no event greater than the maximum rate permitted by applicable law.

(d) Landlord's Right to Cure Default: Landlord, at any time after Tenant commits a default or breach under this Lease, may cure such default or breach at Tenant's sole cost. If Landlord at any time, by reason of Tenant's default or breach, pays any sum or does any act that requires the payment of any sum, such sum shall be due immediately from Tenant to Landlord at the time such sum is paid, and shall be deemed additional rent under this Lease.

12.3 INTEREST AND LATE CHARGES: Rent not paid within five (5) days after its due date shall bear interest from the date due at a rate equal to ten percent (10%) per annum, but in no event greater than the maximum rate permitted by applicable law. Late payment by Tenant to Landlord of Rent will cause Landlord to incur cost not contemplated by this Lease, the exact amount of which would be impracticable or extremely difficult to fix. Such costs include, without limitation, processing, collection and accounting charges, and late charges that may be imposed on Landlord by the terms of any Mortgage covering the Premises. Therefore, if any Rent is not received by Landlord within five (5) business days after notice to Tenant of such overdue payment from Landlord to Tenant, Tenant shall pay to Landlord an additional sum of five percent (5%) of such overdue amount as a late charge ("Late Charge"). Landlord and Tenant agree that the Late Charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of any late payment by Tenant, and therefore this Section 12.3 is reasonable under the circumstances existing at the time this Lease is executed. Acceptance of the Late Charge by Landlord shall not constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies available to Landlord under this Lease.

12.4 QUARTERLY PAYMENTS: In the event that a Late Charge is payable under this Lease, whether or not collected, for three (3) consecutive installments of Rent or in the event Rent is paid more than thirty (30) days late twice due under this Lease during any twelve (12) month period, then Base Rent, and Monthly Payment, shall , at Landlord's election by written notice to Tenant, become due and payable quarterly in advance, rather than monthly, for a period of six (6) months. If a Late Charge is payable under the Lease, whether or not collected, for two (2) installments of Rent during the twelve (12) calendar months following such six (6) month period, then Base Rent and Monthly Payment shall automatically become due and payable quarterly in advance for a period of one (1) year, after which time Rent shall revert back to monthly payments. If any payment is not timely paid during such one year period, then Base Rent and Monthly Payment shall automatically become due and payable quarterly in advance for the remaining Term of the Lease. All monies paid to Landlord under this Section 12.4 may be commingled with other monies of Landlord and shall not bear interest.

12.5 WAIVER: No delay or omission in the exercise of any right or remedy of Landlord in the event of any default by Tenant shall impair such right or remedy of be construed as a waiver. The receipt and acceptance by Landlord of delinquent Rent shall not constitute a waiver of any default other than the particular rent payment accepted. Landlord's receipt and acceptance from Tenant, on any date ("Receipt

Date"), of an amount less than rent due on such Receipt Date, or to become due (pursuant to Section 4 or Section 6) at a later date but applicable to a period prior to such Receipt Date, shall not release Tenant of its obligation (a) to pay the full amount of such rent due on such Receipt Date or (b) to pay when due the full amount of such rent to become due at a later date but applicable to a period prior to such Receipt Date. No act or conduct of Landlord, including without limitation, the acceptance of the keys to the Premises, shall constitute an acceptance by Landlord of the surrender of the Premises by Tenant before the Expiration Date or Option Expiration Date. Only a written notice from Landlord to Tenant stating Landlord's election to terminate Tenant's right to possession of the Premises shall constitute acceptance of the surrender of the Premises and accomplish a termination of this Lease. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any other or subsequent act by Tenant. Any waiver by Landlord of any default by Tenant must be in writing and shall not be a waiver of any other default concerning the same or any other provision of this Lease.

12.6 NOTICE OF DEFAULT: Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by Landlord unless and until it has failed to perform such obligation within thirty (30) days after Landlord's receipt of written notice from Tenant specifying Landlord's failure to perform such obligation. However, if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

## SECTION 13
## SUBORDINATION, ATTORNMENT, ESTOPPEL, AND NON-DISTURBANCE

13.1 SUBORDINATION: This Lease and Tenant's rights under this Lease are subject and subordinate to any mortgage, loan secured by a deed of trust, or other written security instrument or agreement affecting the Project that constitutes security for the payment of a debt or performance of an obligation (each, a "Mortgage"), and to all renewals, modifications, consolidations, replacements or extensions thereof, now or hereafter affecting the Premises. The provisions of this Section 13.1 shall be self-operative, and no further instrument of subordination shall be required. Within fifteen (15) days after written notice from Landlord, Tenant shall execute and deliver any instruments that Landlord and the holder of any Mortgage may reasonably request to evidence such subordination so long as the instruments do not modify this Lease, decrease or adversely affect Tenant's rights under this Lease, or increase Tenant's duties or obligations hereunder. If Tenant fails to execute and deliver any such instrument(s) within fifteen (15) days after such notice, Tenant irrevocably appoints Landlord as Tenant's special attorney-in-fact to execute and deliver such instruments on behalf of Tenant. If Landlord executes documents on behalf of Tenant pursuant to

the special power-of-attorney, it shall be deemed that Tenant has not waived any rights against Landlord solely due to the use of the special power-of-attorney by Landlord.

13.2 ATTORNMENT: If the holder of any Mortgage shall hereafter succeed to the Landlord under this Lease, Tenant shall attorn to and recognize such successor as the Landlord under this Lease, and shall promptly execute and deliver any instruments that may be necessary to evidence such attornment. If Tenant fails to execute and deliver any such instrument(s) within fifteen (15) days after written notice from Landlord, Tenant irrevocably appoints Landlord as Tenant's special attorney-in-fact to execute and deliver such instruments on behalf of Tenant. If Landlord executes documents on behalf of Tenant pursuant to the special power-of-attorney, it shall be deemed that Tenant has not waived any rights against Landlord or such successor solely due to the use of the special power-of-attorney by Landlord. Upon such attornment, this Lease shall continue in effect as a direct lease between such successor landlord and Tenant upon and subject to all of the provisions of this Lease.

13.3 ESTOPPEL CERTIFICATES: Within fifteen (15) days after written notice from Landlord, Tenant shall execute and deliver to Landlord, in recordable form, a certificate in the form of Exhibit "H" stating (i) that this Lease is unmodified and in effect, or in effect as amended, and stating all amendments; (ii) the amount of Base Rent; (iii) the date to which Base Rent has been paid in advance; (iv) the amount of any security deposit, prepaid rent or other payment constituting rent which has been paid; (v) whether or not Tenant or Landlord is in default under this Lease; and (vi) such other matters as Landlord shall reasonably request. Tenant's failure to deliver such estoppel certificate within such fifteen (15) day period shall be conclusive upon Tenant for the benefit of Landlord, and any successor in interest to Landlord, that this Lease is in effect and has not been amended except as may be represented by Landlord, no rent has been paid more than thirty (30) days in advance and neither Landlord nor Tenant is in default under this Lease. If Tenant fails to deliver such estoppel certificate within such fifteen (15) day period, then Tenant irrevocably appoints Landlord as its special attorney-in-fact to execute and deliver such certificate to any third party. If Landlord executes documents on behalf of Tenant pursuant to the special power-of-attorney, it shall be deemed that Tenant has not waived any rights against Landlord by reason of the contents of the estoppel certificate signed pursuant to the special power-of-attorney by Landlord.

13.4 NON-DISTURBANCE AGREEMENT: Landlord shall, within twenty (20) days after the date of this Lease, obtain from Paul Revere Insurance Company and each other holder of a Mortgage in existence at the time of execution of this Lease a duly executed non-disturbance agreement in the form of Exhibit "G". With respect to any Mortgages which are not in existence at the time of execution of this Lease, Landlord shall obtain a non-disturbance agreement in the form of Exhibit "G" duly executed in recordable form by any holders of any future Mortgage as a condition to this Lease being subordinate and junior to such future Mortgage and as a condition to the recordation of any such future Mortgage.

## SECTION 14
## SURRENDER OF PREMISES, HOLDING OVER

14.1 SURRENDER OF PREMISES: By the Expiration Date, Option Expiration Date or earlier termination of this Lease, (i) Tenant shall surrender to Landlord the Premises, including without limitation all Alterations, in Good Condition, reasonable wear and tear excepted (except for destruction to the Premises covered by Section 9) except for Alterations that Tenant is obligated to remove under Section 7.9; (ii) Tenant shall remove all its Personal Property and perform all repairs and restoration required by the removal of any Alterations or Personal Property at its sole cost; and (iii) Tenant shall surrender to Landlord all keys to the Premises (including without limitation any keys to exterior or interior office doors) and all permits, validations, keycards, passes, and similar items with respect to the Premises and parking lot. Landlord may elect to retain or dispose of in any manner any Alterations or Personal Property that Tenant does not remove from the Premises on the Expiration Date, Option Expiration Date or earlier termination of this Lease as required by this Lease by giving written notice to Tenant. Title to any such Alterations or Personal Property that Landlord elects to retain or dispose of shall vest in Landlord. Tenant waives all claims against Landlord for any damage to Tenant resulting from Landlord's retention or disposition of any such Alterations or Personal Property after the Expiration Date or earlier termination of this Lease. Tenant shall be liable to Landlord for Landlord's costs for storing, removing or disposing of any such Alterations or Personal Property. If Tenant fails to surrender the Premises to Landlord on the Expiration Date or earlier termination of this Lease, Tenant shall indemnify and defend Landlord against all liability, loss and claims resulting from such failure including without limitation any claim for damages made by any other tenant or subtenant.

14.2 HOLDING OVER: If Tenant, with Landlord's written consent, remains in possession of the Premises after the Expiration Date, Option Expiration Date other than pursuant to an extension of the Term of this Lease pursuant to Section 3.2, or earlier termination of this Lease, such possession by Tenant shall be deemed to be a month-to-month tenancy terminable on thirty (30) days written notice given at any time by Landlord or Tenant. During any such month-to-month tenancy, the first month's Base Rent shall be equal to the Base Rent in effect immediately prior to the Expiration Date, Option Expiration Date or earlier termination of this Lease as may be the case, and thereafter Tenant shall pay as Base Rent one hundred twenty-five percent (125%) of the Base Rent in effect immediately prior to the Expiration Date or earlier termination of this Lease, as the case may be. All provisions of this Lease except for those pertaining to the Term shall apply to such month-to-month tenancy.

## SECTION 15
## DELAY IN OCCUPANCY

INTENTIONALLY OMITTED

SECTION 16
GENERAL PROVISIONS

16.1 BROKERS: Landlord retained CB Commercial Real Estate Group Inc. ("CB Commercial") as a leasing broker and shall be responsible for all commissions paid to CB Commercial regarding this Lease. Tenant retained Langdon Rieder Corporation ("LRC"), as exclusive agent for Tenant. Landlord shall pay to LRC a real estate brokerage commission ("Commission") of four percent (4%) of the Base Rent less cash contributions paid by Landlord to Tenant such as Moving Allowance and rent abatement for the first five (5) years of the Term and two percent (2%) of the Base Rent for the balance of the Term payable one-half (1/2) upon the complete execution of the Lease and one-half (1/2) upon the Commencement Date and upon the occupancy of the Premises by Tenant. Tenant represents that, except as set forth in this Section 16.1, no real estate broker, agent, finder, or other person is responsible for bringing about or negotiating this Lease and that Tenant has not dealt with any real estate broker, agent, finder, or other person with respect to this Lease in any manner. Tenant shall indemnify and defend Landlord against all liability, costs, expenses and charges (including without limitation attorneys' fees and disbursements) arising from any claims that may be made against Landlord by any real estate broker, agent, finder, or other person alleging to have acted on behalf of or to have dealt with Tenant, prior to the Commencement Date and during the Term except for claims made by CB Commercial or LRC pursuant to this Lease.

16.2 NOTICES: Any notice, demand, request, consent, approval, or communication that either Landlord or Tenant desires or is required under this Lease to give to the other or any other person shall be in writing and either served personally or sent by certified prepaid, first class U.S. mail or by Federal Express mail or other overnight delivery service that provides written confirmation of delivery addressed to Tenant or to Landlord at the addresses set forth in Section 1.12.

Either Landlord or Tenant may change its address by notifying the other of the change of its address in writing pursuant to this Section 16.2. Notice, if mailed or sent as provided in this Section 16.2, shall be deemed given forty-eight (48) hours after the time of such mailing.

16.3 QUITCLAIM DEED: Tenant shall execute and deliver to Landlord on the Expiration Date or earlier termination of this Lease, promptly on Landlord's request, a quitclaim deed to the Premises, in recordable form, designating Landlord as transferee.

16.4 SALE OR TRANSFER OF PREMISES: If Landlord sells or transfers any portion of the Premises, Landlord, on consummation of the sale or transfer, shall be released from liability under this Lease as to the portion of the Premises sold or transferred, except for the actions of Landlord or Landlord's Representatives occurring prior to the date of such consummation and this Lease shall remain in full force and effect. If any

security deposit or prepaid rent has been paid by Tenant, Landlord shall transfer the unused portion of the Security Deposit and/or prepaid rent to Landlord's successor-in-interest and on such transfer Landlord shall be discharged from any further liability arising from the Security Deposit or prepaid rent.

16.5 ATTORNEYS' FEES: If Landlord or Tenant becomes a party to any litigation concerning this Lease, the Premises, or the Project by reason of any act or omission of the other or its agents, employees, officers, independent contractors, licensees, invitees, visitors or customers, (and not by any act or omission of the one that becomes a party to that litigation or its agents, employees, officers, independent contractors, licensees, invitees, visitors or customers), the one that causes the other to become involved in such litigation shall be liable to the other for reasonable attorneys' fees, court costs, and other expenses incurred by it in such litigation. If Landlord or Tenant commences an action against the other arising out of or in connection with this Lease, the prevailing party (as determined by the court) shall be entitled to recover from the losing party reasonable attorneys' fees, court costs, and other expenses incurred by the prevailing party in such litigation.

16.6 MERGER: A voluntary or other surrender of this Lease by Tenant, or a mutual cancellation of this Lease, or a termination by Landlord, shall not work a merger, and shall, at the option of Landlord, terminate any existing subleases or may, at the option of Landlord, operate as an assignment to Landlord of any such subleases.

16.7 TIME OF ESSENCE: Time and strict and punctual performance are of the essence with respect to each provision of this Lease.

16.6 SUCCESSOR IN INTEREST: Subject to Section 11, this Lease shall be binding on and inure to the benefit of Landlord and Tenant and their successors in interest.

16.9 EASEMENTS: Landlord may, from time to time, grant such easements, rights and dedications that Landlord deems reasonably necessary or desirable, and cause the recordation of parcel maps and restrictions, provided such easements, rights, dedications, maps and restrictions do not unreasonably interfere with, or adversely affect the use of, the Premises by Tenant. Tenant shall promptly sign any documents or instruments to accomplish the foregoing upon request by Landlord, and failure to do so shall constitute a material breach of this Lease. Tenant irrevocably appoints Landlord as Tenant's special attorney-in-fact to execute and deliver such documents or instruments on behalf of Tenant should Tenant refuse or fail to do so.

16.10 GOVERNING Law: This Lease shall be interpreted in accordance with the laws of the State of California.

16.11 INTEGRATION: This Lease contains all the agreements between Landlord and Tenant relative to this Lease and cannot be amended or modified except by a written document executed by Landlord and Tenant. This Lease shall be deemed

prepared by both parties, and the fact that one party actually drafted this Lease shall not affect the interpretation of any provision thereof.

16.12 PROVISIONS ARE COVENANTS AND CONDITIONS: All provisions, whether covenants or conditions, to be performed or observed by Landlord and Tenant shall be deemed to be both covenants and conditions.

16.13 PERSON AND GENDER: Whenever the singular number is used in this Lease, the same shall include, when appropriate, the plural; and each gender shall include, when appropriate, any other genders; and the word "person" shall include, in addition to a natural person, when appropriate, a corporation, firm, partnership, joint venture, trust, estate or other entity.

16.14 SEVERABILITY: If any provision of this Lease is held by a court to be unenforceable or invalid for any reason, the remaining provisions of this Lease shall be unaffected by such holding.

16.15 LIMITATIONS ON LANDLORD'S LIABILITY: If Landlord is in default under this Lease, and as a consequence, Tenant recovers a money judgment against Landlord, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levy against the right, title and interest of Landlord in the Project, and out of rent or other income from the Project receivable by Landlord or out of the consideration received by Landlord from the sale or other disposition of or any part of Landlord's right, title and interest in the Project, except for that portion of the judgment that specifically pertains to Landlord's (i) failure to timely pay taxes or insurance, (ii) failure to refund Tenant's security deposit, (iii) fraudulent, willful or intentional acts or misrepresentations, (iv) failure to apply insurance or condemnation proceeds as required by the Lease, and (v) failure to remit, to the persons entitled thereto, any funds paid by Tenant to Landlord for work or materials on the Premises. Except as specifically provided in this Section, neither Landlord nor the partners comprising Landlord (if any) shall be personally liable for any deficiency.

16.16 HEADINGS AND EXHIBITS: The Section and subsection headings of this Lease shall have no effect on its interpretation. Any exhibits referred to in this Lease are incorporated in it by reference.

16.17 PAYMENTS IN UNITED STATES CURRENCY: All payments to be made by Tenant to Landlord under this Lease shall be in United States currency.

16.18 TENANT'S FINANCIAL STATEMENTS: Within fifteen (15) days of written notice from Landlord, Tenant agrees to deliver to Landlord or any lender or buyer designated by Landlord, at no cost to Tenant, such financial statements of Tenant that have most recently been prepared, as may be reasonably required by Landlord, any lender or buyer. Such financial statements shall include the past three (3) years' financial statements of Tenant if requested in writing by Landlord. Such financial

statements shall be kept confidential and Landlord shall take all reasonable steps necessary to ensure such confidentiality.

16.19 NO OPTION: The submission of this Lease by Landlord, its agent or representative for examination or execution by Tenant does not constitute an option or offer to lease the Premises upon the terms and conditions contained in this Lease or reservation of the Premises in favor of Tenant, it being intended that this Lease shall only become effective upon the execution of the Lease by Landlord and Tenant and delivery of a fully executed Lease to both parties.

16.20 RECORDATION OF LEASE: Either Landlord or Tenant may, at its election, record a Memorandum of Lease and each party shall cooperate with the other in connection therewith.

16.21 NO VIOLATION OF OTHER AGREEMENTS: Tenant hereby warrants and represents that neither its execution of or performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound and, in addition to all other indemnity granted to Tenant in this Lease, Tenant agrees to indemnify Landlord against any loss, cost, damage or liability arising out of Tenant's breach of this Section 16.21.

16.22 PROJECT NAME CHANGE: Landlord reserves the right to change the name of the Project from time to time during the Term.

16.23 USE OF PROJECT NAME: Tenant shall not be allowed to use the name, picture or representation of the Project or words to that effect, in connection with any business carried on in the Premises or otherwise (except at Tenant's address) without the prior written consent of Landlord.

16.24 RESERVED AREA: Tenant hereby acknowledges and agrees that the exterior walls of the Premises and the area between the finished ceilings of the Premises and the slab of the floor of the Premises have not been demised by this Lease and the use thereof, together with the right to install, maintain, use, repair and replace pipes, ducts, conduits and wires leading through, over or above the Premises in locations which will not materially interfere with Tenant's use of the Premises and serving other parts of the Premises, are hereby excepted and reserved unto Landlord. Notwithstanding the foregoing, Tenant shall have the right, subject to Landlord's right of approval pursuant to Section 7.9 above, to make such Alterations as Tenant deems necessary or desirable to such areas above the finished ceilings and below the slab floor of the Premises.

SECTION 17
SPECIAL PROVISIONS

17.1 MOVING ALLOWANCE: Landlord shall pay to Tenant upon the Commencement Date and the occupation of the Premises by Tenant a moving allowance of Twenty-Five Thousand Two Hundred Fifty-Nine and no/100ths Dollars ($25,259.00) ($1.00 multiplied by Rentable Square Footage of 25,259 rentable square feet) for Tenant's moving costs ("Moving Allowance"), regardless of Tenant's actual moving costs.

17.2 WARRANTY OF LANDLORD: Landlord warrants that the roof, foundation, bearing and exterior walls, floor, subfloor and existing Tri-Water System, windows and seals, electrical and plumbing systems and equipment in the Building existing at the date of this Lease are in good condition as of the Commencement Date.

17.3 RIGHT OF FIRST REFUSAL FOR EXPANSION SPACE:

(a) During the first eighteen (18) months of the Term of the Lease, Tenant shall have a right of first refusal on unleased space on the third (3rd) floor of the Building. "Right of First Refusal" shall mean Landlord shall notify Tenant in writing of the rent and other terms and conditions of a lease prior to leasing space on the third floor to another tenant ("Notice of Space"). Tenant shall have five (5) business days after receipt of the Notice of Space to agree to lease the space pursuant to the terms and conditions set forth in the Notice of Space.

(b) During months 19-36 of the Term of the Lease, Tenant shall have a five (5) business day right of first negotiation to lease all remaining space on the third floor of the Building. The terms and conditions for Tenant to lease such space shall be negotiated between Landlord and Tenant upon Tenant's written notice of interest in negotiating a lease for space.

(c) In the event Tenant does not expand as set forth in subparagraphs (a) or (b) above, and such space is subsequently leased to a third party tenant, upon the third party's vacation of the space, Tenant shall then be entitled to a right of first negotiation when said space becomes vacant under the same terms and conditions outlined above in subparagraph (b).

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first hereinabove set forth.

Landlord: PACCOR PARTNERS, a California general partnership

By: PacCor Management Company
Its general partner

BY: [SIGNATURE ILLEGIBLE]
---
Its Vice President
---

Tenant: HNC, INC., a California corporation

BY: [SIGNATURE ILLEGIBLE]
---
Its President
---

Exhibit "C"

WORK LETTER

This Work Letter is an exhibit to the Lease between PacCor Partners, a California general partnership ("Landlord") and HNC, Inc., a California corporation ("Tenant") dated _____, with regard to the following:

1. CONDITION OF PREMISES AND BUILDING DELIVERED BY LANDLORD.

1.1 Premises Shell and Stub-in. Landlord shall provide, at its expense and not as a charge against the Tenant Improvement Allowance, a finished shell for the Premises and Building, which shall include: (a) smooth concrete floors; (b) unfinished ceilings in the Premises; (c) finished core area, including elevator(s), toilet room(s), electrical room, telephone room(s), janitorial closet(s) and exit stair(s); (d) dry wall (taped and/or finished, but not painted) around surfaces of core walls; (e) existing heating, ventilating and air conditioning service as set forth in Exhibit "F" to the Lease; (f) existing sprinkler service within the Building (not including main loops and branch distribution); (g) main electrical panel; (h) exercise room including existing exercise equipment, and (i) life safety systems as required by the applicable San Diego City Municipal Code for a building shell.

1.2 Building Standards. All improvements in the Building shall be in accordance with Building/Tenant Improvement Standards for Pacific Corporate Park ("Building Standards") attached as Exhibit D of the Lease. If provisions of this Work Letter conflict with provisions of the Building Standards, the provisions of the Work Letter shall prevail.

1.3 Building Plans. Landlord has delivered to Tenant its best available shell building plans and information ("Building Plans").

1.4 The Work. The installation and construction of the Tenant improvements by Landlord in accordance with the permitted and approved Construction Documents (defined in paragraph 2.4) and Change Orders (defined in paragraph 9) shall constitute the work ("Work").

2. PLANS AND DOCUMENTS.

2.1 Preliminary Space Plan. Tenant's Representative shall provide to Landlord a preliminary schematic drawing depicting the Premises with walls, doors, windows, columns and structural elements, based on site visits, other information obtained by Tenant or Tenant's Representatives, and the best available Building Plans supplied by Landlord ("Preliminary Space Plan"), in accordance with the schedule set forth in paragraph 6 of this Work Letter ("Schedule") for information only.

2.2 Final Space Plan. Tenant's Representative shall furnish to Landlord a final schematic drawing depicting the Premises with walls, doors, windows, columns and structural elements, based on site visits, other information obtained by Tenant or Tenant's Representatives, and the Building Plans ("Final Space Plan"), in accordance with the Schedule. Landlord shall review and approve the Final Space Plan with reasonable written conditions, if any, in accordance with the Schedule.

2.3 Construction Documents. Tenant shall cause to be prepared all documents required to obtain a building permit from the City of San Diego for the Work, including any corrections or changes requested by the City of San Diego ("Construction Documents") in accordance with the Schedule. The Construction Documents shall be consistent with the Final Space Plan, design plans, if any, and the Building Standards. Tenant shall submit Construction Documents including the list of bid alternates, if any, to Landlord in accordance with the Schedule. The Landlord shall review and approve with reasonable conditions, if any, in accordance with the Schedule. Tenant shall reasonably comply with

Landlord's conditions, if any, by modifying the Construction Documents prior to the issuance of building permits.

2.4 Design/Engineering Fees. Fees paid to BSHA Architects & Interior Design for preparation of the Preliminary Space Plan, the Final Space Plan, working drawings, and services for processing and obtaining building permits and Change Orders, and other services related to the Work not to exceed Forty Five Thousand Eight Hundred Seventy-Two Dollars ($45,872.00) ($2.00 times Usable Square Footage of 22,936 usable square feet) shall be part of the Tenant Improvement Allowance. All above mentioned fees exceeding $45,872.00 shall be paid by Tenant and not a part of the Tenant Improvement Allowance.

2.5 Landlord's Review of Plans and Documents. Landlord's review of plans during design and construction of Work is selective for the benefit of Landlord only. A Building Standard, provision in the Amended Planned Industrial Development Permit No. 85-0830 ("PID") or other similar document may only be amended, modified or waived as specifically set forth in writing by Landlord. Any provision of a PID and/or governmental requirement that is amended, modified or waived must be specifically approved by the appropriate government entity prior to final approval by the Landlord.

3. COST ESTIMATES.

3.1 Preliminary Cost Estimates. Landlord shall obtain preliminary cost estimates and deliver to Tenant for approval with conditions, if any, in accordance with the Schedule.

3.2 Final Cost Estimates. Landlord shall deliver to tenant Final Cost Estimates in accordance with the Schedule.

3.3 Contractors. Roel Construction shall be the general contractor ("Roel").

4. Building Permit. Tenant or Tenant's Representative shall submit to the City of San Diego all Construction Documents required to obtain building permits in accordance with the Schedule. The building permits shall be issued to the Landlord and all fees shall be paid by the Landlord as part of the Tenant improvement Allowance. Furthermore, Tenant, Tenant's Representative and Roel shall conduct all processing and coordination with the City of San Diego required for the issuance of building permits for the Work.

5. CONSTRUCTION CONTRACTS.

5.1 Tenant or Tenant's Representative shall prepare a bid package for distribution to the subcontractor(s) and submit to Landlord for review. Landlord shall approve the bid package with reasonable conditions, if any, in accordance with the Schedule.

5.2 Landlord shall prepare a contract for the Work with Roel and submit to Tenant for review in accordance with the Schedule. Tenant shall approve the contract with conditions, if any, in accordance with the Schedule.

5.3 Landlord shall execute a construction contract ("Construction Contract") with Roel. Landlord shall deliver to Tenant a copy of the Construction Contract in accordance with the Schedule.

6. SCHEDULE. Tenant and Landlord shall comply with the following Schedule.

SCHEDULE

| | ACTION | RESPONSIBILITY | DUE DATE |
|---|---|---|---|
| a) | Deliver to Tenant best available shell building plans & information | Landlord | Completed |
| b) | Deliver to Landlord for approval Preliminary Space Plan | Tenant | Completed |
| c) | Deliver to Tenant written notice approving Preliminary Space Plan or disapproving with detailed written comments | Landlord | Completed |
| d) | Deliver to Tenant preliminary cost estimate | Landlord | Completed |
| e) | Deliver to Landlord written approval of preliminary cost estimate with conditions, if any | Tenant | |
| f) | Select general contractor | Landlord/Tenant | Completed |
| g) | Deliver to Landlord for approval Final Space Plan | Tenant | 11/23/93 |
| h) | Deliver to Tenant written notice approving Final Space Plan with conditions, if any | Landlord | 11/24/93 |
| i) | Deliver to Landlord Construction Documents | Tenant | 12/1/93 |
| j) | Deliver to Tenant written approval of Construction Documents with conditions, if any | Landlord | 12/8/93 |
| k) | Submit Construction Documents to City of San Diego for permits | Tenant | 12/1/93 |
| l) | Prepare bid package and deliver to Landlord for approval | Tenant | 12/1/93 |
| m) | Deliver to Roel bid package as approved by Landlord | Landlord | 12/8/93 |
| n) | Deliver to Tenant Construction Contact, bids and recommended subcontractors in each line item of budget | Landlord | 12/15/93 |
| o) | Deliver to Landlord written approval with conditions, if any, of Construction Contract and bids in each line item of budget. | Tenant | 12/20/93 |
| p) | Execute Construction Contract. Deliver to Tenant copies of executed Construction Contract, final budget and construction schedule | Landlord | 12/23/93 |
| q) | Process and obtain City building permits | Tenant | 12/23/93 |
| r) | Commence construction of Work | Landlord | 1/3/94 |
| s) | Substantial Completion of Work | Landlord | 3/15/94 |

NOTE: The documents in the Schedule are deemed delivered when received in good condition by the following which may be changed upon written notice:

| | |
|---|---|
| To Tenant: | HNC, Inc.<br>5501 Oberlin Drive<br>San Diego, California 92121<br>Attn: Hugh D. Gerfin |
| To Tenant's Representative:<br>(Interior Designer) | Ms. Beverly Thompson<br>BSHA Architects & Interior Design<br>919 4th Avenue<br>San Diego, California 92101 |
| To Landlord | PacCor Partners<br>11939 Rancho Bernardo Road, Suite 200<br>San Diego, California 92128<br>Attn: Robert C. Henkel |
| To Landlord's Representative: | Mr. Gary Carter<br>PacCor Management Company<br>11939 Rancho Bernardo Road, Suite 200<br>San Diego, California 92128 |

7. Administration of Construction. Landlord shall administer the construction of the Work in accordance with the Work Letter, the Construction Contract and the Lease.

Landlord shall notify Tenant of all regularly scheduled construction meetings during the course of construction of the Work. Tenant shall have the right but not the obligation to attend all construction meetings.

8. PAYMENT OF TENANT IMPROVEMENT ALLOWANCE. Landlord shall make monthly progress payments to Roel of the Tenant Improvement Allowance pursuant to the following conditions and computations:

8.1 Landlord shall deliver to Tenant copies of Roel's approved monthly payment request ("Payment Request").

8.2 At such time as Landlord has expended the Tenant Improvement Allowance, Tenant shall reimburse Landlord for the entire remaining balance of the cost of the Work or the amount due under the Construction Contract, whichever is greater. After the Tenant Improvement Allowance has been expended, Tenant shall reimburse Landlord the amount of the Payment Request within fourteen (14) days of receipt of the Payment Request by Tenant.

9. CHANGE ORDERS.

9.1 Any deviation from the Construction Contract during the construction of the Work shall be via a change order from Landlord to Roel except for minor changes that are made by Roel which are within normal construction practices in the San Diego Area ("Change Order").

9.2 Either Tenant or Landlord may prepare and submit a Change Order to the other party for approval. The Change Order shall include the change in the contract price and the number of days of delay, if any, in Substantial Completion.

9.3 Within two (2) business days after receipt of a Change Order, a party shall give the other party notice of its approval or disapproval including the reason for disapproval. Tenant and Landlord agree to meet and confer within three (3) business days after receipt of the Change Order regarding any Change Order not approved. Tenant shall reimburse Landlord for outside consultants' fees for the review of a Change Order if (i) Landlord does not reasonably have the expertise among its employees to

properly review a specific Change Order, and (ii) Tenant consents to the retaining of an outside consultant.

9.4 Landlord and Tenant agree not to unreasonably disapprove a Change Order. Both parties agree to use reasonable effort to process a Change Order expeditiously. When a Change Order has been signed by Landlord, Roel and Tenant, the contents thereof shall be binding on all parties.

10. SPECIFIC LANDLORD CONCERNS RE CONSTRUCTION DOCUMENTS AND CHANGE ORDERS.

10.1 Landlord has identified below certain areas of intense concern which are most likely to generate condition(s) to approval by Landlord during Landlord's review of plans, drawings, specifications and a Change Order, and therefore may result in a disapproval or the necessity to retain outside consultants.

10.1.1 Any aspects of the Work that may endanger the structural integrity of the Premises, the Building and/or the Project;

10.1.2 Any aspects of the Work altering the Project utility services or utilities serving Landlord's other tenants;

10.1.3 Any aspect of the Work which is a material deviation from the Building Standards;

10.1.4 Any aspects of the Work which violate the conditions of the PID, any State or municipal code or public agency ordinance, or regulation and the applicable Declaration of Conditions, Covenants & Restrictions ("CC&R's).

10.1.5 Any aspects of the Work to the Premises which will be visually unattractive from the exterior of the Premises.

10.1.6 Penetration or modification of the Building roof or shell.

10.1.7 Reduction in the number of parking stalls in the Project.

10.1.8 Increase in rentable areas which may cause a reduction in buildable area available to Landlord with respect to future expansion of the Project.

11. TENANT'S VISIT TO PREMISES.

11.1 Upon execution of the Lease, Tenant shall have access to the Premises for the purpose of planning and design seven (7) days a week, twenty-four (24) hours a day, subject to all applicable codes, ordinances, law and governmental restrictions, except that Tenant shall not interrupt or interfere with the activities of Landlord or other tenants of the Project.

11.2 Tenant hereby indemnifies and agrees to hold Landlord, Landlord's Representatives and the Project free and harmless of any and all costs, claims, damages, liens, losses and expenses of any kind or nature, arising out of or resulting from such entry and/or activity upon the Project, Building or Premises by Tenant and Tenant's Representatives, except to the extent caused by Landlord's negligence or intentional misconduct.

11.3 All of Tenant's personal property brought upon or installed in the Premises before the delivery of possession shall be at Tenant's risk, and neither Landlord nor Landlord's Representatives shall be responsible for any damage, losses or destruction thereof, except for Landlord's willful misconduct. All Tenant's installations shall conform with all applicable governmental regulations and codes.

12. BONDS/GUARANTEE. Landlord may at its election require the contractors to provide for the benefit of Landlord from a company acceptable to Landlord a performance and completion bond to assure the completion of the Work and the payment of all labor and material costs.

13. INSURANCE. Landlord shall require contractors to maintain adequate insurance as a cost of Tenant Improvement Allowance.

14. LANDLORD'S FEE. No fee, charge, out-of-pocket costs, general conditions, overhead or profit shall be chargeable by Landlord to Tenant in connection with Landlord's supervision of Work, except as provided in Paragraph 9.3 above.

15. ARBITRATION OF DISPUTES. If either party disapproves any designs, plans and specifications submitted by the other party pursuant to this Work Letter, the disapproving party shall as soon thereafter as reasonably possible, submit for the issuing party's approval revised designs, plans and specifications. Within three (3) business days after receipt of such revised designs, plans and specifications, the issuing party shall notify the disapproving party of approval or disapproval of such revisions. If the issuing party disapproves such revised designs, plans and specifications, then the disapproving party may, at its election, notify the issuing party in writing of the submission of the dispute to arbitration pursuant to this paragraph. Such arbitration shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

16. DEFINED TERMS. All defined terms (capitalized words) shall have same meaning as in the Lease. "Business days" shall mean Monday through Friday, excluding all federal and state holidays.

ACCEPTED AND APPROVED:

PACCOR PARTNERS

By: PACCOR MANAGEMENT COMPANY
A general partner

By:
---
Its:
---

HNC, INC., a California corporation

By:
---
Its:
---

BUILDING/TENANT IMPROVEMENT STANDARDS
FOR
PACIFIC CORPORATE PARK

These Building/Tenant Improvement Standards consists of the following Sections:



EXHIBIT D

All defined terms in this Exhibit D shall have the same meaning as in the Lease.

I. GENERAL

A. Pacific Corporate Park is designed to be a highly successful office building center. It is expected that tenant improvements and signage may represent a variety of design styles. PacCor Partners ("Landlord") intends to provide Tenant with reasonable latitude with this aspect of design. At the same time, Landlord will discourage tenant improvements and signage design that would conflict significantly with the general design of the buildings. These matters are more fully addressed in section VI of these Building/Tenant Improvement Standards For Pacific Corporate Park ("Building Standards").

In providing the Building Standards, it is Landlord's intent to simplify the effort of Tenant in securing Landlord's approval of tenant improvements and/or alterations to be constructed by Tenant through a clear understanding of the responsibility of each party. The Building Standards are intended to aid Tenant in designing its improvements in a timely manner, with the least disruption to other tenants, Landlord, and Landlord's contractors and agents.

In the event of any conflict between the Building Standards, the Office Lease (the "Lease"), and the Work Letter, the provisions of the Lease and Work Letter will govern.

II. LANDLORD'S RESPONSIBILITIES

Landlord accepts the responsibility of providing assistance to Tenant, Tenant's architects, engineers and other consultants, and to Tenant's contractors, subcontractors and suppliers (collectively "Tenant's Contractors") to complete their work in the shortest time. To this end, Landlord may stringently enforce the provisions of the Building Standards and any other reasonable rules of conduct for design and construction.

B. Other responsibilities of Landlord are as follows:

1. Make available to Tenant and Tenant's Representatives a person designated by the Landlord to be responsible for providing information, review of Tenant's drawings, to have final approval authority for all submittals, and to resolve disputes between tenants.

2. Meet with Tenant and Tenant's Representatives in a preliminary meeting to clarify details of Tenant's tenant improvement process.

3. Provide Tenant and Tenant's Representatives with copies of Landlord's construction documentation reasonably required by Tenant to design Tenant's tenant improvements.

4. Define the improvements in the Premises provided by Landlord.

5. When necessary, refer Tenant and Tenant's Representatives to Landlord's engineering and design agents.

6. Review Tenant's submittals in accordance with the time periods set forth herein and specify any elements which are disapproved.

7. Use Landlord's best effort to ensure that Tenant's Work is not unreasonably affected by the work of other tenants or their agents.

III. TENANT'S RESPONSIBILITIES

A. "Tenant's Work" shall include all work in the Premises other than improvements provided by Landlord described in Section IV hereof.

B. Tenant shall review Landlord's construction documentation, inspect the Premises, and promptly indicate any deficiencies of work to be completed by Landlord.

C. Tenant and Tenant's Representatives are responsible for requesting additional documentation or clarifications from Landlord if they feel that construction documentation provided by Landlord is inadequate or incomplete.

D. Tenant shall be thoroughly familiar with all aspects of the Lease applicable to Tenant's Work and the contents of these Building Standards.

E. Tenant shall be aware of the improvements provided by Landlord ("Landlord's Work").

F. Tenant shall select qualified and professional persons to act as design consultants and as Tenant's Contractors.

G. Tenant shall ensure that Tenant's design consultants and Tenant's Contractors are familiar with and comply with the contents of these Building Standards, applicable provisions of the Lease, and all City, County, State, and other governmental ordinances, rule, regulations, and codes pertaining to Tenant's work.

H. Tenant shall insure that the contractors engaged by Tenant to perform Tenant's Work shall be bondable and licensed in the State of California. The selection of such firm(s) are in the discretion of Tenant, subject to the reasonable approval of Landlord. By approving Tenant's Contractors, Landlord assumes no liability for the work completed by, or other obligations of, Tenant's Contractors.

I. Tenant shall ensure the cooperation of Tenant's Representatives with Landlord and Landlord's agents and other Tenants and their agents while at Pacific Corporate Park.

J. Tenant shall ensure that all submittals and resubmittals of Tenant's plans and specifications are made properly and in accordance with the timetables set forth in Section VIII of these Building Standards. After Landlord's approval of Tenant's plans and specifications, such drawings shall become "Construction Documents".

K. Tenant shall ensure that Construction Documents are in a condition that reasonably illustrate the design intent to construct and maintain the Premises. Tenant shall, upon request, provide Landlord with a color board of finishes set forth in the Construction Documents.

L. Tenant shall obtain and transmit to Landlord prior to commencement of Tenant's Work copies of all permits with respect to Tenant's Work required by the City, County of San Diego, and/or any utility service.

M. If required by Landlord in its sole discretion, Tenant or Tenant's Contractors shall furnish a bond or other security in form satisfactory to Landlord covering the prompt and faithful performance of Tenant's Work in an amount equal to one hundred twenty-five percent (125%) of the cost thereof.

N. Tenant shall not allow the Premises to be occupied until Tenant's sprinkler system has been inspected, approved and put into operation, and Tenant has received a Certificate of Occupancy from the Building Department of the City of San Diego. Tenant shall deliver to Landlord the Original Certificate of Occupancy immediately upon receipt from the City of San Diego.

O. Tenant and Tenant's Contractors shall be responsible for the security of the Premises during the period of construction, including re-keying, if required, of Tenant's doors after completion of construction. Landlord shall have no liability for any loss or damage, including theft of building materials, equipment or supplies.

P. Tenant shall, within ten (10) working days after the completion of Tenant's Work, execute and file of record, or cause to be filed of record, a notice of completion with respect thereto in a form complying with the applicable provisions of the California Civil Code specifying the names of Tenant's Contractors and the location of the work done. Tenant shall furnish to Landlord a conformed copy thereof after recordation.

Q. Tenant shall ensure that Tenant's Contractors exercise caution in matters relating to public safety and to prevent damage to the Common Areas and other leased areas. Tenant shall be responsible for any damage or liability occurring by reason of the acts or omissions of Tenant's Contractors.

R. Tenant shall require that Tenant's Contractors and other Representatives cause all supplies, materials, equipment, or trash being delivered to or removed from the Premises across the Common Areas or within the elevators, which requires the use of dollies or hand trucks, to be transported on dollies or hand trucks with soft rubber tires.

IV. IMPROVEMENTS PROVIDED BY TENANT

A. The following is a complete description of Landlord's Work, which shall be performed at Landlord's expense. Landlord's Work shall be completed in accordance with Landlord's plans. Where two (2) or more types of materials or structures are indicated, the option of selection shall be with Landlord. Landlord shall at all times have the option, in its sole discretion, of replacing or changing materials or structures with comparable or like quality or kind without prior notice to Tenant. Landlord's Work shall be designed by Landlord's designers and consultants and shall include the installation of the following:

1. A structural floor designed to support a live load as set forth in the Lease and Work Letter. No load shall be imposed by the Tenant upon the Premises in excess of this limit.

2. Columns on the interior or on the periphery of the Premises are not necessarily encased.

3. Unfinished overhead consisting of structural, mechanical, plumbing and electrical elements as shown on Landlord's plans, subject to any field modifications reasonably authorized by Landlord.

4. Fire rated corridors and stairwells where required in Common Areas, but not including any areas within Tenant's Premises.

5. Walls along the exterior of the Building consisting of glazing and finished exterior materials, but with unfinished studs or appropriate channels on the interior.

6. Acoustical and thermal insulation as provided on Landlord's plans.

7. Other improvements as and to the extent described in the Design Criteria set forth in Section VI hereof as follows:

| | |
|---|---|
| Electrical | Paragraph D |
| Plumbing | Paragraph E |
| Mechanical | Paragraph F |
| Sprinklers | Paragraph G |

8. Tenant agrees that Tenant's acceptance of the Premises after completion of Landlord's Work shall constitute Tenant's approval of same, except for any deficiencies which Tenant has advised Landlord in writing within ten (10) business days of the time when Tenant accepts the Premises. Except as described in such notice, Tenant hereby waives any

right to claim or bring an action of any kind, direct or indirect, latent or patent, against Landlord arising out of the condition of the Premises, appurtenances thereto, the improvements therein or the equipment therein, and Landlord shall have no liability therefor. Notwithstanding the foregoing, Landlord shall warrant the Premises against defects in workmanship in connection with Landlord's Work for a period of one (1) year from the date of completion thereof. Tenant shall not refuse to accept delivery of the Premises as a result of a "punchlist," unless any such defect unreasonably precludes Tenant's Contractors from proceeding with Tenant's Work.

9. The work to be done by Landlord in satisfying its obligation to construct the Premises shall be limited only to those improvements described in this Section IV hereof unless agreed by Landlord in writing.

V. IMPROVEMENTS PROVIDED BY LANDLORD

A. All items of construction other than described in Section IV shall be performed diligently by Tenant, at Tenant's expense, in a workmanlike manner and in accordance with Tenant's Construction Documents. Tenant's Work will include, but not be limited to, the installation and performance of the following:

1. Any modifications, approved in writing by Landlord, to the interior of the Premises as shown on Landlord's plans.

2. Drywall and taping of the interior side of walls demising the Premises and the interior side of exterior walls of the Premises.

3. Partitions and walls within the Premises.

4. All ceilings.

5. All interior painting, wallpaper and other finishes.

6. All floor coverings and floor finishes, preparations of surfaces to receive same, special reinforcing and floating of any irregularities or depressions in the concrete floor.

7. Office fixtures and furnishings.

8. Stairways and elevators within the Premises, dumb waiters, chutes, conveyers, pneumatic tubes and their shafts, doors, and other components, including required electrical hookups for such equipment and the cost of any engineering and structural changes resulting from penetrations of the slab.

9. Signs and related attachments. The method of attachment including structural calculations, if required, shall be provided to Landlord prior to construction of any such appendages.

10. Electrical work and equipment, including wiring from the meter room to the Premises in conduit provided by Tenant, required transformers, and lighting and time clocks. Electrical requirements are more particularly described in Section VI.

11. Telephone service and equipment, telephone conduit, cabinets, and outlets within the Premises, including wiring conduit from the terminal board provided by Landlord to the Premises.

12. Internal communications, security, fire and smoke detection, and alarm systems.

13. Any plumbing fixtures and accessories, toilets, water heaters, water treatment systems and drinking fountains, together with plumbing thereto, connected to services stubbed to the Premises as shown in Landlord's plans. Plumbing requirements are more particularly described in Section VI.

14. All heating, cooling, ventilating equipment, ducting, condensate lines, and hookups within the Premises. Mechanical requirements are more particularly described in Section VI.

15. All additions and modifications to, and relocation of, the fire sprinkler system installed by Landlord pursuant to Landlord's plans. Sprinkler requirements are more particularly described in Section VI.

16. Any engineering costs incurred by Landlord for review of structural changes proposed by Tenant shall be paid according to the Lease and Work Letter. Tenant shall not notch, core, cut or otherwise modify the structure of the Building without Landlord's written approval.

VI. DESIGN CRITERIA

A. Architectural Criteria:

1. Tenant's Work must be designed and constructed by Tenant's architect and Tenant's Contractors to meet all applicable City, County, State and other governmental ordinances, rules, regulations and codes, and be constructed to the highest standards of quality consistent with the Common Areas of the Premises. Landlord's approval of Tenant's Construction Documents shall not be deemed a certification by Landlord or Landlord's Representatives that Tenant's Construction Documents comply with building codes or other governmental requirements.

2. Tenant shall retain, at Tenant's expense, Tenant's architect, along with other consultants for the design of Tenant's Construction Documents Tenant's Construction Documents shall include interior design, signage, electrical, plumbing, mechanical and sprinkler systems. The design firm of Howard-Sneed Interior Architecture ("Tenant's Architect") is approved by Landlord.

3. Tenant's Architect will be provided with a copy of those portions of Landlord's plans reasonably required to complete the Construction Documents. Tenant's Architect shall be responsible for verifying Building drawings and specifications for the Premises delivered to Tenant by Landlord.

B. Interior Improvement Criteria:

1. Landlord shall provide a building shell in accordance with Landlord's plans. Construction shall generally be type V, 1 hr. rated (sprinklered in lieu of 1 hr. protection) for B2 occupancies. All structural columns and beams within the Premise are exposed and will not be protected.

2. Tenant shall install at least 2 1/2" X 25 GA (min.) metal studs @ 16" o.c. w/5/8", type X drywall each side, continuous from floor slab to the structure above on Tenant's side of each demising wall. Drywall will be fire-taped, spackled, and sealed air tight in order to achieve a one (1) hour rating of the demising wall. Demising walls between Tenant spaces must be finished with orange peel medium wall texture, R.11 batt insulation in cavities and 1 hr. rated w/STC.50.

3. Tenant shall not penetrate the drywall which encloses any fire corridor or exit stairwell without the prior written approval of Landlord. Any penetrations shall maintain the fire rating of the corridor or stairwell.

4. Tenant's Architect shall indicate on Tenant's Construction Documents, referencing Building grid lines and the structural supporting members, the precise location, size, and weight of all safes, Tri-Water System equipment, and other heavy fixtures or equipment. Any required structural changes to accommodate such equipment or loading, including slab, other structural penetrations, or the reinforcing of the Building structure, must have the prior review and approval of the Landlord, Landlord's designer and/or Landlord's structural engineer, with the cost of such review to be paid according to the Lease and Work Letter. Tenant shall contract directly with Landlord's consultant for such review and be solely responsible for paying the cost of same.

5. The studs provided by Landlord for demising walls or corridors are not designed to accommodate cantilevered or eccentric loads. For such loads, Tenant shall reinforce the wall as required by inserting additional studs or by other appropriate means. Tenant's Construction Documents shall include details of any such reinforcement.

6. Any interior stairwells and/or elevators shall require the prior review and approval of Landlord, Landlord's designer and/or structural engineer. Tenant shall contract directly with Landlord's consultant for such review, with all costs paid as set forth in the Lease and the Work Letter.

7. If Tenant's Construction Documents include Tri-Water Systems ducts which penetrate through any floor level, such ducts must be enclosed in properly rated shafts and incorporate appropriate fire-dampers.

8. Any roof top penetrations will be sealed by Landlord's roofing contractor. Tenant shall contract directly with Landlord's roofing contractor for such work and pay the reasonable cost of same.

9. Interior finishes within the Premises will be appropriate for the type and quality of Tenant's operation.

10. Tenant shall install proprietary materials, products or assemblies denoted by an asterisk (*) in section IX of the Building Standards.

C. Signage Criteria:

Tenant shall provide submittals or shop drawings of Tenant's proposed exterior signage for Landlord's review and approval, subject to the Lease and Exhibit L. Tenant shall not proceed with the fabrication or installation of signage without the prior written approval by Landlord of Tenant's final sign plans, which approval shall not be unreasonably withheld.

D. Electrical Criteria:

Prior to the preparation of Tenant's electrical plans and specifications for the Premises. Tenant's electrical engineer shall thoroughly familiarize himself with these Building Standards, Landlord's plans, applicable local building codes, and existing job conditions. Tenant's electrical plans shall be prepared in full knowledge of and in compliance with these Building Standards, and all City, County, State and other governmental ordinances, rules, regulations, and codes relating thereto including, without limitation, the Energy Conservation Requirements of Title 24 of the California Administrative Codes ("Title 24"). Tenant's electrical engineer shall be licensed in the State of California and qualified to

prepare Tenant's electrical plans. Electrical plans prepared by other than a duly licensed electrical engineer will not be accepted by Landlord for review.

2. Tenant's electrical engineer shall verify that the electrical service available to the Premises is adequate to satisfy Tenant's requirements.

3. All Tenant's Work must be designed in order to comply with Title 24, and include the required signed statement of Title 24 design compliance written on Tenant's electrical plans.

4. Landlord shall provide facilities for the delivery of 120/208 volt 3 phase power from a central distribution point located within the main electric room designated on Landlord's plans (the "Electric Room").

5. Tenant shall extend service by feeder wires and conduits provided by Tenant to Tenant's Premises from the main electrical switch located in the Electric Room. All work by Tenant's electrical subcontractor in the Electric Room shall be performed under the supervision of Landlord or Landlord's Representatives.

6. Except for that portion of electrical work installed by Landlord as set forth in the Work Letter, Tenant shall install all electrical work necessary for the electrical distribution system within the Premises including, without limitation, the main electric disconnect switch, transformers, electrical panels, other disconnect switches, conduit, wire, light fixtures, controls, timers and time clocks, smoke detectors, alarms, and security systems. Tenant, at its expense, shall arrange and pay for electrical service and meters provided by the local electric utility company.

7. Temporary electrical facilities for construction power will not be available from Landlord. Tenant's electrical contractor must provide temporary facilities from Tenant's panel and make application for electrical service to the local utility company for construction power. This should be the first item accomplished within the Premises by Tenant. Landlord shall pay for utilities as provided in the Lease and Work Letter.

8. Transformers shall be floor supported and not suspended from the structure. Noise level should be a maximum of 50 dB average, measured a distance of one (1) foot from the case.

9. Tenant shall connect Tenant's telephone and communications service by feeder wires and conduit as required to access Tenant's telephone backboard within the Premises.

10. Tenant's electrical plans shall be submitted to Landlord as a part of the Tenant's Construction Documents Submittal (Section VIII below). Tenant's electrical plans shall include the following:

    a. Electrical floor plan at 1/8" scale or larger.

    b. Reflected ceiling plan showing all elements of the proposed design including lighting at 1/8" scale or larger.

    c. Electrical riser diagram which shall include, without limitation, the size of the main service switch, fuse size at main service switch, and wire size and type from main service switch.

    d. Electrical panel schedule, including circuit breaker sizes and all connected loads.

e. Lighting fixture schedule which shall include type of lamps, mounting, wattages, quantities, and manufacturers catalog number. Submittals shall also include catalog cuts of all light fixtures proposed for use by Tenant.

f. Interior elevations and details sufficient for review of Tenant's electrical system.

g. Tri-Water System control diagrams and schematics, as required by the Mechanical Criteria (Section VI.F below).

h. Electrical load summary which shall include all connected and demand load calculations.

i. Equipment and material specifications.

j. Completed "Form 5" and "Form 7" with required calculations as required by Title 24.

11. Landlord shall review Tenant's electrical plans in accordance with the Tenant's Construction Documents Submittal for conformance with the provisions hereof. Where Tenant's electrical plans conflict with these Building Standards, the provisions of these Building Standards shall prevail. Landlord's approval shall not be deemed to certify that Tenant's electrical plans comply with building codes or other governmental requirements and shall not relieve Tenant and Tenant's Representatives of the responsibility to verify all job conditions including, without limitation, dimensions, locations and clearances. Tenant is responsible to obtain all necessary permits for the installation of Tenant's temporary power and other electrical work.

12. Landlord shall notify Tenant in writing whether Tenant's electrical plans are approved or rejected by Landlord for specified deficiencies. Tenant's electrical engineer shall make all corrections to bring Tenant's electrical plans into compliance and resubmit in accordance with the requirements of the Tenant's Construction Documents Submittal.

E. Plumbing Criteria:

1. Prior to the preparation of Tenant's plumbing plans and specifications for the Premises, Tenant's plumbing engineer shall thoroughly familiarize himself with these Building Standards, Landlord's plans, all applicable local building codes, and existing job conditions. Tenant's plumbing plans shall be prepared in full knowledge of and in compliance with these Building Standards, and all City, County, State and other governmental ordinances, rules, regulations and codes relating thereto including, without limitation, requirements of Title 24. Tenant's plumbing engineer shall be licensed in the State of California and qualified to prepare Tenant's plumbing plans. Plumbing plans prepared by other than a duly licensed plumbing engineer will not be accepted by Landlord for review.

2. Landlord shall provide piping laterals for domestic waste, sewer and venting stubbed to locations at each floor, or below the Premises in the case of sewer service, in sizes shown on Landlord's plans.

3. Tenant's plumbing engineer shall verify that the plumbing and related services available to the Premises are adequate to satisfy Tenant's requirements.

4. Tenant shall connect to and extend all piping as may be necessary for Tenant's Work from the stub-ins provided by Landlord.

5. Tenant may provide equipment for the heating of domestic water. Water heaters may either by electric or an instant heat variety. Electric hot water heaters shall sit in metal drain pans connected to an overflow drain source and have a pressure temperature relief valve discharging into a code approved point of disposal. All hot water heaters must conform with Title 24.

6. Plumbing fixtures and fittings shall be of commercial quality.

7. Tenant shall ensure that all slab penetrations within the Premises are properly sealed and remain water-tight to prevent possible damage from leakage. Tenant shall exercise caution during all core drilling activities to prevent damage caused by leakage and falling debris. Any damage resulting from core drilling by Tenant's Contractors shall be at the sole risk and expense of the Tenant.

8. Tenant's plumbing subcontractor shall flush and chlorinate all domestic water piping within the Premises and provide a copy of the Test Certification before connecting to Landlord's domestic water system.

9. Tenant's plumbing plans shall be submitted to Landlord as a part of the Tenant's Construction Documents Submittal. Tenant's plumbing plans shall include the following:

   a. Floor plan at 1/8" scale or larger that shows all fixtures and piping and all connections to Landlord's utility systems.

   b. Schematic diagram of water service.

   c. Schematic diagram of sanitary service.

   d. Schematic diagram of condensate and water heater relief valve and drip pan drains.

   e. Schematic diagram of gas service, if applicable.

   f. Details of floor drains, clean-outs, fixtures and other plumbing sufficient for construction of Tenant's Work.

   g. Material and fixture specifications.

10. Landlord shall review Tenant's plumbing plans in accordance with the Tenant's Construction Documents Submittal for conformance with the provisions hereof. Where Tenant's plumbing plans conflict with these Building Standards, the provisions of these Building Standards shall prevail. Landlord's approval shall not be deemed to certify that Tenant's plumbing plans comply with building codes or other governmental requirements and shall not relieve Tenant and Tenant's Representatives of the responsibility to verify all job conditions including, without limitation, dimensions, locations and clearances. Tenant is responsible to obtain all necessary permits for the installation of Tenant's plumbing work.

11. Tenant's Contractors shall pressure test any piping systems prior to connection to the system installed by Landlord for the Building.

12. Landlord shall notify Tenant in writing whether Tenant's plumbing plans are, approved or rejected by Landlord for specified deficiencies. Tenant's plumbing engineer shall make all corrections to bring Tenant's plumbing plans into compliance and resubmit in accordance with the requirements of the Tenant's Construction Documents Submittal.

F. Mechanical Criteria:

1. Prior to the preparation of Tenant's mechanical plans and specifications for the Premises, Tenant's mechanical engineer shall thoroughly familiarize himself with these Building Standards, Landlord's plans, all applicable local building codes, and existing job conditions. Tenant's mechanical plans shall be prepared in full knowledge of and in compliance with these Building Standards, and all City, County, State and other governmental ordinances, rules, regulations and codes relating thereto including, without limitation, requirements of Title 24. Tenant's mechanical engineer shall be licensed in the State of California and qualified to prepare Tenant's mechanical plans. Mechanical plans prepared by other than a duly licensed mechanical engineer will not be accepted by Landlord for review.

2. Landlord will provide a two pipe water loop system for connection to the Tenant's water source heat pump(s). Tenant's mechanical engineer will design the Tri-Water System for the Premises based upon the system installed by Landlord for the Building. Tenant may install an auxiliary system as set forth in the Lease and Work Letter.

3. Tenant's mechanical engineer shall verify that the mechanical services available to the Premises are adequate to satisfy Tenant's requirements. Tenant may install an auxiliary system as set forth in the Lease and Work Letter.

4. Tenant shall not install any mechanical equipment which does not have a recognized service vendor in the San Diego area capable of rendering service and repairs upon a four (4) hour notice during working hours.

5. All of Tenant's Tri-Water Systems shall be located within Tenant's Premises except an auxiliary system may be installed on the roof, subject to Landlord's approval. Tenant's Tri-Water System equipment, when supported from above, must be supported from the structural steel of the floor or roof above, with appropriate acoustical attenuation, rather than the deck. Support locations and methods shall be subject to the review of the Landlord's structural engineer.

6. Tenant's Tri-Water Systems must be connected to Tenant's smoke detector in order to shut down the Tri-Water System upon an appropriate signal from the smoke detectors, if required by code.

7. Street metal duct work shall meet the thickness and installation standards of SMACNA and should have smooth interiors with all seams, braces, stiffeners, and hangers on the outside of the duct work. Seismic bracing is to be provided per code and SMACNA standards. Flexible duct connectors should be double neoprene coated, 30 oz. glass fabric flexible connectors and should be properly connected to 24 gauge metal fitted on the duct connections at fan or at inlets and outlets. Dampers should be manually operated, opposed blade, and constructed of 24 gauge steel with locking quadrants.

8. Condensate drain piping not exceeding 3/4" in diameter may be piped into the tail piece of Tenant's toilet room lavatory. Piping of any larger diameter shall be connected directly into the sewer system by method approved by Landlord or Landlord's architect. Copper condensate lines should be insulated to avoid line sweating.

9. Access through Tenant's ceiling for service and inspection of the mechanical equipment must be provided, Access may be through factory access panels or removable ceiling tiles.

10. Tenant's mechanical plans shall be submitted to Landlord as a part of the Tenant's Construction Documents Submittal. Tenant's mechanical plans shall include the following:

    a. Air distribution duct work at 1/8" scale or larger.

    b. Equipment schedule with specification.

    c. Water piping showing valves and connection points.

    d. Control wiring, including connections to work provided Landlord.

    e. All connection details.

    f. Three (3) copies of Tenant's Tri-Water System design calculations.

    g. Three (3) copies of the necessary calculations and "Form 4" and "Form 6" as required by Title 24.

11. Landlord shall review Tenant's mechanical plans in accordance with the Tenant's Construction Documents Submittal for conformance with the provisions hereof. Where Tenant's mechanical plans conflict with these Building Standards, the provisions of these Building Standards shall prevail. Landlord's approval shall not be deemed to certify that Tenant's mechanical plans comply with building codes or other governmental requirements and shall not relieve Tenant and Tenant's Representatives of the responsibility to verify all job conditions including, without limitation, dimensions, locations and clearances. Tenant is responsible to obtain all necessary permits for the installation of Tenant's mechanical work.

12. Landlord shall notify Tenant in writing whether Tenant's mechanical plans are approved or rejected by Landlord for specified deficiencies. Tenant's mechanical engineer shall make all corrections to bring Tenant's mechanical plans into compliance and resubmit in accordance with the requirements of the Tenant's Construction Documents Submittal.

G. Sprinkler Criteria

1. Prior to the preparation of Tenant's sprinkler plans and specifications for the Premises, Tenant's sprinkler designer shall thoroughly familiarize himself with these Building Standards, Landlord's plans, all applicable local building codes, and existing job conditions. Tenant's sprinkler plans shall be prepared in full knowledge of and in compliance with these Building Standards, and all City, County, State and other governmental ordinances, rules, regulations and codes relating thereto. Tenant's sprinkler designer shall be licensed in the State of California and qualified to prepare Tenant's sprinkler plans. Sprinkler plans prepared by other than a duly licensed sprinkler designer will not be accepted by Landlord for review.

2. Tenant's sprinkler designer shall verify that the sprinkler system available to the Premises is adequate to satisfy Tenant's requirements.

3. Tenant's sprinkler plans and the system installed by Tenant's Contractors shall be acceptable to the Fire Marshall and the Fire Insurance Underwriters having jurisdiction in the City of San Diego.

4. Landlord will provide a shell sprinkler system with laterals in the Premises as set forth in Landlord's plans.

5. All sprinkler fire protection systems installed by Tenant's Contractors shall be listed as approved by the Underwriters' Laboratories, Inc., or approved by other appropriate nationally recognized testing laboratories, and of the latest design of the manufacturer.

6. All sprinkler heads are to be semi-recessed, chrome finish.

7. All sprinkler piping installed by Tenant's Contractors shall be free of rust.

8. Landlord shall review Tenant's sprinkler plans in accordance with the Tenant's Construction Documents Submittal for conformance with the provisions hereof. Where Tenant's sprinkler plans conflict with these Building Standards, the provisions of these Building Standards shall prevail. Landlord's approval shall not be deemed to certify that Tenant's sprinkler plans comply with building codes or other governmental requirements and shall not relieve Tenant and Tenant's Representatives of the responsibility to verify all job conditions including, without limitation, dimensions, locations and clearances. Tenant is responsible to obtain all necessary permits for the installation of Tenant's sprinkler work.

9. Landlord shall notify Tenant in writing whether Tenant's sprinkler plans are approved or rejected by Landlord for specified deficiencies. Tenant's sprinkler designer shall make all corrections to bring Tenant's sprinkler plans into compliance and resubmit in accordance with the requirements of the Tenant's Construction Documents Submittal.

10. In constructing or repairing the fire sprinkler system for the Premises, Tenant shall coordinate with Landlord when testing or draining the system for modifications. Tenant's Contractors shall be responsible to make any adjustments as required to secure all necessary approvals.

VII. CONSTRUCTION REGULATIONS

A. Tenant shall provide Landlord with copies of Tenant's construction contracts prior to the commencement of Tenant's Work. Landlord's review of Tenant's contracts in no way implies Landlord's approval of such contracts, Tenant's Construction Documents, or that the contracts properly reflect the requirements of these Building Standards.

B. Tenant's Contractors shall construct Tenant's Work in accordance with Tenant's Construction Documents which have been approved by Landlord and must comply with all City, County, State and governmental ordinances, rule, regulations and codes relating thereto. If the Premises have not been constructed in accordance with approved Tenant's Construction Documents, Landlord may refuse to permit Tenant to open the Premises for business until the Premises do so comply, but Tenant shall not be excused from the performance of all other obligations of Tenant under the Lease.

C. Tenant's Contractors shall construct the Premises in accordance with Tenant's Construction Documents as soon as practically possible, at Tenant's expense. Tenant and Tenant's Contractors agree to pursue Tenant's Work diligently to completion.

D. All work performed by Tenant or Tenant's Contractors shall be performed in a manner so as to avoid any labor dispute which results or could result in a stoppage or impairment of work, deliveries, or any other services in the Project. If there shall be any such stoppage or impairment or threat thereof as a result of any such labor dispute, Tenant shall immediately undertake such action as may be necessary to eliminate such dispute or potential dispute, including any of the following:

1. Remove all disputants from the job site until such time as the labor dispute no longer exists;

2. Seek an injunction in the event of a breach of contract between Tenant and Tenant's Contractors; and

3. File appropriate unfair labor practice charges in the event of a union jurisdictional dispute.

E. Prior to the commencement of construction, Tenant's Contractors shall thoroughly familiarize themselves with all job conditions and the requirements outlined in these Building Standards.

F. Upon approval of Tenant's Construction Documents and permit application for the Premises by the applicable governmental agency, Tenant or Tenant's Contractors shall promptly pick up the building permit from said agency. Tenant will pay for the plan check and building permit fees required on the permit application and any other fees required in connection therewith. If required, Tenant shall apply for and obtain all approvals and permits from the County of San Diego Health Department and any other governmental agencies. Tenant shall provide Landlord a copy of Tenant's building permit and the Building Department approved set of Tenant's Construction Documents prior to first inspection.

G. Prior to entering the Project or starting construction, Tenant's Contractors must provide Landlord with the following:

1. A copy of Tenant's building permit and the Building Department approved set of Tenant's Construction Documents.

2. A complete list with phone numbers of key personnel of Tenant's Contractors.

3. A certificate of insurance evidencing the required insurance coverage.

4. A construction schedule showing the work schedule, critical path activities, and anticipated completion of Tenant's Work, which schedule shall be subject to Landlord's approval.

5. A copy of acknowledgments executed by Tenant's Contractors of an understanding or an agreement to comply with the requirements of these Building Standards.

6. A copy of Tenant's building permit ten (10) days after starting construction.

H. Tenant's Contractors shall not deviate from approved Tenant's Construction Documents without obtaining prior written permission from Tenant, Landlord, the City Building Department, and other governmental agencies having jurisdiction to approve same.

I. Tenant's Work shall be performed in a thorough, first class, and workmanlike manner and shall be in good and usable condition at the date of completion thereof.

J. Tenant's Contractors are responsible for scheduling inspections by the City of San Diego Building Department and other inspectors as required to comply with their requirements and all codes and regulations. A copy of all inspection reports shall be submitted available to Landlord at the Premises. In the event Tenant's Contractors are notified of violations of codes by any appropriate governmental authority or Landlord, Tenant's Contractors shall correct such violations within seven (7) calendar days from such date of notification.

K. Tenant's construction shall maintain a full-time superintendent or representative on site at all times when construction is being performed in the Premises.

L. Tenant's Contractors shall observe the following limitations in the conduct of Tenant's Work:

1. No suspended loads will be attached to the underside of the floor or roof structure, with the exception of normal suspended ceiling, mechanical equipment, plumbing, electrical and telephone conduit, and light fixtures, without Landlord's prior written approval.

2. No load shall be imposed upon any floor areas of the Premises in excess of the design life as set forth in the Lease and Work Letter.

M. Tenant's Work shall be coordinated with all other work being performed or to be performed by Landlord and other tenants of the Project to such extent that Tenant's Work will not interfere with, or delay the completion of any other work. Tenant's Contractors shall not damage, injure, interfere with, or delay the completion of any other construction within the Building. Tenant's Contractors shall comply with all procedures and regulations prescribed by Landlord for the integration of Tenant's Work with the work to be performed by Landlord and Landlord's Contractor in connection with the construction. Common Areas and the exterior of the Building must be kept clear of Tenant's and Tenant's Contractors' equipment, merchandise, fixtures, refuse and trash at all times. Any mechanical, electrical or plumbing items which need to be routed outside the Premises must have the written approval of Landlord and any tenant whose space the item will pass through.

N. Tenant's Contractors shall be responsible for the repair and replacements of any damage caused by Tenant's Contractors to any other contractor's work in any area of the Building, including cleanup after such corrective work. Tenant's Contractors shall be required to maintain continuous protection of adjacent premises in such a manner as to prevent any damage to such adjacent property and the improvements thereon. Tenant's Contractors shall promptly pay for the repair of any such property or improvements so damaged to restore it to its pre-damaged condition.

O. Before work commences, Tenant's Contractors shall be required to properly protect the Premises and Tenant's Work with lights, guard rails and barricades, and to secure Tenant's Work against accident, malicious mischief and theft.

P. Tenant's Contractors shall not use any space outside of the Premises and within or on adjacent sidewalks, parking lot in front of building or side of building facing the street for storage, handling or moving of materials and equipment, or for the location of any field office or facilities required for construction personnel without the prior written authorization of Landlord.

Q. Tenant's Contractors shall remove and dispose of all debris and rubbish caused by or resulting from Tenant's Work on a daily basis. Trash receptacles or carts will be allowed to be stored in the Common Areas as mutually agreed by the parties. Upon completion of Tenant's Work, Tenant's Contractors shall remove all temporary structures, surplus materials, debris and rubbish remaining with the Building which has been brought in or created as a result of Tenant's Work. If Tenant's Contractors shall neglect, refuse or fail to remove any temporary structures, surplus materials, debris and rubbish within twenty-four (24) hours after notice to Tenant from Landlord, Landlord may remove or cause same to be removed, and Tenant shall bear the cost of removal and hold Landlord harmless therefrom.

R. Tenant shall require that Tenant's Contractors and other agents cause all supplies, merchandise, materials, equipment or trash being delivered to or removed from the Premises across the Common Areas or within the elevators, which requires the use of dollies or hand trucks, to be transported on dollies or hand trucks with soft rubber tires.

S. Tenant and Tenant's Contractors shall comply with all applicable safety related laws, codes, rules and regulations governing the performance of Tenant's Work including all applicable safety regulations established by Landlord or Landlord's contractor. Tenant's Contractors shall take all necessary precautions to safeguard all workmen and the public from accident and to preserve all private and public property.

T. Tenant's Contractors shall be allowed to post signs on any part of the Premises in a reasonable manner in conformance with applicable restrictions.

U. Tenant's Contractors shall provide a fire watch whenever any welding is done in the Premises. The person performing the fire watch must remain within the Premises for at least one (1) hour after the completion of any welding.

V. All roof penetrations required by Tenant must be made by an agreed upon roofing contractor at Tenant's expense. Such penetration shall be subject to Landlord's approval as to construction details, size, configuration, location and support.

W. Tenant's Contractors shall obtain approval from Landlord prior to penetrating any floor slab. Landlord's approval shall not relieve Tenant from responsibility for damage to Landlord's Work and/or any other tenant's work because of penetration by Tenant.

X. In addition to the requirements of the Lease, and without any limitation thereof, Tenant's Contractors shall (i) comply with all governmental rules and regulations including applicable OSHA standards and (ii) carry worker's compensation and public liability insurance (including property damage), with limits, in form and issued by insurance companies approved in advance by Landlord. Landlord, Tenant, Tenant's Contractor and/or subcontractors procuring the insurance shall be named insured (or named as additional insured) in each policy of said liability insurance, which policy shall have a cross-liability endorsement or its equivalent. Certificates evidencing the foregoing insurance shall be delivered to Landlord before any work is commenced by Tenant's Contractors and before any equipment and/or materials are moved into the Building.

Y. Tenant's Contractors shall guarantee that portion of Tenant's Work for which they are responsible against any defects in workmanship and materials for a period of not less than one (1) year after the date of completion of Tenant's Work. This guarantee shall include, without limitation, all expenses and costs incurred in the repair or replacement of the structure of the Building or the Common Areas should the Building or Common Areas be damaged or affected by the defective work, or by the repair or replacement of such defective work. All such warranties or guarantees as to materials or workmanship with respect to Tenant's Work shall be contained in a written agreement between Tenant and Tenant's Contractors. Tenant shall require Tenant's Contractors to include such guarantees in each subcontract, and all such guarantees shall be so written so that same shall inure to the benefit of both Tenant and Landlord, as their respective interests may appear, and so that same may be directly enforced by Tenant or Landlord. Tenant shall provide Landlord with an assignment or other assurance necessary to perfect Landlord's right to enforce any such guarantee.

AA. Tenant shall be required to settle and/or bond against any mechanic's or materialman's liens, or other similar liens, filed against the Building as a result of Tenant's Work in accordance with the provisions relating to such liens in the Lease and the Work Letter. Except to the extent caused by the Landlord's negligence or wrongful failure to make payments required under this Lease or the Work Letter, Tenant shall reimburse Landlord in full and indemnify, defend, and hold Landlord harmless from and against any liability, cost or expense incurred by Landlord in connection with any such lien.

BB. Tenant's Contractors shall keep the exterior Common Areas in an absolutely clean and neat condition at all times. If Tenant's Contractors violate this regulation on more than one (1) occasion, or fail to immediately cure such default, Landlord may prohibit Tenant's Contractors from entering the Building.

CC. Tenant's Contractors shall use restrooms only for personal functions. Cleaning of tools or painting equipment will not be allowed. Any utility sinks will contain water supply, but may not be used for tool or painting equipment cleaning or other construction work,

DD. Tenant's Contractors shall provide Landlord with a key for access to the Premises during construction for use in the case of emergencies, and permit the construction of service lines by other tenants, which service lines have been approved by Tenant.

## VIII. TENANT'S CONSTRUCTION DOCUMENT SUBMITTAL

A. Tenant's preliminary plans and specifications:

1. Tenant shall submit to Landlord for Landlord's approval three (3) sets of preliminary drawings of Tenant's improvements prepared by Tenant's Architect, which drawings shall indicate Tenant's proposed improvements including, without limitation, floor plans (scale 1/8" = 1'0") describing in reasonable detail the layout of the interior partitions, signage, materials to be used, and indicating the proposed use of each enclosed area.

B. Tenant's Construction Documents:

1. After Landlord's approval of Tenant's preliminary design drawings, and subject to Tenant's field measurement of the Premises, Tenant shall, at Tenant's expense, submit to Landlord for approval three (3) sets of plans and one (1) set of reproducible plans of Tenant's Construction Documents prepared by Tenant's Architect describing the improvements to be completed in the Premises including, without limitation, floor plans (scale 1/8"-1'0"); elevations, interior partitions; trade fixtures; reflected ceiling plan, including ceiling height(s); location, size and details of signage; areas of unusual floor loading; specifications of all mechanical, plumbing, electrical, telephone, security and sprinkler systems, including the details of the hookup of these systems to Landlord's Work; and all other improvements to be performed by Tenant as a part of Tenant's Work. Details shall be included as required by Section VI of these Building Standards for each component addressed therein.

2. Construction of the improvements specified on Tenant's Construction Documents shall not commence until Tenant's Construction Documents have been approved by Landlord in writing.

3. If Tenant's Construction Documents are in conflict with terms and conditions of these Building Standards, the Building Standards shall control. If Landlord approves Tenant's Construction Documents and there is a conflict between the Building Standards and the Construction Documents as approved, to the extent the conflict does not affect health and safety or the structural integrity of the Building, the Construction Documents shall control.

4. Any additional changes, expenses or costs (including architects' fees, consultants' fees and attorneys' fees) arising by reason of any subsequent change, modification or alteration of Tenant's Construction Documents, made at the request of Landlord, shall be at the expense of the Tenant. No changes, modifications or alterations shall be made to Tenant's Construction Documents without the prior written consent of Landlord.

5. Landlord's approval of Tenant's Construction Documents or any work or installation made by Tenant shall not constitute a warranty or representation by Landlord that Tenant's drawings, work or installations comply with the requirements of any applicable law, ordinance or regulation, or are safe, sound, merchantable or fit for the purpose intended. Landlord shall have no liability to Tenant in the event Tenant is required to change its drawings or Tenant's Work after the approval thereof by Landlord on account of the failure of such drawings or Tenant's Work to meet applicable governmental requirements or in the event that such drawings or Tenant's Work, directly or indirectly, are defective or cause injury to persons or property.

6. Tenant shall furnish to Landlord one (1) complete set of red-lined Construction Documents (plans and specifications) indicating the as-built conditions within thirty (30) days after completion or Tenant's Work. If any clarifications or additions to the as-built plans and specifications are required by Landlord, Tenant shall cause such revisions to be completed within thirty (30) days after request therefor.

IX. TENANT IMPROVEMENT STANDARD SPECIFICATIONS

A. These Tenant Improvement Building Standards Specifications have been developed as guidelines to establish the minimum standards for materials, product systems or procedures for improvements made to the Premises. The materials or product systems referenced herein are not all inclusive and may be modified by local codes, governmental agencies having jurisdiction, the Landlord or Tenant (with Landlord's written permission).

B. Materials, products or systems referenced in this Section will be adhered to by Tenant, Tenant's consultants and Tenant's Contractor unless alternates or substitutions have been authorized by the Landlord in writing. Non-proprietary materials, products or systems referenced in these specifications must be submitted to the Landlord for review and approval. The Landlord reserves the right to reject materials, products or systems that, in the Landlord's reasonable opinion, do not meet or exceed the intended level of building standards for a comparable building as listed in Exhibit P to the Lease.

C. Product/Materials Specifications

1. Interior Partitions (*)
2 1/2" X 25 GA. metal studs at 24" o.c. with 5/8" type 'X' gypsum board each side. Height from floor to underside of suspended ceiling or 6" above ceiling. Brace partitions with 2 1/2" x 25 GA metal stud kickers at 48" o.c. (maximum). Texture with medium orange peel finish.

2. Column Wrap (*)
1 5/8" x 25 GA (minimum) metal furring at 24" o.c. with 5/8" gypsum board, one side. Height from floor to 6" above suspended ceiling. Texture flat and smooth.

3. Public Corridor Entry Doors (*)
Single leaf or pair of doors, 3'0" x 8'0" x 1 3/4" solid core wood with premium grade hardwood face veneer (balanced and rift cut, free of hearts) to match existing doors with natural finish. Frame to be extruded aluminum with clear finish. Door and frames to be 20 minute labeled. For hardware use the following:

4 pr. Butt Hinges (4.5 x 4.5) Ball Bearing (32D)

1 ea. Lockset - Sargent 8100, Level LNH, Function F04, (finish 32D)

2 ea. Closer- Sargent 350, aluminum finish

1 ea. Astregal - Ultra WS 011, aluminum

1 set Flush bolts - DCI 900 Series (32D)

1 ea. Coordinator - DCI, 600 Series

2 ea. Wall Bumper - Ives 409 1/2 (SS)

1 ea. Smoke Seals

4. Interior Doors (*)
3'0" x 8'0" x 1 3/4" solid core wood door, paint grade. Door frames to be extruded aluminum with clear finish. For hardware use the following:

2 pr. Butt Hinges (4.5 x 4.5)

1 ea. Lockset - Sargent 10 line, Lever LLJ, function F75, (26D)

1 ea. Wall Bumper- Ives 409 1/2 (SS)

1 set Mutes

5. Office Light Fixtures
2' x 4' recessed fluorescent fixtures with 3 lamps and 18 cell parabolic lens, aluminum finish.

6. Corridor Light Fixtures
2' x 2' recessed fluorescent fixtures with 2 'U' lamps and 9 cell parabolic lens, aluminum finish.

7. Light Switch
Two (2) single pole, 20 amp, 120/205 V with ivory colored face plate.

8. Electrical Wall Outlets
Duplex Outlet, Three Prong with ivory colored face plate.

9. Telephone Wall Outlet
2" x 4" (minimum) box with single gang plaster ring and pull string (stub only). Cover plate to be ivory colored.

10. Electrical Supply Panel
Feeder wire and one (1) 125A, 24 circuit load center.

11. Exit Signs (if required)
Green block letters (6" high with 3/4" stroke) over white background and painted frame with battery powered backup.

12. Acoustic Ceilings
A ceiling that has a consistent appearance as viewed from the exterior of the Building.

13. Carpet
Carpet to be manufactured by Designweave, Courtyard 36 oz. Zafgtron CFN. Glue carpet directly to floor.

14. Vinyl Composite Tile
Armstrong 1/8" Excelon or equal.

15. Resilient Base
2 1/2" high rubber top-set or cove base manufactured by Roppe or equal.

16. Painting
One primer plus two finish coats (flat or semi-gloss latex) Frazee paints. Color to be selected from standard finish board.

17. Window Coverings (*) Required at all Exterior Windows
Window Coverings that have a consistent appearance as viewed from the exterior of the Building.

18. Fire Extinguisher
J.L. Industries, stock cabinet with ABC #5.

19. Tri-Water System
See Section VI for Mechanical Criteria

E. Building standards for this project are based on products, materials and assemblies noted in the preceding Section and finish color boards. Changes to pre-selected finishes or alterations to quantities specified herein will constitute additional services. Landlord's consultants will be compensated for additional services on a per project basis.

EXHIBIT "E"

RULES AND REGULATIONS
FOR
PACIFIC CORPORATE PARK

1. The sidewalks, entrances, passages, courts, elevators, vestibules, stairways, corridors or halls shall not be obstructed or used for any purpose other than ingress or egress.

2. No awnings or other projections shall be attached to the outside walls of the Premises.

3. The sashes, sash doors, skylights, windows and doors that reflect or admit light and air into the halls, passageways or other public places in the Premises shall not be covered or obstructed, nor shall any bottles, parcels or other items be placed on the windowsills. Neither the interior nor the exterior of any windows shall be coated or otherwise sunscreened without Landlord's prior written consent.

4. No sign, advertisement or notice shall be exhibited, painted or affixed by Tenant on any part of, or so as to be seen from the outside of, its Premises or the Premises without Landlord's prior written consent. In the event of Tenant's violation of the foregoing, Landlord may remove the same without any liability and may charge the expense incurred for such removal to Tenant. All signs whether on doors, directories or elsewhere, shall be inscribed, painted or affixed for Tenant by Landlord at the expense of Tenant, and shall be of a size, color and style acceptable to Landlord.

5. Directories for the Premises will be provided exclusively for the display of the name and location of Tenant only; and Landlord reserves the right to exclude any other names therefrom, and each and every name in addition to the name of Tenant placed upon such bulletin board or directory, shall be subject to Landlord's prior written consent (and if approved by Landlord, all costs therefor shall be paid by Tenant). Tenant shall pay for the removal of any such listings or representations upon its departure from its Premises.

6. All doors that open into public corridors shall be kept closed, except when being used for ingress and egress.

7. Tenant shall not mark, paint, drill or bore into, cut or string wires in, lay linoleum or other floor coverings in, or in any way deface any part of Its Premises or the Premises, except with Landlord's prior written consent and as Landlord may direct.

8.

EXHIBIT E

9. No window or other air conditioning or heating units or other similar apparatus shall be installed or used by Tenant without Landlord's prior written consent. Tenant shall not be permitted upon the roof at any time.

10. The water, restrooms and other plumbing fixtures shall not be used for any purpose other than those for which they were constructed and no sweepings, rubbish, rags or other substances stored therein. All damages resulting from any misuse of the fixtures by Tenant or its servants, employees, agents, visitors or licensees shall be paid by Tenant. Tenant shall exercise extraordinary care and caution to insure all water faucets or water apparatus in the Premises are entirely shut off before Tenant, its employees, agents or visitors leave the Premises and that all electricity, gas or air conditioning to the Premises is carefully shut off when the Premises is not in use so as to prevent waste or damage.

11. Unless Tenant is leasing an entire Building all movement of freight, furniture, safes or other heavy or bulky items ("Heavy Items") shall be moved prior to 7:00 a.m. or after 6:00 p.m. or on Saturday, Sundays or Holidays. Tenant shall notify Landlord in writing the day before any heavy items which may cause noise, jar or, tremor to the floors or walks which may injure the Premises or Building.

12. Neither Tenant nor its servants, employees, agents, visitors or licensees shall at any time bring or keep upon the Premises any flammable, combustible or explosive fluid, chemical or substance, except for a reasonable quantity of such material reasonably necessary for the conduct of Tenant's business.

13. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the permitted use of the Premises set forth in the Lease. Tenant shall not, without Landlord's prior written consent, occupancy or permit any portion of the Premises to be occupied or used for the manufacture or sale of liquor or tobacco in any form, or as a barber or manicure shop, or as an employment bureau. The Premises shall not be used for lodging or sleeping.

14. Tenant shall not make, or permit to be made, any unseemly or disturbing noise, or disturb or interfere with occupants of neighboring premises or the other adjacent Building.

15. No bicycles, vehicles, birds or animals of any kind shall be brought into or kept in or about the Premises except as permitted in the Lease or the Work Letter. Tenant shall not cause or permit any unusual or objectionable odors to be produced in or emanate from the Premises.

16. All hand trucks or other moving equipment used in the Building shall be equipped with rubber tires and side guards.

17. No vending or coin operated machines shall be placed within the Premises without Landlord's prior written consent.

18. No person shall be employed by Tenant to do janitorial work in any part of said Premises without Landlord's prior written consent. Any person employed by Tenant to do janitorial, maintenance or similar work with Landlord's consent shall, while in the Premises, be subject to and under the control and direction of Landlord or its agent or representative (but not as an agent or servant of Landlord) and Tenant shall be responsible for all acts of such persons.

19. Landlord shall have the right to prohibit any advertising by Tenant which, in Landlord's discretion tends to impair the reputation of the Building or Project or its desirability as an office park, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

20. Canvassing, soliciting and peddling in the Premises are prohibited and Tenant shall cooperate to prevent same.

21. Landlord assumes no responsibility and shall not be liable for any damage resulting from the admission of any unauthorized person to the Premises.

22. Landlord reserves the right to exclude or expel from the Premises any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of the Rules and Regulations of the Premises.

23. It is understood and agreed between Landlord and Tenant that no assent or consent to any waiver or any part hereof by Landlord in spirit or letter shall be deemed or taken as made except if same is done in writing by Landlord except as provided in the Lease.

24. Landlord reserves the right at any time to change or rescind any one or more of these Rules or Regulations, or to make such other and further reasonable Rules and Regulations as in Landlord's judgment may from time to time be reasonably necessary for the management, safety, care and cleanliness of the Premises and Premises, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein, provided that such changes do not adversely affect Tenants use, enjoyment, access of or to the Premises. Landlord shall not be responsible to Tenant herein or to any other person for the nonobservance of the Rules and Regulations by any other tenant or other person. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition to its occupancy of the Premises.

[WEATHER ENGINEERING, INC. LETTERHEAD]

April 6, 1993

Roel Construction Co.
2366 Kurts Street
San Diego, California 92130

Attn: Terry Arnett

Re: Pacific Corporate Park
5930 and 5935 Cornerstone Court
HVAC System

Dear Terry:

The subject buildings are serviced by a "Tri-Water" water source heat pump system. The central plant, which houses a separate cooling tower, boiler and recirculating pump for each building, is located in the parking area north of building A. The condenser water is piped underground to each building and connected to the fire sprinkler system which is routed throughout both buildings. The individual water source heat pumps are then connected to the fire sprinkler piping as a part of the tenant improvement.

The cooling towers installed are rated @ 350 GMP which would provide the equivalent of approximately 140 tons of air conditioning capability for each building. There is a 4 wire energy management loop that is routed from the central plant to each building for connection to future tenant Water Source Heat Pump ("WSHP") units. This allows the tenant to communicate with the central plant to provide after hours cooling.

As part of the tenant improvement buildout, the following should be utilized as guidelines for a minimum standard:

1. Suspend WSHP units above the ceiling utilizing 1 in. spring isolation for vibration and sound attenuation.

2. Type L copper piping with hard solder should be utilized for the condenser water piping to the individual WSHP units. Automatic flow controls are required for each unit.

3. The return air must be ducted and both supply and return ducts must be insulated.

4 Rigid duct to be utilized with flex duct on the last 7 ft. only.

EXHIBIT F

5. Check valves must be installed on the condenser piping to the individual WSHP units.

6. Duct shall be sized at .1 in. pressure drop per 100 ft. of duct.

7. Perimeter and interior zones shall not be combined.

8. WSHP units shall be equivalent to Carrier, Trane or AAF.

9. Outside air shall be provided @ 20 CFM/person.

Should you have any additional questions or comments, please do not hesitate to call.

Sincerely,

/s/ GREG DAVIS

Greg Davis,
Weather Engineering, Inc.

Recording Requested By:

When Recorded Mail To:

PacCor Partners
11939 Rancho Bernardo Road, Suite 200
San Diego, California 92128

- ---

(Space above this line for recorder's use)

NON-DISTURBANCE AGREEMENT

THIS AGREEMENT, is dated as of the ___ day of _____, 1993, by and between THE PAUL REVERE LIFE INSURANCE COMPANY, a Massachusetts corporation ("Lender") and HNC, Inc. a California corporation ("Tenant") with respect to the following recitals:

RECITALS

A. Tenant has entered into an Office Lease dated _____, 1993 ("Lease") with PACCOR PARTNERS, a California general partnership ("Landlord") as Landlord for certain real property described on Exhibit "A" attached hereto ("Premises"); and

B. Lender is the Beneficiary under that certain Deed of Trust dated February 28, 1990, and recorded March 2, 1990, in Recorder's File No. 90-112897, Official Records of the County of San Diego, State of California, which constitutes a lien on the Premises ("Deed of Trust").

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Lender agrees that:

(a) Unless Tenant is in material breach of the Lease, Tenant shall not be named or joined as a party defendant or otherwise in any lawsuit, action or proceeding under the Deed of Trust or to enforce any rights of Lender under the Deed of Trust or under any note or other obligation secured thereby;

(b) So long as Tenant is not in default (beyond any period given Tenant to cure such default) in the payments of rent or in the performance of any of the terms, covenants or conditions of the Lease on Tenant's part to be performed, possession of the Premises by Tenant, and the enjoyment of all rights, privileges and entitlements under the Lease, shall not be disturbed, affected or impaired by (i) any lawsuit, action or proceeding under the Deed of Trust, or the note or any obligation secured thereby, (ii) any foreclosure under the Deed of Trust or the enforcement of any rights of Lender thereunder, (iii) any sale of the Premises under the Deed of Trust or in lieu of any foreclosure thereof, and (iv) any default under the Deed of Trust, or the note or any obligation secured thereby; and

(c) All condemnation awards and/or insurance proceeds paid or payable regarding the Premises or any part thereof shall first be applied to any repairs and restoration of the Premises required by the Lease.

2. If Lender or any other person should become fee owner of the Premises by reason of the foreclosure of or sale under the Deed of Trust or otherwise, the Lease shall continue in full force and effect, with or without the execution of a new lease, as a direct lease between Tenant and the then feel

owner of the Premises, upon all of the same terms, covenants or provisions contained in the Lease and the then fee owner of the Premises, together with all of the rights and privileges therein contained, between such fee owner of the Premises and Tenant for the balance of the term of the Lease; and Tenant agrees to attorn to and accept such fee owner of the Premises as the Landlord under the Lease and to be bound by and to perform all of the obligations imposed by the Lease upon the Tenant thereunder and Lender, its successors or assigns, or any purchaser at a foreclosure or trustee's sale or otherwise will not disturb the possession of Tenant and will be bound by all of the obligations imposed by the Lease upon the Landlord, provided, however, that Lender, or any purchaser at a foreclosure or trustee's sale or otherwise shall not be:

(a) liable for any act or omission of a prior Landlord (including Landlord); or

(b) subject to any offsets or defenses which Tenant might have against any prior Landlord (including Landlord) except for the Tenant Improvement Allowance (Section 1.10 of the Lease), Refurbishment Allowance (Section 5.5 of the Lease), Security Deposit Amount (Section 1.8 of the Lease), Moving Allowance (Section 17.1 of the Lease), and Commission (Section 16.1 of the Lease).

3. The terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

4. Upon the written request of either Tenant or Lender given to the other at the time of a foreclosure of the Deed of Trust or sale under power of sale therein contained or conveyance in lieu of foreclosure, and if no default then exists under the terms conditions and provisions of the Lease on the part of the requesting party, Tenant and Lender agree to execute a lease of the premises demised by the Lease upon the same terms an conditions as the Lease between Landlord and Tenant, which lease shall cover any unexpired term of the Lease existing prior to such foreclosure, trustee's sale or conveyance in lieu of foreclosure.

5. Subject to the nondisturbance provisions of the Lease, the Lease now is, and shall at all times continue to be, subject and subordinate in each and every respect to the Deed of Trust.

6. Tenant and Lender may each rely upon the terms and provisions of this Agreement.

| "LENDER" | "TENANT" |
|---|---|
| THE PAUL REVERE LIFE INSURANCE COMPANY, a Massachusetts corporation | HNC, Inc., a California corporation |
| By: ---------- | By: ---------- |
| Its ---------- | Its ---------- |

EXHIBIT G

LEASE ESTOPPEL CERTIFICATE

Re: Office Lease between PacCor Partners ("Landlord") and HNC, Inc. ("Tenant") dated _____ ("Lease")

Area: Approximately 24,446 square feet ("Premises")

Dear Sir or Madam:

The undersigned Landlord and Tenant of the above-referenced Lease hereby ratify the Lease and certify to _____ ("Lender") with knowledge that Lender is relying on this certificate in making a mortgage loan on the property of which the Premises as set forth in the Lease is a part, as follows:

1. The term of the Lease commenced on _____, 19 ___, and the Tenant is in full and complete possession of the Premises and has commenced full occupancy and use of the Premises, such possession have been delivered by the Landlord and having been accepted by the Tenant.

2. The Tenant is paying monthly installments of rent of $ _____ which commenced to accrue on the _____ day of _____, 199__.

3. No advance rent or other payment has been made in connection with the Lease, except rent for the current month and there is no rent abatement, waived rent or other concession under the remaining term of the Lease except as follows
_____
_____.

4. Rent has been paid to and including _____, 19__.

5. A security deposit in the amount of $ _____ is being held by Landlord, which amount is not subject to any set-off or reduction or to any increase for interest or other credit due to Tenant.

6. All obligations and conditions under the Lease to be performed to date by Landlord or Tenant have been satisfied.

7. The Lease is a valid lease and in full force and effect and represents the entire agreement between parties. There is no existing default on the part of the Landlord or the Tenant in any of the terms and conditions thereof and no event has occurred which with the passing of time or giving of notice or both, would constitute an event of default. The Lease has not been amended, modified, supplemented, extended, renewed or assigned except as follows:
_____
_____
_____
_____

8. The Lease provides for a initial term of _____ months; the term of the Lease expires on the _____ day of _____, 199__; and neither the Lease nor any amendment, modification, supplement extension renewal or assignment (if any), contain any option for any additional term or terms except as follows:
_____
_____
_____

EXHIBIT H

9. Except as provided by the Lease, Landlord has not rebated, reduced or waived any amounts due from Tenant under the Lease, either orally or in writing, nor has Landlord provided financing for, made loans or advances to, or invested in the business of Tenant.

10. Tenant agrees not to prepay rent more than one (1) month in advance, except as provided in the Lease, without Lenders written approval and agrees to give Lender notice and reasonable opportunity (without obligation) to cure any default by Landlord, before exercising its rights under the Lease.

11. The Lease does not contain, and Tenant does not have any outstanding option or right of first refusal to purchase the Premises or any part thereof or the property of which the Premises are a part.

12. To the best of Tenant's actual current knowledge, there is no apparent or likely contamination of the property or the Premises by Hazardous Materials, and Tenant does not use, nor has Tenant disposed of Hazardous Materials in violation of Environmental Laws on the property of Premises. "Hazardous Materials" shall mean any flammable substances, explosives, radioactive materials, hazardous wastes, toxic substances, pollutants, pollution, or related materials or other substances regulated by any of the Environmental Laws as specifically defined in Section 7.4 of the Lease. "Environmental Laws" shall mean federal, state or local laws, ordinances, rules, regulations or policies governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials as specifically set forth in Section 7.4 of the Lease, except for substances which are customarily used or found in typical offices, including without limitation copier and printer toner, cleaning supplies, correction fluid and ink.

13. There are no actions, voluntary or involuntary, pending against the Tenant under the bankruptcy laws of the United States or any state thereof.

14. This certificate shall inure to the benefit of Lender, its successors and assigns and shall be binding upon Tenant and Tenant's heirs, successors and assigns. This certificate shall not be deemed to alter or modify any of the terms, convenience or obligations of the Lease, except to the extent specifically set forth herein.

15. The entity, person, and/or office executing this certificate is empowered by action, resolution, or at law to execute the same.

| | |
|---|---|
| Date: | Date: |
| Tenant: | Landlord: |
| HNC, Inc., a California corporation | PACCOR PARTNERS, a California corporation |
| | By: PacCor Management Company<br>a general partner |
| By: _____ | |
| Its _____ | By: _____ |
| | Its _____ |

EXHIBIT H

JANITORIAL SPECIFICATIONS

A. DAILY - ALL COMMON AREAS AND TENANT SPACES - FIVE (5) DAYS PER WEEK, SUNDAY THROUGH THURSDAY

1. Dust desks (using care not to disturb paperwork), chairs and all other office furniture.

2. Clean glass desk tops.

3. Vacuum all carpeted areas, using care around wood furniture.

4. Dust mop all interior tile surfaces, then damp mop.

5. Sweep exterior entrance to building, then hose down.

6. Clean all tables, sinks and counter tops in kitchen area.

7. Return furniture to proper position.

8. Remove trash, change liners as needed in offices, lobbies and exterior trash receptacles.

9. Deposit trash to designated trash dumpster.

10. Clean all ash trays and sand urns.

11. Spot clean walls, doors and baseboards.

12. Spot clean around wall switches.

13. Dust window sills.

14. Police all balconies, spot clean as needed.

15. Clean elevator wall surfaces, call buttons, door tracks, polish stainless steel.

16. Police service entrance, if applicable.

17. Police stairwells and landings to remove debris, sweep and mop as necessary. Wipe down hand rails.

18. Clean both sides of lobby glass doors.

19. Vacuum elevator carpet.

20. Dust, mop if necessary, mail area in lobby.

21. Empty and wipe out all waste paper receptacles in restrooms.

22. Empty all sanitary napkin containers and replace insert.

23. Clean, sanitize and polish all restroom fixtures and stock dispensers, including disinfecting underside and tops of toilet seats.

24. Spot clean tile walls and toilet partitions.

EXHIBIT I

25. Spot clean walls around wash basins.

26. Wet mop floors with germicidal solution using a two bucket wash/rinse.

27. Refill soap, towel, tissue and seat cover dispensers, as needed.

28. Clean shower and disinfect.

29. Wipe down exercise equipment and mats.

30. Secure all exterior doors upon completion of duties.

B. WEEKLY - ALL COMMON AREAS AND TENANT SPACES

1. Concentrated carpet cleaning. Move furniture and plants that can be moved in order to reach all corners and edges.

2. Dust ledges and window sills.

3. Brush down all air conditioning vents.

4. Use lint brush on all upholstered furniture.

5. Clean and polish drinking fountains.

6. Spot clean all carpeted areas.

7. Dust picture frames and all wall hangings.

8. Damp mop and buff all tile surfaces.

9. Clean tenant glass in all occupied areas.

10. Dust and spot clean all baseboards.

11. Clean both sides of toilet partitions.

12. Remove finger prints from woodwork, walls and partitions.

13. Dust chair legs and bases of furniture, door frames, etc.

14. Clean mirrors in exercise equipment room.

15. Disinfect all athletic facility equipment.

16. Sweep all exterior walkways.

17. Remove gum from common walkways.

18. Empty trash dumpsters and clean dumpster area.

EXHIBIT I

C. MONTHLY - ALL COMMON AREAS AND TENANT SPACES

1. Oil all stained wood doors using products approved by Landlord and polish wood furniture.

2. Remove finger prints and smudges from light fixtures.

3. Polish stainless steel in elevators, including ceiling, if applicable.

4. Sweep and damp mop all stairwells and landings.

5. Wipe ledges and handrails in stairwells.

6. Clean light fixtures in stairwells.

7. Dust all high areas.

8. Wipe down all plastic and leather furniture.

9. Thoroughly vacuum upholstered furniture.

10. Interior and exterior lighting to be checked and all necessary bulbs replaced.

11. Strip, machine scrub and reapply Landlord approved finish to all tile floors.

D. QUARTERLY - ALL COMMON AREAS AND TENANT SPACES

1. Wipe metal framework around doors and windows.

2. Lift desk pads where possible and vacuum under desks.

3. Dust vertical blinds.

4. Clean (acid wash if necessary) exterior entrance walkway to main lobby.

5. Clean all exterior building glass.

6. Clean picture frame glass.

E. SEMI-ANNUALLY - ALL COMMON AREAS AND TENANT SPACES

1. Wash all vinyl baseboards.

2. Wash all vinyl wall coverings.

EXHIBIT I

RECORDING REQUESTED BY
TICOR TITLE INSURANCE COMPANY

Recording requested by
and when recorded, mail to:

LATHAM & WATKINS
Attorneys at Law
Attn: Mr. Jon D. Demorest
701 "B" Street, Ste. 2100
San Diego, Ca. 92101
ORDER: 1125760-02

# DECLARATION OF COVENANTS,

# CONDITIONS AND RESTRICTIONS

# FOR UNIT NO. 1 OF PACIFIC

# CORPORATE CENTER

EXHIBIT J

TABLE OF CONTENTS

# DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR

# UNIT NO. 1 OF PACIFIC CORPORATE CENTER

THIS DECLARATION is made this 19th day of April, 1985, by CORNERSTONE CORPORATE CENTER, a California limited partnership ("Developer").

## RECITALS

A. Developer is the owner of certain real property in the County of San Diego, State of California, more particularly described in Exhibit A attached hereto (the "Property").

B. Developer desires to subject the Property to certain conditions, covenants and restrictions, upon and subject to which all the Property shall now and hereafter be held, improved and conveyed, in order to establish a general plan for the improvement and development of the Property.

C. Developer has caused to be formed PACIFIC CORPORATE CENTER UNIT NO. 1 OWNERS' ASSOCIATION, a California nonprofit mutual benefit corporation (the "Association") to act as the property owners' association for the Property. The Association shall have such powers and duties as are set forth herein and in the Articles and the Bylaws of the Association.

Now, THEREFORE, Developer declares as follows:

## ARTICLE I

## DEFINITIONS

For purposes of this Declaration, the following terms shall have the: following meanings:

1.01 Architectural Committee: "Architectural Committee" shall refer to the Architectural Committee established pursuant to Article VI of this Declaration.

1.02 Articles: "Articles" shall mean and refer to the Articles of Incorporation of the Association.

1.03 Assessment: "Assessment" shall mean and refer to any or all of the Assessments hereinafter defined:

(a) "Regular Assessments" shall mean and refer to a charge against each Owner and his Lot representing a portion of the cost to the Association to provide for and promote the health, safety and welfare of the Members of the Association and, in particular, for the improvement and maintenance of the properties, services, and facilities devoted to this purpose and related to the use and enjoyment of the Association Maintenance Areas, including, without limitation, establishing and maintaining reserves for such purposes.

(b) "Special Assessment" shall mean and refer to a charge against a particular Owner and his Lot, directly attributable to such Owner, for a reasonable fine or penalty levied by the Association for a violation of this Declaration or the Articles and Bylaws of the Association, or for certain costs incurred by the Association or Declarant for materials or services furnished to such Owner or his Lot at the request of or on behalf of such Owner as a result of any owner failing to maintain any portion of his Lot in accordance with the provisions of this Declaration or for material or services furnished to any portion of any Lot which the Association maintains pursuant to this Declaration, as a result of the negligence or willful misconduct of any Owner, his employees, guests or invitees, or for excessive use or special use of the services or facilities provided by the Association, including but not limited to parking, trash removal and maintenance of improvements.

(c) "Capital Improvements Assessment" shall mean and refer to a charge against each Owner and his Lot representing a portion of the cost to the Association for the installation, construction, unexpected repair or replacement of any Improvements, including the necessary fixtures said personal property related thereto, on any portion of the Property upon which the Association may be required to install, construct, repair or replace any Improvements ax provided in this Declaration, which coat has not barn provided for by reserves established by Regular Assessments paid by the Members.

1.04 Association: "Association" shall mean PACIFIC CORPORATE CENTER UNIT NO. 1 OWNERS' ASSOCIATION, a California nonprofit mutual benefit corporation, its successors and assigns.

1.05 Association Maintenance Areas: "Association Maintenance Areas" shall mean and refer to all areas within the Property that the Association has accepted into the Association Maintenance Areas pursuant to subsections 3.06(a), (b), (c) or (d) of this Declaration.

1.06 Board of Directors: "Board of Directors" and/or "Board" shall refer to the Board of Directors of the Association.

1.07 Bylaws: "Bylaws" shall mean and refer to the Bylaws of the Association.

1.08 Declaration: "Declaration" shall mean this Declaration of Covenants, Conditions and Restrictions, and all amendments thereto.

1.09 Detention Basin: "Detention Basin" shall mean the detention basin to be constructed and maintained on a portion of Lot 9 of the Property for the purpose of receiving silt and storm water run-off from the Property and from adjacent real property.

1.10 Developer: "Developer" shall mean CORNERSTONE CORPORATE CENTER, a California limited partnership, its successors and assigns.

1.11 Government Regulations: "Government Regulations" shall mean all present and future governmental laws, statutes, codes, ordinances, rules, regulations, limitations, restrictions, orders, judgements and other governmental requirements applicable to the Property, including without limitation the PID Permit.

1.12 Guidelines: "Guidelines" shall mean and refer to those guidelines promulgated by the Architectural Committee pursuant to Article VI of this Declaration.

1.13 Improvements: "Improvements" shall mean and refer to all structures and appurtenances thereto of every type and kind, including, but not limited to, buildings, outbuildings, garages, irrigation and drainage devices or systems, fences, screening walls, retaining walls, parking areas, loading areas, poles, light standards, signs and "Landscape Improvements" (defined below).

1.14 Landscape Improvements: "Landscape Improvements" shall refer to any plantings, ground cover, trees and shrubbery existing on a Lot or within dedicated streets or alleys at the date of this declaration or thereafter installed, together with any alterations, systems, and equipment installed in order to enable reasonable maintenance of the plantings, ground cover, trees and shrubbery.

1.15 Lot: "Lot" shall mean each separate legal lot within the Property, but shall not include streets or alleys which have been dedicated to and accepted by any governmental agency having jurisdiction in the matter.

1.16 Member: "Member" shall mean and refer to every person or entity who is an Owner of a fee or undivided fee interest in any Lot.

1.17 Net Useable Square Footage: "Net Useable Square Footage" shall mean, with respect to a Lot, all square footage of such Lot, exclusive of (a) dedicated public pedestrian and roadway rights of way, and (6) slopes of greater than five percent (5%) that are not within the ten (10) foot landscape setback from public streets.

1.18 Owner: "Owner" shall mean and refer to the record Owner, whether one or more persons or entities, of fee simple title to any Lot, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

1.19 PID Permit: "PID Permit" shall mean and refer to Planned Industrial Development Permit No. 83-0378, as such Permit may be corrected or amended from time to time.

1.20 Property: "Property" shall mean that certain real property described in Exhibit A to this Declaration.

1.21 Restrictions: "Restrictions" shall mean and refer to the covenants, conditions, restrictions, liens,

charges, rules and regulations now or hereafter established or imposed by or pursuant to this Declaration.

1.22 Submittal: "Submittal" shall mean and refer to all documents required to be submitted to the Architectural Committee established by this Declaration.

1.23 Undeveloped Lot: "Undeveloped Lot" shall mean and refer to any Lot for which the City of San Diego has not issued a Certificate of Occupancy which allows occupancy of a completed building.

## ARTICLE II

## ESTABLISHMENT AND PURPOSE OF RESTRICTIONS

2.01 Establishment of Restrictions: Developer hereby declares that the Property is now held and shall hereafter be held, transferred, sold, leased, conveyed, maintained, and occupied subject to the Restrictions herein set forth, each and all of which is and are for the benefit of, shall inure to, and shall pass with the Property and each and every part or parcel thereof, and shall apply to and bind Developer, the Association and any Owner, lessee or other occupier or user of the Property or any portion thereof, and the heirs, assignees and successors in interest of Developer, the Association and any such Owner, lessee, occupier or user.

2.02 Purpose of Restrictions: The purpose of these Restrictions is to insure proper development and use of the Property, to protect the Owner of each Lot against such improper development and use of surrounding parcels as will depreciate the value of his parcel, to prevent the erection on the Property of structures built of improper design or materials, to encourage the erection of attractive Improvements at appropriate locations, to prevent haphazard end inharmonious Improvements, to secure and maintain proper setbacks from streets and adequate free spaces between structures, to provide for proper and sufficient care and maintenance of the Property and the Improvements and Landscape Improvements thereon, and in general to provide adequately for a high type and quality of improvement, use and maintenance of the Property in accordance with a general plan.

## ARTICLE III

## THE ASSOCIATION

3.01 Membership in Association: Every Owner shall be a Member of the Association. Membership shall be appurtenant to and may not be separated from fee ownership of a Lot, and such fee ownership shall be the sole qualification for membership. Where more than one person holds a fee interest in any Lot, all such persons shall be Members. The foregoing is not intended to include persons or entities who hold an interest merely as security for performance of an obligation. The terms and provisions set forth in this Declaration, which are binding upon all Members in the Asso-

ciation, are not exclusive. Each Member shall also be subject to the terms and provisions of the Government Regulations, the Articles and the Bylaws.

3.02 Voting Rights: The Association shall have two (2) classes of voting membership.

Class A: All Owners with the exception of the Developer shall be Class A Members. Class A Members shall be entitled to one (1) vote for each Lot which they own in the Property. When more than one parson holds an interest in any Lot, the vote or votes for such Lot shall be exercised as they among themselves determine but in no event shall more than one vote be allocated to any Lot.

Class B: The Class B Member shall be the Developer. The Class B Member shall be entitled to six (6) votes for each Undeveloped Lot in which it holds a fee interest, and one (1) vote for each Lot which is not an Undeveloped Lot in which it holds a fee interest. The Class B membership shall cease and be converted to Class A membership when the Developer is no longer an Owner of at least once (1) Undeveloped Lot.

This section may not be terminated, extended, modified or amended pursuant to Section 11.01 and any such attempt shall be null and void and of no effect.

All voting rights shall be subject to the restrictions and limitations provided herein and in the Articles and the Bylaws.

3.03 Approval of Members: Unless otherwise specifically provided herein, any provision of this Declaration or the Bylaws which requires the approval of a specified majority of the voting power of the Members shall be deemed satisfied by the following:

(a) The vote of the specified percentage at a meeting duly called and noticed pursuant to the provisions of the Bylaws dealing with annual or special meetings of the Members. Such percentage must be no less than a majority vote of an authorized quorum;

(b) A writing or writings signed by the specified percentage; or

(c) A combination of votes or written assents evidencing the approval of the specified percentage.

3.04 Vesting of Voting Rights: Voting rights for a Member of the Association shall not vest until a Regular Assessment has been levied against that Member pursuant to Section 4.03.

3.05 Non-Liability of Board: In discharging their duties and responsibilities, the Board acts on behalf of and as the representative of the Association which acts on behalf of and as the representative of the Owners, and no member of the Board shall be individually or personally lia-

ble for performance or failure of performance of his duties and responsibilities unless he fails to act in good faith.

3.06 Duties and Powers: In addition to the duties and powers enumerated in the Articles and the Bylaws, or elsewhere provided for herein, and without limiting the generality thereof, the Association shall:

(a) Have the duty and obligation to accept into the Association Maintenance Area any landscaped areas for which a Notice of Completion pertaining to Landscape Improvements has been accepted by the Architectural Committee pursuant to Section 6.07 hereof.

(b) Have the duty and obligation to accept into the Association Maintenance Area the Detention Basin.

(c) Have the right to accept any other area of the Property into the Association Maintenance Area, provided, however, that the Association will not accept any area into the Association Maintenance Area without the consent of either (1) the Owner of the area to be accepted, or (2) if sufficient to assure access, the holder of an easement over the area to be accepted, where the easement allows the holder and the Association to enter the area for landscape maintenance purposes; provided further that the Association shall not accept any area into the Association Maintenance Area under this subsection unless the Board first determines, in its sole and reasonable discretion, that the acceptance of such area is in keeping with the purpose of these Restrictions and the Government Regulations.

(d) Have the right to accept into the Association Maintenance Area any dedicated public right of way or easement for streets or pedestrian and non-motor-vehicle sidewalks for which the Association has obtained encroachment permits, encroachment removal agreements, and any other approvals required from the City of San Diego by the PID Permit or Government Regulations.

(e) Have the duty and obligation to maintain and repair the Improvements, including Landscape Improvements, in the Association Maintenance Area. Should the Association incur the expense of repairing or maintaining any portion of the Property which the City of San Diego or any other public agency is obligated to incur, the Association shall use its reasonable efforts to obtain reimbursement.

(f) Have the duty and obligation to obtain, for the benefit of the Association Maintenance Area, all water, gas and electric services and refuse collection.

(g) Have the duty and obligation to pay taxes and charges assessed against the Association and to pay real and personal property taxes and other charges assessed against any property owned by the Association, if any.

(h) Have the duty and obligation to purchase, carry, and at all times maintain in full force insur-

ance covering the Association Maintenance Area in such amounts and with such endorsements and coverage as shall be considered good sound insurance coverage for properties similarly developed and improved. Such insurance to be obtained by the Association may include, but need not be limited to:

(i) Comprehensive public liability insurance, in such limits as the Association deems necessary.

(ii) Workers' Compensation Insurance as the Association deems necessary;

(iii) Association Directors' and Officers' liability insurance; and

(iv) Any other insurance deemed necessary by the Association.

The insurance coverage shall be written in the name of, and the proceeds thereof shall be payable to, the Association. Premiums for all insurance carried by the Association is a common expense includable in the Assessments made by the Association.

(i) Have the right and obligation, in accordance with its Articles and the Bylaws, to borrow money for the purpose of improving, repairing or reconstructing the Association Maintenance Area.

(j) Have the right to employ a manager or other persons and to contract with independent contractors or managing agents to perform all or any part of the duties and responsibilities of the Association.

(k) Have the duty and obligation to establish and maintain a working capital and contingency fund in an amount to be determined by the Board of Directors of the Association.

(l) Have the right to acquire property subject to the provisions of Section 5.03 herein.

(m) Have the right to grant easements where necessary for utilities and sewer facilities over the Association Maintenance Area to serve the Association Maintenance Area and the Lots.

(n) Have the right to enforce the provisions of this Declaration by appropriate means, including without limitation, the expenditure of funds of the Association, the employment of legal counsel and the commencement of legal proceedings.

(o) Have the right to delegate powers to committees, officers and/or employees of the Association as expressly authorized by the governing instruments.

(p) Have the right to adopt, amend, and repeal such rules and regulations as it deems reasonable to

govern any matters in furtherance of the purpose of the Association, including, without limitation, the use of the Association Maintenance Areas, the regulation of Improvements and the use of the Lots; provided, however, that the Association rules and regulations may not discriminate among Owners, and shall not be inconsistent with the Government Regulations, this Declaration, the Articles or the Bylaws. Such rules and regulations may include the establishment of system of fines and penalties enforceable as Special Assessments.

## ARTICLE IV

## COVENANT FOR ASSESSMENTS

4.01 Creation of Liens: The Developer, for each Lot owned, hereby covenants, and each Owner of a Lot by acceptance of a deed therefor, whether or not it shall be so expressed in such deed, is deemed to covenant and agrees to pay to the Association: (i) Regular Assessments, (ii) Special Assessments, and (iii) Capital Improvement Assessments, such Assessments to be established and collected as provided herein. The Regular, Special and Capital Improvement Assessments, together with interest, cost, penalties and reasonable attorney's fees, shall be a charge on the Lot and shall be a continuing lien upon the Lot against which each such Assessment is made. Each such Assessment, together with interest, costs, penalties and reasonable attorney's fees, shall also be the personal obligation of the person who was the Owner of such Lot at the time when the Assessment fell due.

4.02 Purpose of Assessments: The Assessments levied by the Association shall be used exclusively for the purpose of promoting the health, safety and welfare of the Members of the Association, to provide funds for the Association to carry out its duties and obligations and, in particular, for the improvement, landscaping and maintenance of the Association Maintenance Area and other services and facilities devoted to this purpose, if any.

4.03 Regular Assessments: The amount of Regular Assessments for a fiscal year of the Association shall be determined by the Board of Directors of the Association pursuant to the Articles of Incorporation and Bylaws of said Association after giving duo consideration to the current maintenance costs and future needs, including the buildup of reserves for working capital and contingencies, of the Association. The Board of Directors of the Association shall fix the, amount of Regular Assessment against each Lot for each fiscal year at least thirty (30) days in advance of such year. Written notice of the Regular Assessments shall be sent to every Owner subject thereto at least fifteen (15) days prior to each fiscal year of the Association. The Regular Assessments shall be paid in monthly installments.

4.04 Special Assessments: Each Owner shall be liable to the Association by way of Special Assessment for any damages to the Association Maintenance Area or to any of the equipment or improvements thereon which may be sustained

by reason of the negligence or willful misconduct of said Owner or of his employees, agents, guests or invitees, both minor and adult. Any expense incurred by the Association in repairing such damage, together with costs and attorneys' fees, shall be a debt of the Owner causing the same, and the Board may specifically assess, by way of Special Assessment, said Owner for the amount thereof to the extant that any such damage shall not be covered by a policy of insurance. The Board may also levy Special Assessments: (i) to reimburse the Association for steps taken pursuant to Sections 6.07 or 10.01 of this Declaration; (ii) for Owners who are specifically found to be excessive users of the services or facilities furnished or provided by the Association, including, but not limited to, trash removal or parking facilities, or (iii) for steps taken by the Association to remedy any wrongful violation of this Declaration.

4.05 Capital Improvement Assessments: In addition to the Regular and Special Assessments, the Association may levy in any calendar year, a Capital Improvement Assessment applicable to that year only, provided that any such Assessment shall have the approval by vote or written consent of Members entitled to exercise not less than two-thirds (2/3) of the voting power of the membership of the Association.

The Board of Directors shall fix the amount of all Capital Improvements Assessments at least thirty (30) days in advance of the date such Assessments shall become due and shall give written notice at least fifteen (15) days in advance of the date such Assessments shall become due to each Owner subject thereto.

4.06 Uniform Rate of Collection: The Regular and Capital Improvement Assessments may be combined and collected on a monthly basis and shall be fixed at a uniform formula rate for all Lots based upon the Net Useable Square Footage of each Lot. Fixing Assessments at a uniform formula rate for all Lots does not apply with respect to Special Assessments.

4.07 Date of Commencement of Regular Assessments: The Regular Assessments shall commence as to all Lots on the first day of the month following the close of escrow for the first conveyance by Developer of any Lot to any Class A Member of the Association.

4.08 Certificate of Payment: The Association shall, upon demand, furnish to any Owner liable for any Assessment, a certificate in writing signed by an officer of the Association, setting forth whether the Regular and Special and Capital Improvement Assessments on that Owner's Lot have been paid, and the amount of the delinquency, if any. A reasonable charge may be made by the Board for the issuance of these certificates. Such certificate shall be conclusive evidence of payment of any Assessment therein stated to have been paid.

4.09 Exempt Property: A11 properties dedicated to and accepted by a local public authority shall be exempt from assessments.

4.10 Waiver of Use: No Member may exempt himself by any means whatsoever from personal liability for assessments duly levied by the Association, nor release the Lot owned by him from the liens and charges thereof, by abandonment of his Lot or otherwise.

## ARTICLE V

## NONPAYMENT OP ASSESSMENTS

5.01 Delinquency: Any Assessment which is not paid when due shall be delinquent. With respect to each Assessment not paid within fifteen (15) days after the due date, the Association may, at its election, require the Owner to pay a "late charge" in a sum to be determined by the Association, but not to exceed ten percent (10%) of the amount of the delinquent Assessment per each delinquent Assessment. If any such Assessment is not paid within thirty (30) days after the delinquency date, the Assessment shall bear interest from the date of delinquency at the maximum rate permitted by law, and the Association may, at its option, bring an action at law against the Owner personally obligated to pay the same, or upon compliance with the notice provisions set forth in Section 5.02 hereof, to foreclose the lien (provided for in Section 4.01 hereof) against the Lot, and there shall be added to the amount of such Assessment the late charge, the costs of preparing and filing the complaint in such action, and in the event a judgment is obtained, such judgment shall include interest and reasonable attorneys' fees, together with the costs of action. Each Owner vests in the Association or its assigns, the right and power to bring all actions at law or lien foreclosure against such Owner to other Owners for the collection of such delinquent Assessments.

5.02 Notice of Lien: No action shall be brought to foreclose said Assessment lien or to proceed under the power of sale herein provided until thirty (30) days from the date a notice of claim of lien is deposited in the United States mail, certified or registered, postage prepaid, to the Owner of said Lot, and a copy thereof is recorded by the Association in the Office of the San Diego County Recorder; said notice of claim must recite a good and sufficient legal description of any such Lot, the Owner or reputed Owner thereof, the amount claimed (which shall include interest, reasonable attorneys' fees and expenses of collection incurred in connection with the debt secured by said lien and late charges as specified above), and the name and address of the claimant.

5.03 Foreclosure Sale: Any such sale provided for above is to be conducted in accordance with provisions of the Civil Code of the State of California, as it may hereafter be modified or amended, applicable to the exercise of powers of sale in mortgages and deeds of trust, or in any other manner permitted or provided by law. The Association, through its duly authorized agents, shall have the right to bid on the Lot at foreclosure sale, and to acquire and hold, mortgage and convey the same.

5.04 Curing of Default: Upon the timely payment or other satisfaction of (a) all delinquent Assessments specified in the notice of claim of lien, (b) all other Assessments which have become due and payable with respect to the Lot as to which such notice of claim of lien was recorded, and (c) interest, late charges, attorneys` fees and other costs of collection pursuant to this Declaration which have accrued, officers of the Association or any other persons designated by the Board are hereby authorized to file or record, as the case may be, an appropriate release of such notice, upon payment by the defaulting Owner of an amount, to be determined by the Association, to cover the costs of preparing and filing or recording such release.

5.05 Cumulative Remedies: The lien and the rights to foreclosure and Sale thereunder shall be in addition to and not in substitution for all other rights and remedies which the Association and its assigns may have hereunder and by law, including a suit to recover a money judgment for unpaid Assessments, as provided above.

5.06 Subordination of Assessment Liens: If any Lot subject to a monetary lien created by any provision hereof shall be subject to the lien of a deed of trust: (a) the foreclosure of any lien created by anything set forth in this Declaration shall not operate to affect or impair the lien of such deed of trust, and (b) the foreclosure of the lien of died of trust or the acceptance of a deed in lieu of foreclosure of the deed of trust shall not operate to affect or impair the lien hereof, except that the lien hereof for said charges as shall have accrued up to the foreclosure or the acceptance of the deed in lieu of foreclosure shall be subordinate to the lien of the deed of trust, with the foreclosure purchaser or deed-in-lieu grantee taking title free of the lien hereof for all said charges that have accrued up to the time of the foreclosure or deed given in lieu of foreclosure, but subject to the lien hereof for all said charges that shall accrue subsequent to the foreclosure or deed given in lieu of foreclosure.

## ARTICLE VI

## ARCHITECTURAL CONTROL

6.01 Architectural Committee: There shall be an Architectural Committee consisting of three (3) persons to be appointed by the Developer. Except as otherwise provided herein, the members of the Architectural Committee shall be subject to removal by the Developer at any time, with or without cause. All vacancies on the Architectural Committee shall be filled by appointment by the Developer. In the event of failure of the Developer to appoint such Committee or to fill any vacancies therein, the Board shall have the right by written document to appoint the members of the Architectural Committee or to fill any vacancies. The Developer shall surrender and the Board shall assume the right to appoint and remove the members of the Architectural Committee on the date that Developer no longer owns at least one (1) Undeveloped Lot, provided that the Developer shall, at its election, be entitled at all times to appoint at

least one (1) person to the Architectural Committee, whether or not the Developer is an Owner of a Lot. The Architectural Committee shall act by majority vote of its members, but a majority of the Architectural Committee may designate a representative to act for it.

6.02 Promulgation of Guidelines: The Architectural Committee may promulgate, from time to time, Guidelines setting forth the procedure for submission and approval of and the form and content of Submittals for the erection, construction, installation or alteration of Improvements, including Landscape Improvements. These rules and regulations shall be promulgated to assist Members in the submission of plans and specifications. In promulgating and changing Guidelines, the Architectural Committee shall apply standards consistent with the Government Regulations and the purpose of this Declaration.

6.03 Plan Review: No Improvement of any nature whatsoever (including, but not limited to, any alteration or addition to any Improvements existing from time to time) shall be constructed, installed, assembled, maintained or permitted to remain on any Lot until plans and specifications for such Improvement (the "Submittals") shall have been approved in writing by the Architectural Committee. All Submittals shall be prepared by an architect and/or engineer, licensed to practice in the State of California, and shall be submitted in writing over the signature of the Owner or his authorized agent. Each Submittal shall conform to the Guidelines and any restrictions contained in the deed pursuant to which the Developer first conveyed title to the Lot for which the Submittal is made. Three (3) copies of each Submittal are required.

6.04 Approvals: The Architectural Committee shall base its approval or disapproval of any Submittal on, among other things, the adequacy of site dimensions; the adequacy of structural design; the conformity and harmony of external design with the neighboring structures; the affect of location and use of improvements on neighboring sites, operations and uses; the relation of the topography, grade and finished ground elevation of the site being improved to that of the neighboring sites; the proper facing of elevations with respect to nearby streets; and the conformity of the Submittal to the Government Regulations and the purpose and general plan and intent of this Declaration. The Committee shall not arbitrarily or unreasonably withhold its approval of such Submittal. If the Architectural Committee fails either to approve or to disapprove any Submittal within sixty (60) days after the same has been submitted to and received by the Architectural Committee, it shall be conclusively presumed that the Architectural Committee has approved the Submittal, provided that the Improvements discussed in the Submittal are in accord with the Government Regulations. Notwithstanding anything herein to the contrary, approval by the Architectural Committee is not exclusive and all plans and specifications required to be approved by the City of San Diego, whether through the building permit process or otherwise, shall be so approved prior to the commencement of construction.

6.05 Variances: Where circumstances, such as topography, location of lot lines, location of trees, or other matters require, the Architectural Committee may allow reasonable variances as to any of the Restrictions contained in this Declaration and under the jurisdiction of the Architectural Committee, on such terms and conditions as it shall require; provided, however, that all such variances shall be in keeping with the provisions of the Government Regulations and the purpose of this Declaration.

6.06 Construction: Upon receipt of approval from the Architectural Committee pursuant to this Section, the Owner to whom the same is given shall, as soon as practicable, satisfy all conditions thereof and diligently proceed with the commencement and completion of all approved construction and alterations. In all cases, work shall be substantially completed within twenty-four (24) months from the date of such approval. If there is a failure to comply with this Section, then the approval given pursuant to this Section shall be deemed revolted unless the Architectural Committee, upon request made prior to the expiration of said twenty-four (24) month period, extends the time for completing the work.

6.07 Certificates of Compliance: Upon completion of construction or installation of any Improvements, the Owner shall supply the Architectural Committee with a Notice of Completion from a duly licensed or registered architect certifying that the Improvements as constructed or installed are in compliance with the Submittal previously approved by the Architectural Committee. In the case of work involving Landscape Improvements, a separate Notice of Completion pertaining to the Landscape Improvements shall be filed by a landscape architect. If the Architectural Committee determines that the Improvements are not in compliance with the previously approved Submittals, it shall notify the Owner in writing of such non-compliance within ninety (90) days after the receipt of the Notice of Completion. If the Architectural committee determines that the Owner has not remedied the non-compliance within thirty (30) days from the date of the notice of non-compliance, the Architectural Committee shall notify the Association of the non-compliance. The Association shall thereafter have the right to take such steps to remedy the non-compliance as the Board in its sole discretion deems reasonable and necessary.

Unless the Architectural Committee determines within (90) days that the Improvements are not in compliance with the previously approved Submittal, the Notice of Completion shall be deemed accepted by the Architectural Committee.

6.08 Architectural Fee: The Architectural Committee may charge and collect a reasonable fee for the examination of any Submittals. The amount of such fee shall not exceed the cost of making such examination, including the cost of any architect's or engineer's fees incurred in connection therewith.

6.09 Waiver: The approval of the Architectural Committee of any Submittals for any work done or proposed.

or for any other matter requiring the approval of said Committee, shall not be deemed to constitute a waiver of any right to withhold approval of any similar plans, drawings, specifications or other matters subsequently submitted for approval.

6.10 Nonliability for Decisions: Neither the Developer, the Association, nor the Architectural Committee or the members thereof shall be liable to anyone submitting plans to them for approval or to any Owner or lessee of land affected by this Declaration, by reason of mistake in judgment, negligence or nonfeasance arising out of or in connection with the approval or disapproval or failure to approve any such plans. Approval or disapproval of any Submittal by the Architectural Committee shall not constitute a determination as to the structural integrity, adequacy or fitness of the Improvements contemplated by such submittal, and neither the Developer, the Association, nor the Architectural Committee or the members thereof shall be liable to anyone submitting plans for approval or to any Owner or lessee of land affected by this Declaration in the event the Improvements contemplated by such Submittal are inadequate or unfit. Every person who submits plans to the Architectural Committee for approval agrees, by submission of such plans, and every Owner or lessee of any of the property agrees, by acquiring title thereto or interest therein, that he will not bring any action or suit against the Developer, the Association, the Architectural Committee or any members thereof to recover any damages for any of the foregoing.

6.11 General: The members of the Architectural Committee shall not be entitled to any compensation for services performed pursuant to this Declaration; however, any architect, engineer or similar party employed by the Architectural Committee to assist in the review of Submittals shall be entitled to a fee.

6.12 Disclosure and Waiver of Conflict of Interest: The Developer hereby discloses the following:

(a) The members of the Architectural Committee may be affiliated with and employed by the Developer.

(b) Should the Developer submit plans and specifications to the Architectural Committee, the members of the Architectural Committee appointed by the Board may be in a conflict of interest in rendering their decisions.

Neither the Developer nor any member of the Architectural Committee shall have any liability to any Owner or other person by reason of decision which may benefit the Developer rendered in good faith by the Architectural Committee or any member thereof while in a conflict of interest, and each Owner hereby waives any claim of liability against the Developer, the Architectural Committee, or any member thereof based on such conflict of interest. Nothing herein stated is intended to limit the application or meaning of Section 6.10 above or Section 1.03 below.

## ARTICLE VII

## REGULATION OF OPERATIONS AND USES

7.01 Prohibited Operations and Uses: In addition to those operations prohibited by the Government Regulations, the following operations and uses shall not be permitted on the Property or any portion thereof:

(a) Residential use of any type.

(b) Trailer courts or recreational vehicle campgrounds.

(c) Junk yards or recycling facilities.

(d) Drilling for and removing oil, gas or other hydrocarbon substances.

(e) Refining of petroleum or petroleum products.

(f) Commercial storage of petroleum products.

(g) Excavation of building or construction materials (except for excavation necessary in the course of approved construction).

(h) Distillation of bones.

(i) Dumping, disposal, incineration or reduction of garbage, sewage, offal, dead animals or other refuse.

(j) Fat rendering.

(k) Stockyard or slaughter of animals.

(l) Smelting of any ore.

(m) Cemeteries.

(n) Jail or honor farms.

(o) Labor or migrant worker camps.

(p) Truck terminals.

(q) Storage of construction materials and equipment (except as necessary in the course of approved construction).

(r) Any use (other than approved construction) which emits dust, sweepings, dirt, cinders, fumes, gases, odors, acids, steam or other substances into the atmosphere, or discharges liquid, solid wastes or other matter into any water reclamation area or water way which, in the opinion of the Developer or the Board of Directors, may adversely affect the health, safety, or comfort of persons within the area or may be harmful to vegetation or property.

(s) The radiation or discharge of intense glare or heat, or atomic, electromagnetic, microwave, ultrasonic, laser or other radiation, except within an area screened and enclosed in such a manner as to be indiscernible from any point outside the Lot on which the operation is conducted.

(t) The emission of any vibration, noise or sound which, in the opinion of the Developer or the Board of Directors, is objectionable due to intermittence, frequency, strength, shrillness or volume.

7.02 Other Operations and Uses: Operations and uses which are specifically prohibited by these restrictions may be permitted in a specific case if written detailed operational plans and specifications therefor are submitted to and approved in writing by the Association. Approval or disapproval of such plans and specifications shall be based upon the effect of such operations or uses on other portions of the Property or upon the occupants thereof. If the Association fails either to approve or to disapprove such plans and specifications within sixty (60) days after the same have been submitted to it, it shall be conclusively presumed that the Association has disapproved said plans and specifications. Notwithstanding anything contained herein to the contrary, no activity shall be allowed on any Lot if it is prohibited by the Government Regulations.

7.03 Exculpation: Neither the Developer, the Association nor the Board or any members thereof shall bye liable in damages to anyone submitting operational plans and specifications to them for approval, or to any Owner or lessee of the Property or any portion thereof by reason of mistake in judgment, negligence or nonfeasance arising out of or in connection with the approval or disapproval or failure to approve any such operational plans and specifications. Approval or disapproval of any Submittal by the Architectural Committee shall not constitute a determination as to the structural integrity, adequacy or fitness of the Improvements contemplated by such submittal, and neither the Developer, the Association, nor the Architectural Committee or the members thereof shall be liable to anyone submitting plans for approval or to any Owner or lessee of land affected by this Declaration in the event the Improvements contemplated by such Submittal are inadequate or unfit. Every person who submits operational plans and specifications to the Association for approval agrees, by submission of such plans and specifications, and every Owner and lessee of any of the Property agrees, by acquiring title thereto or interest therein, that he will not bring any action or suit against the Developer, the Association, the Board or any members thereof to recover any damages for any of the foregoing,

## ARTICLE VIII

## ENCROACHMENTS AND EASEMENTS

8.01 Encroachments: Each Lot is hereby declared to have an easement over all adjoining property (including Lots) for the purpose of accommodating minor encroachments due to original engineering or surveying errors, errors in original construction of Improvements, errors in reconstruction or repair of Improvements in accordance with plans and specifications approved by the Architectural Committee, or settlement or shifting or movement of an Improvement.

8.02 Utility Easements: The Developer hereby reserves, together with the right to grant and transfer the same, such rights of way and easements over the Property as may be necessary or convenient for the purpose of erecting, constructing, repairing, maintaining, replacing and operating utility services over, across, under and through the Property within the designated setback areas, including without limitation wires, poles, pipes and conduits for lighting, power, television, telephone and other communication facilities, gas, water, storm sewers, sanitary sewers, and other utility lines. The Developer shall have the right to grant rights of way or easements to others to carry out the foregoing purposes. Upon the laying, repair, maintenance or replacement of any such lines, wires, pipes, conduit. or sewers, the Property shall be restored to the same condition it was in prior to the doing of such work.

8.03 Slope and Drainage: The Developer hereby reserves for itself, each Owner and the Association, easements to allow the drainage of water under, upon and across each Lot in the established drainage ways existing on each Lot. "Established drainage ways" shall mean and refer to the Developer's plan for drainage as shown on the Developer's grading plan for the Property and any drainage improvements installed by the Developer, the Association or any Owner pursuant to such grading plans or any Government Regulation.

8.04 Grades, Cuts and Fills: The Developer hereby reserves, together with the right to grant and transfer the same, easements to make such cuts and fills as are necessary to grade the streets or private ways and/or other Improvements within the Property, whether dedicated or not dedicated to the City of San Diego or other political subdivision, in accordance with such grades as the City of San Diego or other political subdivision may establish, and the rights to provide the necessary support and protection of streets so graded, including to slope upon abutting Lots.

8.05 Performance and Discharge of Rights and Duties: The Developer hereby reserves for itself, the Association and their agents a non-exclusive easement for ingress and egress over the Property and each Lot for the purpose of permitting the Association, the Board of Directors, the Architectural Committee, the Developer and their agents to discharge their rights and obligations as described in this Declaration.

## ARTICLE IX

## MAINTENANCE BY OWNERS

Except to the extent the Association shall be obligated to maintain and repair the Landscape Improvements located within a Lot pursuant to Section 3.06 hereof, the Owner of each Lot shall maintain and repair such Lot, including the Improvements thereon, in good condition and repair and in accordance with the provisions of this Declaration, the Government Regulations and the rules and regulations, if any, of the Association and the Architectural Committee. Without limiting the generality of the foregoing, the Owner of each Lot shall at all times keep it and the Improvements thereon in a safe, clean and wholesome condition and comply, at its own expense, in all respects with all applicable governmental, health, fire and safety ordinances, regulations, requirements and directives and the Owner shall at regular and frequent intervals remove at its own expense any rubbish of any character whatsoever which may accumulate upon such Lot. Each Lot and all Improvements thereon, including all concrete terrace drains, shall at all times be constructed, kept and maintained by the Owner of the Lot in first-class condition, repair and appearance similar to that maintained by other owners of high-class properties of similar class and construction in San Diego County. All repairs, alterations, replacements or additions to Improvements shall be at least equal to the original work in class and quality. The necessity and adequacy of such repairs shall be measured by the same standard as for the original construction and maintenance. All outdoor refuse collection areas shall be completely enclosed and screened by a constructed wall of durable material not less than :six (6) feet in height. All such areas shall have concrete floors and shall be sufficient in size to contain all refuse generated on each Lot, but in no event smaller than six (6) feet by eight (8) feet. No refuse collection areas shall be permitted between a street and the front of a building.

## ARTICLE X

## ENFORCEMENT

10.01 Abatement and Suit: Violation or breach of any Restriction, easement or reservation now or hereafter imposed by this Declaration shall give to the Association, the Architectural Committee and the Developer, the right to enter upon the Lot on which said violation or breach exists and to summarily abate and remove, at the expense of the Owner thereof, any structure, thing, or condition that may be or exist thereon contrary to the intent and meaning of the provisions hereof, and/or to prosecute a proceeding at law or in equity against the person or persons who have violated or are attempting to violate any such Restriction, easement or reservation to enjoin or prevent them from so violating, to cause said violation to be remedied or to recover damages for said violation.

10.02 Deemed to Constitute a Nuisance: The result of every action or omission whereby any Restriction,

easement or reservation herein contained is violated in whole or in part, except for variances from such Restriction, easement or reservation properly approved by the Architectural Committee or the Association, is hereby declared to be and to constitute a nuisance, and every remedy allowed at law or equity against every such result may be exercised by the Association, the Architectural Committee or any Owner.

10.03 Suspension of Members: The Association shall have the right to suspend the voting rights of a Member for any period during which any assessment against his Lot remains unpaid and delinquent, provided that any suspension of such voting rights shall be made only by the Association, or a duly appointed committee thereof, after notice and hearing given and held in accordance with the Bylaws.

10.04 Attorney's Fees: If an Owner defaults in the performance or observance of any provision of this Declaration and any party entitled to enforce the provisions pursuant to Section 11.01 has obtained the services of an attorney with respect to the defaults involved, the Owner covenants and agrees to pay to such party, as a condition of settlement of said default, any costs or fees involved including reasonable attorneys' fees, notwithstanding the fact that suit has not yet been instituted. In the event of action to enforce any of the provisions contained in this Declaration, the party prevailing in such action shall be entitled to recover from the other party thereof as part of the judgment reasonable attorneys' fees and costs of such suit.

10.05 Inspection Rite: The Association, the Developer, the Architectural Committee or authorized representatives of either, may from time to time, at any reasonable hour, enter upon and inspect any Lot or any portion thereof or Improvements thereon, to ascertain compliance with this Declaration, but without obligation to do so or liability therefor.

10.06 Failure to Enforce Not a Waiver of Rights: The failure of the Developer, the Association, the Architectural Committee or any Owner to enforce any Restriction, easement or reservation now or hereafter imposed by this Declaration shall in no event be deemed to be a waiver of the right to do so thereafter nor of the right to enforce any other Restriction.

## ARTICLE XI

## MISCELLANEOUS PROVISIONS

11.01 Termination and Modification: Except as otherwise provided in Section 3.02, this Declaration or any Restriction contained herein, may be terminated, modified or amended, as to the whole of the Property or any portion thereof, with the approval of the Owners of at least eight (8) of the Lots. No such termination, modification or amendment shall be effective until proper instrument in writing has been executed and acknowledged and recorded in

the office of the County Recorder, San Diego County, California.

11.02 Assignments of Developer's Rights and Duties: Any and all of the rights, powers and reservations of the Developer herein contained may be assigned to any person, corporation, partnership, association or other entity and any such person, corporation, partnership, association, or entity, to the extent of such assignment, shall have the same rights and powers and be subject to the same obligations and duties as are given to and assumed by the Developer herein.

11.03 Assignment of Association's Rights and Duties: Any and all of the rights, powers and reservations of the Association herein contained may be assigned to any person, corporation, partnership, association or other entity and any such person, corporation, partnership, association or other entity, to the extent of such assignment, shall have the same rights and powers and be subject to the same obligations as are given to and assumed by the Association.

11.04 Constructive Notice and Acceptance: Every person who now or hereafter owns or acquires any right, title or interest in or to any portion of the Property is and shall be conclusively deemed to have consented and agreed to every Restriction, easement or reservation none or hereafter imposed by this Declaration, whether or not any reference to this Declaration or such Restriction, easement or reservation is contained in the instrument by which such person acquired an interest in said Property.

11.05 Rights of Mortgagees: All Restrictions herein contained shall be deemed subject and subordinate to all mortgages and deeds of trust now or hereafter placed upon the Property subject to these restrictions or any portion thereof, and none of said restrictions shall supersede or in any way reduce the security of any such mortgage or deed of trust; provided, however, that if any portion of the Property is sold through the foreclosure of any mortgage or under the provisions of any deed of trust, any purchaser at such sale and his successors and assigns shall hold any and all Property so purchased subject to all of the restrictions and other provisions of this Declaration.

11.06 Mutuality, Reciprocity, Runs with Land: All Restrictions, easements, reservations and agreements contained herein are made for the direct, mutual and reciprocal benefit of each and every portion and Lot of the Property; shall create mutual, equitable servitudes upon each Lot in favor of every other Lot; shall create reciprocal rights and obligations among the respective Owners of all Lots and privity of contract and estate among all grantees of said Lots, their heirs, successors and assigns; and shall, as to the Owner of each Lot, his heirs, successors and assigns, operate as covenants running with the land, for the benefit of all other Lots.

11.07 Paragraph Headings: Paragraph headings, where used herein, are inserted for convenience only and are

not intended to be a part of this Declaration or in any way to define, limit or describe the scope and intent of the particular paragraphs to which they refer.

11.08 Effect of Invalidation: If any provision of this Declaration is held to be invalid by any court, the invalidity of such provision shall not affect the validity of the remaining provisions hereof.

11.09 Choice of Law. This Declaration shall be construed and enforced in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned have executed this Declaration on the date first hereinabove written.

CORNERSTONE CORPORATE CENTER,
a California limited
partnership

By: Cornerstone Development
Partnership #4, a
California general
partnership, general
partner

By: /s/ WILLIE E. SHORT
---
Willie E. Short, II
general partner

By: /s/ DONALD C. ALFORD, Trustee
---
Donald C. Alford III,
Trustee, general partner

CAT NO. ????????????
TD T996 CA (1-63)
(Partnership as a Partner of a Partnership)

[LOGO] TICOR TITLE INSURANCE

STATE OF CALIFORNIA }
COUNTY OF San Diego } ss.

On April 19, 1985 before me, the undersigned, a Notary Public in and for said State, personally appeared Willie E. Short and Donald C. Alford, Trustee, personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as two of the partners of Cornerstone Development Partnership #4, the partnership that executed the within instrument, and acknowledged to me that they executed the same on behalf of Cornerstone Corporate Center, a partnership, and that said last named partnership executed the same.
WITNESS my hand and official seal.

Signature /s/ SARAJUAN FADDEN

OFFICIAL SEAL
SARAJUAN FADDEN
NOTARY PUBLIC, CALIFORNIA
PRINCIPAL OFFICE IN
SAN DIEGO COUNTY
My Commission Exp. Oct 19 1987

(This ??? for ?????)

Exhibit "A"

Description of Property

Lots 1 through 11, inclusive, and Lot A, as shown on Map No. 11126 recorded January 18, 1985 in the Official Records of San Diego County, California.

Exhibit "A"

PLANNING DIRECTOR RESOLUTION No. 6032

GRANTING PLANNED INDUSTRIAL DEVELOPMENT PERMIT AMENDMENT NO. 85-0830

WHEREAS, on April 2, 1984, the Planning Director of The City of San Diego granted Planned Industrial Development Permit NO. 83-0378 to construct and operate an industrial development, located on the north side of Mira Mesa Boulevard, one-half-mile east of Interstate 805 Freeway; and

WHEREAS, PACIFIC CORPORATE ASSOCIATES, a limited partnership, owner/permittee filed an application for a Planned Industrial Development Permit Amendment to construct and operate an industrial development, located on the north side of Mira Mesa Boulevard one-half-mile east of Interstate 805 Freeway described as Lots 1-11, Pacific Corporate Center Unit 1, Map No. 11126, and Portions of Section 33, T145, R3W and Portions of Sections 3 and 4, T155, R3W, SBDM in the A-1-10 and A-1-10 HR (proposed M-IA and M-181) Zones; and

WHEREAS, on February 18, 1986, the Planning Director of The City of San Diego considered Planned Industrial Development Permit No. 85-0830 pursuant to Section 101.0910 of the Municipal Code of The City of San Diego and; NOW, THEREFORE,

BE IT RESOLVED, by the Planning Director of The City of San Diego, as follows:

1. That the Planning Director adopts as the Findings of the Planning Director those written Findings dated February 18, 1986, a copy of which is attached hereto and by this reference incorporated herein.

2. That said Findings are supported by maps and exhibits, all of which are herein incorporated by reference.

BE IT FURTHER RESOLVED, that based on the Findings hereinbefore ??? by the Planning Director, Planned Industrial Development Permit No. 85-0830 (Amendment to PID No. 83-03781, is hereby granted to Owner/Permittee in the form and with the terms and conditions as set forth in Planned Industrial Development Permit No. 85-O830, a copy of which is attached hereto and made a part hereof.

FINDINGS

1. The proposed project will fulfill a need and will not adversely affect the neighborhood, the General Plan, or the Community Plan. The Mire Mesa Community Plan designates the area for light-industrial uses. The project is a phased industrial-office development, which is consistent with this land use

designation. The development would be compatible with surrounding land uses, proposed and existing.

2. The proposed project, because of conditions that have been applied to it, will not be detrimental to the health, safety and general welfare of persons residing or working in the area, and will not adversely affect other property in the vicinity. Land use limitations have been placed on specific lots in the industrial development. This will ensure that traffic generated by the project will not exceed the carrying capacity of the community transportation system.

3. The proposed protect will comply with all the relevant regulations in the Municipal Code. The development meets all of the requirements of the Planned Industrial Development Ordinance.

[SIGNATURE ILLEGIBLE]
---
Burch ???, Senior Planner

/s/ JACK VAN CLAAVE
---
Jack Van Claave, Planning Director

--00 1947

PLANNED INDUSTRIAL DEVELOPMENT PERMIT NO. 85-0830
(AMENDMENT TO PID NO. 83-0378)
PLANNING DIRECTOR

This Planned Industrial Development Permit Amendment is granted by the Planning Director of the City of San Diego to PACIFIC CORPORATE ASSOCIATES, a limited partnership, "Owner/Permittee," under conditions in Section 101.0920 of the Municipal Code of The City of San Diego.

1. Permission is granted to Owner/Permittee to construct and operate an industrial development, located on the north and south sides of Mira Mesa Boulevard, one-half-mile east of Interstate 805 Freeway, described as Lots 1-11, Pacific Corporate Center Unit 1, Map No. 11126, Portions of Section 33, T145, R3W, and Portions of Section 3 and 4, T155, R3W SBBM, in the A-1-10 and A-1-10 HR (Proposed M-1A and M-1B) Zones.

2. The project shall consist of the following:

   a. 33 industrial lots, individually graded and padded; and six open space lots, all on approximately 278 acres;

   b. Light industrial and office users, totaling a maximum of 6,240,000 square feet of floor area;

   c. Landscaping;

   d. Off-street Parking;

   e. Incidental accessory uses as may be determined incidental and approved by the Planning Director.

3. Prior to the issuance of any building permits, a community plan amendment for transportation issues shall be completed and approved as described in EOD No. 83-0378. This planned industrial development permit shall be consistent with this community plan amendment.

4. Before issuance of any grading permits for any unit or phase, complete grading plans shall be submitted to the Planning Director for approval. Plans shall be in substantial conformity to Exhibit "A," dated February 18, 1986, on file in the office of the Planning Department. No change, modification or alterations shall be made unless appropriate applications or amendment of this permit shall have been granted.

5. Grading for the project should be encouraged during the dry season (April 1 through October 31). Grading which occurs during the rainy season (November 1 to March 31) shall require special engineering techniques approved by the City Engineer, in addition to erosion-control measures contained in the City's Land Development Ordinance.

6. Manufactured slopes shall be hydroseeded with native plant mixtures similar in composition to the existing natural vegetation. Graded pad areas shall be hydroseeded to prevent erosion, in the event that construction of buildings does not occur within 30 days following grading, or temporary erosion control facilities be installed to collect silt and prevent pad erosion satisfactory to the Planning Director and City Engineer.

7. Before issuance of any building permits for any unit or phase, a complete landscape plan, including a permanent irrigation system, shall be submitted to the Planning Director for approval. The plans shall be in substantial conformity to Exhibit "A," dated February 18, 1986, on file in the office of the Planning Department. Approved planting shall be installed before issuance of any occupancy permit on any building. Such planting shall not be modified or altered unless this permit has been amended.

8. Prior to the issuance of any building permits, a development plan package for each lot or group of lots shall be submitted to the Planning Director for approval. This development plan package shall include the following:

a. a completed Planned Industrial Development Permit Supplemental Application Form for each lot or group of lots proposed for development;

b. One (1) plot drawn in accordance with instructions contained in Planned Industrial Development Permit Supplemental Application Form;

c. One (1) copy of drawing showing exterior elevations and building materials of all sides of all buildings, including signs;

d. One (1) set of floor plans depicting general use of the building(s); and

e. One (1) copy of a landscape/irrigation plan.

9. The number of parking spaces shall conform to regulations of the underlying zones. Parking spaces shall be consistent with Division 8 of the Municipal Code and shall be permanently maintained and not converted for any other use. Parking spaces and aisles shall conform to Planning Department standards. Parking areas shall be marked. Five percent of the parking located nearest to building entrances shall be designated as preferred parking for ride-sharers. This parking shall be indicated on development plans, to be approved by the Planning Director.

10. Lots A-1 to A-11; and B-1, B-2A, B-2B, B-2C, B-5 to B-8, C-2 and C-4 on Exhibit "A," dated February 18, 1986, shall be

developed with uses permitted in the M-IP Zone only, except that accessory/support uses, as indicated in the approved development text on file in the office of the Planning Department, may also be permitted.

11. Lots D-1 to D-8 on Exhibit "A," dated February 18, 1986, shall be developed with uses permitted in the M-LI Zone only, except that accessory/support uses, as indicated in the approved development text on file in the office of the Planning Department, may also be permitted.

12. Lots D-1 to D-8 on Exhibit "A," dated February 18, 1986, may be developed to multi-tenant uses, which shall be limited to those permitted by the M-LI Zone.

13. Lots D-1 to D-8 on Exhibit "A," dated February 18, 1986, shall be subject to the "single company or agency per parcel" requirement of the M-LI Zone, with respect to office uses as described in Section 101.0431.1, Paragraph 8.5, of the Municipal Code of the City of San Diego, except that the Planning Director may authorize temporary occupancy of these premises by third parties not related to the primary occupant or its business, subject to the following conditions:

a. The leasing or letting is appropriate in order to make beneficial use of space that is temporarily not needed by the primary occupant because either (i) more office space was initially constructed or acquired than was initially needed, although the primary occupant in good faith reasonably expected at the time of construction or acquisition that it would need all of the office space in due course, or (ii) the primary occupant has temporarily been required to reduce its office force due to conditions beyond its reasonable control.

b. The primary occupant in good faith will use reasonable efforts to occupy the space itself as soon as practicable.

c. The term of the lease or letting shall not exceed the remaining portion of the period during which the space is reasonable expected not to be needed by the primary occupant.

d. The off-street parking regulations of the M-LI Zone will be compiled with.

e. Such leasing or letting will not materially adversely affect the overall purposes and intent of the M-LI Zone in San Diego.

14. Lots B-3, B-4, C-1 and C-2 may be developed, either in whole or part, with support commercial uses or M-IP Zone uses.

15. Development of each lot or group of lots shall not exceed the maximum Floor Area Ratios (FAR) indicated in the following table:

a. Carroll Canyon Subarea

| Lots | Acres | Maximum FAR | *Zone |
|---|---|---|---|
| A-1 | 2.3 | 0.6 | M-1B |
| A-2 | 3.5 | 0.6 | M-1B |
| A-3 | 2.9 | 0.6 | M-1B |
| A-4 | 1.1 | 0.6 | M-1B |
| A-5 | 10.2 | 0.6 | M-1B |
| A-6 | 2.1 | 0.6 | M-1B |
| A-7 | 3.1 | 0.6 | M-1B |
| A-8 | 2.9 | 0.6 | M-1B |
| A-9 | 14.5 | 0.6 | M-1B |
| A-10 | 5.0 | 0.6 | M-1B |
| A-11 | 5.3 | 0.6 | M-1B |
| | 52.9 | | |

b. Boulevard Subarea

| Lots | Acres | Maximum FAR | *Zone |
|---|---|---|---|
| B-1 | 9.4 | 0.6 | M-1B |
| B-2A | 5.2 | 0.6 | M-1B |
| B-2B | 8.5 | 0.6 | M-1B |
| B-2C | 6.5 | 0.6 | M-1B |
| B-3 | 5.8 | 0.6 | M-1A |
| B-4 | 6.9 | 0.6 | M-1B |
| B-5 | 6.4 | 0.6 | M-1A |
| B-6 | 6.0 | 0.6 | M-1B |
| B-7 | 3.9 | 0.6 | M-1B |
| B-8 | 7.3 | 0.6 | M-1B |
| | 65.9 | | |

c. Central Subarea

| Lots | Acres | Maximum FAR | *Zone |
|---|---|---|---|
| C-1 | 8.0 | 1.055 | M-1A |
| C-2 | 4.2 | 1.055 | M-1A |
| C-3 | 4.4 | 1.055 | M-1B |
| C-4 | 4.6 | 1.055 | M-1B |
| | 21.2 | | |

d. Lopez Canyon Subarea

| Lots | Acres | Maximum FAR | *Zone |
|---|---|---|---|
| D-1 | 40.5 (1) | 0.54 | M-1B |
| D-2 | 4.8 (2) | 0.4 | M-1B |
| D-3 | 6.0 (3) | 0.4 | M-1B |
| D-4 | 5.7 (4) | 0.4 | M-1B |
| D-5 | 18.1 | 0.54 | M-1B |
| D-6 | 17.3 (5) | 0.54 | M-1B |
| D-7 | 6.0 | 0.4 | M-1B |
| D-8 | 6.0 | 0.4 | M-1B |
| | 104.4 | | |

Grand Total 244.4 acres

* Subject to limitations contained in accompanying document "Pacific Corporate Center, a Planned Industrial Development," dated February 18, 1986, prepared by Tarrini and Brink, consultants.

(1) Includes acreage for Lots E-3 and E-4 for FAR purposes

(2) Includes acreage for Lot E-2 for FAR purposes

(3) Includes acreage for Lot E-5 for FAR purposes

(4) Includes acreage for Lot E-6 for FAR purposes

(5) Includes acreage for Lot E-1 for FAR purposes

16. Any variance from the standards contained in Conditions No. 10-14 of this permit and in the document "Pacific Corporate Center, a Planned Industrial Development," must be approved by the Planning Director after a public hearing as a formal amendment of this PID.

17. Each development plan package shall become a part of Exhibit "A," dated February 18, 1986, on file in the office of the Planning Department. The cumulative total floor area and proposed parking spaces for each phase shall be monitored in a manner approved by the Planning Director, to ensure that all conditions of the PID permit are met.

18. A maximum of three traffic-generation studies are to be conducted at various times during the development of the protect. These traffic-generation studies will be as required by the City Engineer. These studies will provide the necessary data for the review of further developments of this type. The final traffic-generation study should be conducted when Pacific Corporate Center is completely built out. These traffic-generation studies must count all trips entering and leaving the development for a minimum of seven consecutive days and shall conform to the San Diego Association of Governments (SANDAG) standard for traffic-generation studies. The outcome of these studies shall not affect the approved project.

19. The applicant or its successor shall enter into a development agreement with The City of San Diego. The development agreement shall cover at least the following:

a. Financing or otherwise providing for necessary public improvements in connection with the project;

b. Codifying the conditions contained in the related Tentative Map, the Planned Industrial Development Permit and the document "Pacific Corporate Center, as Planned Industrial Development;" and

c. Retention of the zoning requirements contained in the M-1A and M-1B Zones existing at the time of adoption of the City Council, throughout the phasing of this project.

20. All uses shall be conducted within an enclosed building, except for outdoor storage. Outdoor storage of materials is permitted, provided the storage area is completely enclosed by walls, fences, buildings, landscape screening or a combination thereof. Walls or fences shall be solid and not less than six feet in height; no merchandise, material or equipment shall be stored to a height greater than any screening. Landscape screening proposals shall require approval of the Planning Director or, on appeal, the Planning Commission.

21. If visible from an adjacent street, no mechanical equipment, tank, duct, elevator enclosure, cooling tower or mechanical ventilator or air conditioner shall be erected, constructed, converted, established, altered, or enlarged on the roof of any building, unless all such equipment and appurtenances are screened by suitable landscaping, or contained within a completely enclosed structure whose top and sides may include grillwork, louvers and latticework.

22. No merchandise, supplies or equipment shall he stored on the roof of any building.

23. At the discretion of the Planning Director, screening walls of solid materials or landscape screening may be required for boundaries of the Planned Industrial Development not immediately adjoining dedicated and improved public streets and highways. The height and design of such walls or landscape screening and the materials utilized shall be determined by the Planning Director or the Planning Commission.

24. Public utility distribution and similar systems and service facilities shall be located underground within the boundaries of the development as provided for in SEC. 102.0221 of The City of San Diego Municipal Code.

25. Only television and radio antennas which are located indoors or screened to the satisfaction of the Planning Director and which are designed to serve all the occupants of the development shall be permitted.

26. All streets, alleys, walkways and public areas within the development which are not dedicated to public use shall he improved in accordance with standards established by the City Engineer. Provisions acceptable to the City shall be made for the preservation and maintenance of all streets, alleys, walkways, and parking areas.

27. The development shall include the following facilities as discussed in the accompanying document "Pacific Corporate Center, a Planned Industrial Development," dated February 18, 1986:

a. Provision of outdoor eating areas to be developed as attractive functional parks on each parcel;

b. Requirement for in-plant, food service facilities on Lots B-1, D-1, D-5, D-6, D-7 and D-8; and,

c. Requirement for in-plant food service facilities on Lots B-7 or B-8, and on one of the following three lots; B-2A, B-2B and B-2C.

d. Provision of secured bicycle parking on each parcel. This requirement may be waived on the M-1A-zoned lots should they developed to support commercial uses.

28. Any restaurant or delicatessen permitted as an accessory use within the PID shall be oriented to or located in the interior of each lot. Signing for these food facilities shall be minimal and off-site signage shall be prohibited.

29. Prior to the use of occupancy of any lot, all of the lot not devoted to buildings, structures, driveways, sidewalks, parking, outdoor storage, or loading areas shall be suitably landscaped.

30. All outdoor lighting shall be so shaded and adjusted that the light is directed to fall only on the same premises as light sources are located.

31. This planned industrial development permit amendment must be used within 36 months after the effective date of the concurrent Rezoning Case No. 83-0378 except as may be reflected in the development agreement referenced in Condition No. 19, above, or the permit shall be void. An extension of time may be granted, as set forth in Section 101.0920 of the Municipal Code. Any such extension must meet all Municipal Code requirements and applicable guidelines in effect at the time the extension is considered.

32. Construction and operation of the approved use shall comply at all times with the regulations of this or any other governmental agencies.

33. After establishment of the project, the property shall not be used for any other purposes unless:

a. Authorized by the Planning Director; or

b. The permit has been revoked by the City.

34. This Planned Industrial Development Permit Amendment may be revoked by the City if there is a material breach or default in any of the conditions of this permit.

35. No permit for grading or construction of any facility shall be granted nor shall any activity authorized by this permit be conducted on the premises until:

a. The Permittee signs and returns the permit to the planning department; and

b. The Planned Industrial Development Permit is recorded in the Office of the County Recorder.

36. This Planned Industrial Development Permit Amendment is a covenant running with the lands and shall be binding upon the Permitted and any successor or successors, and the interests of any successor shall be subject to each and every condition set out.

37. Prior to the issuance of any building permits for any unit or phase, a final subdivision map or maps shall be recorded on the site.

38. Mitigation measures identified in the appendices dated April, 1983 of ZOD No. 83-0378 concerning archaeological resources shall be implemented to the satisfaction of the Deputy Director of the Environmental Quality Division.

39. The graded areas within the "Penasquitos Canyon Preserve" will be daylight cuts; no manufactured slopes will be created. The cut areas will be provided with public access by a ten-foot wide pedestrian easement, connecting to a public parking lot having a capacity of six to twelve vehicles. Specific design plans for the graded area will be incorporated into the PID plans and specifications for abutting lots, when they develop. These improvements will include development of public overlooks, landscaping, hiking and jogging paths, benches, and a pathway connecting to the existing path into Lopez Canyon. The design plans will also be reviewed by the Los Penasquitos Canyon Preserve Task Force and by the Citizen's Advisory Committee to the task force prior to being utilized.

40. The project proposes substantial grading directly west of the entrance to the El Camino Memorial Park. The community plan recommends that development maintain the tranquil atmosphere of the memorial park. Special landscaping measures have been incorporated Into the PID which will provide for complete revegetation of these graded areas. The toe of the slope along Carroll Canyon Road will be landscaped with ornamental naturalized groundcover which will visually connect the roadway area with the adjacent native landscaped slopes. The slopes and the transition area will be planted with trees which will provide additional blending with the surrounding topography. The size of plant material used will range from box size trees (e.g. California sycamore) and container size groundcover in the transition area, to hydroseeded shrubs and container size trees

of the slopes. A two-year maintenance program, including plant replacement, will be implemented in lieu of a typical six-month maintenance period.

41. The development shall include the incorporation of a transit turn-out with bench and shelter to encourage bus use to be located along Mira Mesa Boulevard on or near the site subject to approval by the City Engineer, San Diego Transit District and MTDB.

42. Building permits shall not be issued for Lots B-2A, B-2B and B-2C until a lot consolidation map for Lots B-7 and B-8 is recorded.

43. The three lots being created from former Lot B-2 (Lots B-2A, B-2B, B-2C) shall be developed by not more than two individual owners. Lots B-2B and B-2C must be occupied by a single user.

44. This Planned Industrial Development Permit Amendment shall supersede PID No. 83-0378.

Passed and Adopted by the Planning Director on February 18, 1986.

AUTHENTICATED BY:

/s/ BURCH E. ERTLE
- ----------
Burch E. Ertle, Senior Planner
Planning Department

/s/ JACK VAN CLEAVE
- ----------
Jack Van Cleave, Planning Director

State of California,)
ss.
County of San Diego.)

On this 31st day of March, in the year 1986, before me, Catherine L. Meyer, a Notary Public in and for said county and state, personally appeared BURCH E. ERTLE, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed this instrument as Senior Planner of The City of San Diego Planning Department, and JACK VAN CLEAVE, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed this instrument as Planning Director of The City of San Diego, and acknowledged to me that The City of San Diego executed it.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal, in the County of San Diego, State of California, the day and year in this certificate first above written.

Name Catherine L. Meyer
(typed or printed)

Signature /s/ CATHERINE L. MEYER

NOTARY STAMP

- ----------
OFFICIAL SEAL
[SEAL] CATHERINE L. MEYER
NOTARY PUBLIC - CALIFORNIA
PRINCIPAL OFFICE IN
SAN DIEGO COUNTY

My Commission Exp. Aug. 29, 1988
- ----------

State of California,)
County of Orange )

On this 2nd day of July, in the year 1986, before me, Dixie L. Minnesang, a Notary Public in and for said county and state, personally appeared [ILLEGIBLE], personally known to me (or proved to me on the basis of satisfactory evidence) to be the person that executed this instrument on behalf of the partnership and acknowledged to me that the partnership executed it.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal, in the County of Orange, State of California, the day and year in this certificate first above written.

Name Dixie D. Minnesang
(typed or printed)

Signature /s/ DIXIE D. MINNESANG

NOTARY STAMP

OFFICIAL SEAL
[SEAL] DIXIE D. MINNESANG
NOTARY PUBLIC - CALIFORNIA
ORANGE COUNTY

My Commission Exp. [ILLEGIBLE]

C 1958 ??-293418

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[ILLEGIBLE]

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VERA L. LYLE
COUNTY RECORDER

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NO. 293418

EXHIBIT 10.33

# CREDIT AGREEMENT

THIS AGREEMENT is entered into as of November 1, 2002, by and between FAIR, ISAAC AND COMPANY, INCORPORATED, a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

## RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

## ARTICLE I

## CREDIT TERMS

SECTION 1.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including February 1, 2004, not to exceed at any time the aggregate principal amount of Fifteen Million Dollars ($15,000,000.00) ("Line of Credit"), the proceeds of which shall be used to finance Borrower's working capital requirements. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of EXHIBIT A attached hereto ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue commercial and standby letters of credit for the account of Borrower to finance general purpose (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Five Million Dollars ($5,000,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for a term not to exceed three hundred sixty-five (365) days, as designated by Borrower; provided however, that no Letter of Credit shall have an expiration date subsequent to the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof. Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing.

(c) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 1.2. FOREIGN EXCHANGE FACILITY.

(a) Foreign Exchange Facility. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make available to Borrower a facility (the "Foreign Exchange Facility") under which Bank, from time to time up to and including February 1, 2004, will enter into foreign exchange contracts for the account of Borrower for the purchase and/or sale by Borrower in United States dollars of Euro, Pound, Japanese yen, Australian dollars, Rand, Canadian dollars, Mexican Peso, Singapore dollars and Brazilian real; provided however, that the maximum amount of all outstanding foreign exchange contracts shall not at any time exceed an aggregate of Twenty Million United States Dollars (US$20,000,000.00). No foreign exchange contract shall be executed for a term which extends beyond February 1, 2004. Borrower shall have a "Delivery Limit" under the Foreign Exchange Facility not to exceed at any time the aggregate principal amount of Four Million United States Dollars (US$4,000,000.00), which Delivery Limit reflects the maximum principal amount of Borrower's foreign exchange contracts which may mature during any two (2) day period. All foreign exchange transactions shall be subject to the additional terms of a Foreign Exchange Agreement, substantially in the form of EXHIBIT B attached hereto ("Foreign Exchange Agreement"), all terms of which are incorporated herein by this reference.

(b) Settlement. Each foreign exchange contract under the Foreign Exchange Facility shall be settled on its maturity date by Bank's debit to any deposit account maintained by Borrower with Bank.

SECTION 1.3. INTEREST/FEES.

(a) Interest. The outstanding principal balance of the Line of Credit shall bear interest, and the amount of each drawing paid under any Letter of Credit shall bear interest from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest set forth in the Line of Credit Note.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Commitment Fee. Borrower shall pay to Bank a non-refundable commitment fee for the Line of Credit equal to Seven Thousand Five Hundred Dollars ($7,500.00), which fee shall be due and payable in full upon execution of this Agreement.

(d) Commercial Letter of Credit Fees. Borrower shall pay to Bank fees upon the issuance of each Commercial Letter of Credit, upon the payment or negotiation of each drawing under any Commercial Letter of Credit and upon the occurrence of any other activity with respect to any Commercial Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Commercial Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

(e) Standby Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance of each Standby Letter of Credit equal to one percent (1%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (ii) fees upon the payment or negotiation of each drawing under any Standby Letter of Credit and fees upon the occurrence of any other activity with respect to any Standby Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Standby Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

SECTION 1.4. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all interest and fees due under the Line of Credit by charging Borrower's deposit account number 4945-010403 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

## ARTICLE II
## REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of the State of Delaware, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower.

SECTION 2.2. AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 2.5. CORRECTNESS OF FINANCIAL STATEMENT. The financial statement of Borrower dated June 30, 2002, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the financial condition of Borrower, (b) discloses all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of such financial statement there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 2.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8. PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9. ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10. OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

## ARTICLE III
## CONDITIONS

SECTION 3.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

(i) This Agreement and each promissory note or other instrument or document required hereby.

(ii) Corporate Resolution: Borrowing.

(iii) Certificate of Incumbency.

(iv) Loan Disbursement Order.

(v) Such other documents as Bank may require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank.

SECTION 3.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

## ARTICLE IV
## AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 4.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

SECTION 4.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than 90 days after and as of the end of each fiscal year, an audited financial statement of Borrower, prepared by a certified public accountant acceptable to Bank, to include a balance sheet, income statement and statement of cash flow together with all supporting footnotes;

(b) not later than 45 days after and as of the end of each fiscal quarter, a financial statement of Borrower, prepared by Borrower, to include a balance sheet and income statement;

(c) not later than 30 days before the end of the each preceding fiscal year, a projection for the forthcoming fiscal year, prepared by Borrower;

(d) from time to time such other information as Bank may reasonably request.

SECTION 4.4. COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.

SECTION 4.5. INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6. FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals

and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7. TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower.

SECTION 4.9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Total Liabilities divided by Tangible Net Worth not at any time greater than 0.30 to 1.0, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets.

(b) Maintain in the United States of America, domestically, unencumbered liquid assets (defined as cash, cash equivalents and/or public traded/quoted marketable securities acceptable to Bank in its sole discretion) with an aggregate fair market value not at any time les than $50,000,000.00.

(c) Net profit after taxes not less than $1.00 on a quarterly basis, with one time software development costs expensed as a result of an allowable acquisition added back to net profit after taxes, determined as of each fiscal quarter end.

SECTION 4.10. NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property.

## ARTICLE V
## NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and

until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2. CAPITAL EXPENDITURES. Make any additional investment in fixed assets in any fiscal year in excess of an aggregate of $100,000,000.00.

SECTION 5.3. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, and (b) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof.

SECTION 5.4. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's business as conducted as of the date hereof; acquire all or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except: (i) in the ordinary course of its business, and (ii) any merger or acquisition that does not require more than 75% of Borrower's cash or (iii) 90% of the consideration paid for any acquisition is with Borrower's stock and Borrower is the surviving entity of any such acquisition or merger.

SECTION 5.5. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

SECTION 5.6. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof, and additional investments in treasury stock purchases not to exceed in any fiscal year: (i) shall not exceed an aggregate of $300,000,000.00.

SECTION 5.7. DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding; except dividends shall be allowed: (i) not to exceed 50% of Borrower's cash, and (ii) not to exceed the aggregate of $10,000,000.00 in any fiscal year.

## ARTICLE VI
## EVENTS OF DEFAULT

SECTION 6.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of twenty (20) days from its occurrence.

(d) Any default in the payment or performance of any obligation, including but not limited to the August/September 2001 convertible subordinated notes (the 2001 notes), or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant to which Borrower has incurred any debt or other liability to any person or entity, including Bank.

(e) The filing of a notice of judgment lien against Borrower; or the recording of any abstract of judgment against Borrower in any county in which Borrower has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower; or the entry of a judgment against Borrower.

(f) Borrower shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, or Borrower shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(g) There shall exist or occur any event or condition which Bank in good faith believes impairs, or is substantially likely to impair, the prospect of payment or performance by Borrower of its obligations under any of the Loan Documents.

(h) The dissolution or liquidation of Borrower; or Borrower, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower.

(i) Any change in ownership during the term of this Agreement of an aggregate of twenty-five percent (25%) or more of the common stock of Borrower.

SECTION 6.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary

notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by each Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

## ARTICLE VII
## MISCELLANEOUS

SECTION 7.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: FAIR, ISAAC AND COMPANY, INCORPORATED
5935 Cornerstone Court West
San Diego, CA 92121

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
Carlsbad LPO
5857 Owens Avenue, Suite 106
Carlsbad, CA 92008

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without

limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

SECTION 7.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, or any collateral required hereunder.

SECTION 7.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.11. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise arising out of or relating to in any way (i) the loan and related Loan Documents which are the subject of this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least $1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is $5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than $5,000,000.00. Any dispute in which the amount in controversy exceeds $5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date and within 180 days of the filing of the dispute with the AAA. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. The resolution of any dispute arising pursuant to the terms of this Agreement shall be determined by a separate arbitration proceeding and such dispute shall not be consolidated with other disputes or included in any class proceeding.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

| | |
|---|---|
| FAIR, ISAAC AND COMPANY, INCORPORATED | WELLS FARGO BANK, NATIONAL ASSOCIATION |
| By: /s/ KENNETH J. SAUNDERS | By: /s/ ALVA DIAZ |
| | Alva Diaz |
| Title: Chief Financial Officer | Vice President |
| By: | |
| Title: | |

Exhibit A

REVOLVING LINE OF CREDIT NOTE

$15,000,000.00 Carlsbad, California
November 1, 2002

FOR VALUE RECEIVED, the undersigned FAIR, ISAAC AND COMPANY, INCORPORATED ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at Carlsbad LPO, 5857 Owens Avenue, Suite 106, Carlsbad, California, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Fifteen Million Dollars ($15,000,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

(b) "Fixed Rate Term" means a period commencing on a Business Day and continuing for one (1), two (2), three (3) or six (6) months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that no Fixed Rate Term may be selected for a principal amount less than Two Hundred Fifty Thousand Dollars ($250,000.00); and provided further, that no Fixed Rate Term shall extend beyond the scheduled maturity date hereof. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

(c) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/8 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

(d) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum equal to the Prime Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be one and one quarter percent (1.25%) above LIBOR in effect on the first day of the applicable Fixed Rate Term. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate change is announced within Bank. With respect to each LIBOR selection hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or to LIBOR for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (i) the interest rate option selected by Borrower; (ii) the principal amount subject thereto; and (iii) for each LIBOR selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR selection, (A) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Business Days after such notice is given, and (B) such notice is given to Bank prior to 10:00 a.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at it's sole option but without obligation to do so, accepts Borrower's notice and quotes a fixed rate to Borrower. If Borrower does not immediately accept a fixed rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Payment of Interest. Interest accrued on this Note shall be payable on the last day of each month, commencing November 30, 2002.

(e) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on February 1, 2004.

(b) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of (i) _____ or _____, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of any Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of each Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, and second, to the

outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first.

PREPAYMENT:

(a) Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of Two Hundred Fifty Thousand Dollars ($250,000.00); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Each Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Each Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum two percent (2%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of November 1, 2002, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any

obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by each Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Each Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to any Borrower or any other person or entity.

(b) Obligations Joint and Several. Should more than one person or entity sign this Note as a Borrower, the obligations of each such Borrower shall be joint and several.

(c) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

FAIR, ISAAC AND COMPANY, INCORPORATED

By: _____

Title: _____

By: _____

Title: _____

Exhibit B

November 1, 2002

Fair, Isaac and Company, Incorporated
5935 Cornerstone Court West
San Diego, CA 92121

RE: Foreign Exchange Agreement

Ladies and Gentlemen:

You, the customer to whom this letter agreement (the "Agreement") is addressed, may from time to time request that we, WELLS FARGO BANK, NATIONAL ASSOCIATION, or, if we are not Wells Fargo Bank, National Association ("Wells Fargo"), Wells Fargo acting as our agent, enter into foreign exchange contracts with you (each, a "Contract" and collectively, "Contracts") for spot or forward delivery of foreign currencies that you want to purchase or sell. Upon receipt of each such request, we, or Wells Fargo acting as our agent, will decide whether to enter into a Contract with you. This Agreement sets forth the terms and conditions governing the Contracts and the transactions contemplated thereby (each a "Transaction"). You understand and agree that if we are not Wells Fargo, we may, but are not obligated to, use Wells Fargo as our agent to enter into Contracts with you in our name or in Wells Fargo's name. You authorize us to use Wells Fargo as our agent to enter into Contracts with you and to perform any of our obligations or exercise any of our rights under this Agreement or any Contract. If we use Wells Fargo as our agent, (a) Wells Fargo will be our agent having obligations only to us and not to you, (b) the Contracts you enter into through Wells Fargo will be considered Contracts entered into by us pursuant to this Agreement, unless any such Contract clearly indicates otherwise, (c) any of our obligations performed or any of our rights exercised pursuant to, or in connection with, this Agreement or any Contract by Wells Fargo in our name or in Wells Fargo's name shall be deemed obligations performed or rights exercised by us pursuant to, or in connection with, this Agreement or such Contract, and (d) any collateral heretofore, now or at any time hereafter granted or pledged by you to us as security for any credit extended to you will also secure all your obligations to us under or in connection with this Agreement and the Contracts.

1. REQUESTS TO ENTER INTO, AMEND OR CANCEL CONTRACTS. All requests to us to enter into, amend or cancel Contracts must be made by telephone, facsimile transmission ("Fax"), or electronic mail ("E-Mail"). We have no obligation to, and we will determine in our sole discretion whether or not to, enter into, amend or cancel any Contract. If we do enter into, amend or cancel any Contract at your request, we will not be obligated to enter into, amend or cancel any other Contract. Requests to enter into Contracts must specify (a) whether the request is to purchase or sell foreign currency, (b) the type of foreign currency, (c) the amount of foreign currency, and (d) the value date for the Contract (the "Settlement Date").

Requests to amend or cancel Contracts must identify the number of the Contract to be amended or cancelled. In addition to the requirements above, each Fax request to enter into, amend or cancel a Contract must clearly indicate the name of the sender and be signed and dated, and each E-Mail request to enter into, amend or cancel a Contract must clearly indicate the name of the sender and be dated. Each request for a Contract for spot delivery of foreign currency also must specify where and how the currency is to be delivered. With respect to each request for a Contract for forward delivery of foreign currency, you must also send us settlement instructions by telephone, Fax or E-Mail no later than two Business Days (with the term "Business Day" meaning a day, other than a Saturday, Sunday or public holiday, on which we and you are open to conduct Transactions) before the Settlement Date informing us where and how the currency is to be delivered. Any settlement instructions sent by Fax must clearly indicate the name of the sender and be signed and dated, and any settlement instructions sent by E-Mail must clearly indicate the name of the sender and be dated. Each request to enter into, amend or cancel a Contract and all settlement instructions must be directed to your primary foreign exchange advisor with us or an alternate advisor designated by us. You authorize us to rely on all information and directions contained in each such request and settlement instruction. If a settlement instruction for a Contract describes (i) by account name and number the account to which currency is to be delivered by us upon settlement and the account name and number do not match, you understand that we will make payment on the basis of the account number even if it is not the account number of the person or entity named by you in the settlement instructions, or (ii) by name and identification number or code a financial institution to which such currency is to be delivered and the name and identification number or code do not match, you understand that we may make payment on the basis of such identification number or code even if such number or code is not the identification number or code of the financial institution named by you in the settlement instructions. You understand and agree that if settlement of a Contract is to be made by "payment against delivery" (A) if you are to pay United States dollars to us under the Contract, this payment must be made by you one or two days (as notified to you) before the Settlement Date, and we will not deliver the foreign currency to you on the Settlement Date if you do not comply with this requirement, and (B) if you are to deliver foreign currency to us and we are to pay United States dollars to you under the Contract, we will pay you such dollars on the Settlement Date only if the bank to which you are to pay the foreign currency confirms to us that it has received the full amount of such foreign currency.

2. CONFIRMATIONS OF CONTRACTS AND AMENDMENTS TO CONTRACTS. Promptly after we accept a request to enter into or amend a Contract, we will confirm the Contract or amendment by telephone (which confirmations sometimes will be re-confirmed by mail, Fax or E-Mail), mail, Fax or E-Mail. We will not be bound by any Contract or amendment that is not so confirmed by us. Promptly after you receive our confirmation of a Contract or amendment you will review it carefully. If such confirmation accurately reflects the terms of the Contract or amendment you requested and we and you agreed upon, (a) if it is sent by mail or Fax, sign it and return it to us by mail, Fax, or attached to an E-Mail, or (b) if it is sent by telephone, promptly sign any written re-confirmation you receive and return it to us by mail, Fax, or attached to an E-Mail, or (c) if it is sent by E-Mail, promptly print the E-Mail, sign it, and return it to us by mail, Fax, or attached to an E-Mail. If such confirmation does not accurately reflect the terms of the Contract or amendment we and you agreed upon or you intended, notify us by telephone of such inaccuracy. Each confirmation you sign and return to us should be sent to us at the address or Fax number indicated on such confirmation. Each notification of errors in a confirmation must be sent to us at the telephone number indicated on such confirmation. Until we receive a notification that a confirmation does not accurately reflect the terms of a Contract or amendment we and you agreed upon (and our records confirm that this is true), (i) the first or

only confirmation of a Contract or amendment will be deemed to contain the definitive terms of such Contract or amendment, and (ii) we will be authorized to act on the Contract or amendment as reflected in such confirmation, and unless we receive such notification from you before we act on or comply with the terms of such Contract or amendment, you will, except as provided otherwise in the Limitation of Liability and Indemnity section of this Agreement, indemnify and reimburse us for, and hold us harmless from and against, all of our Losses which arise directly or indirectly as a result of, or which are in any way connected with, our acting on or complying with the terms of the Contract or amendment as reflected in such confirmation. The term "Losses" as used in this Agreement will mean all losses, liabilities, claims, damages, obligations, penalties, actions, judgments, suits, costs and expenses, of any kind whatsoever, including, without limitation, attorneys' fees and other legal costs and expenses (which attorneys' fees will include outside counsel fees and all allocated costs of in-house counsel), paid, suffered or incurred by, or imposed upon, you or us as the context indicates.

3. VERIFYING CONFIRMATIONS, REQUESTS TO ENTER INTO, AMEND OR CANCEL CONTRACTS, AND SETTLEMENT INSTRUCTIONS. We will verify each request to enter into or amend or cancel a Contract, each instruction for the settlement of a Contract, and each confirmation you return to us by determining if the name used by the person requesting the Contract or amendment or cancellation of a Contract, giving us settlement instructions, or signing the confirmation is the name of one of the persons you designate to us in writing as being authorized by you to make such requests and instructions and to sign such confirmations. Other than as provided in the preceding sentence, we have no obligation to confirm in any way the identity of any person making a request to enter into or amend or cancel a Contract, giving an instruction for the settlement of a Contract, or signing a confirmation of a Contract or an amendment. We will not be required to verify that (a) the entries on a document sent to us in any way are authentic entries, (b) the signatures on any such document are authentic signatures, or (c) the persons actually signing such document are duly authorized to contract for you in connection with the purposes of the document. The information, directions or instructions we receive in documents which indicate that they have been sent from you or which are on your letterhead, other than requests to enter into or amend or cancel Contracts or settlement instructions for Contracts or confirmations of Contracts, will be binding on you even if such documents are not signed or are not properly authorized by you. You agree to be bound by each request to enter into, amend or cancel a Contract, each instruction for the settlement of a Contract, and each confirmation of a Contract or amendment if such request, instruction or confirmation was authorized or transmitted by you, or made in your name and accepted by us in good faith and in compliance with the procedures in this Section, even if such request, instruction or confirmation was not properly authorized by you. Except as provided otherwise in the Limitation of Liability and Indemnity section of this Agreement, we shall have no liability for any of your Losses, and you will indemnify us for all our Losses, which arise directly or indirectly as a result of, or are in any way connected with, (i) any request to enter into or amend or cancel a Contract, any instruction for the settlement of a Contract, and any confirmation of a Contract or amendment being made by Fax or E-Mail, or (ii) any breach of your security procedures in connection with any request to enter into or amend or cancel a Contract, any instruction for the settlement of a Contract, and the signing of any confirmation of a Contract or amendment. Any actions we take to detect erroneous requests to enter into or amend or cancel Contracts or erroneous instructions for the settlement of Contracts, or any actions we take beyond those described above in an attempt to detect unauthorized requests or instructions or confirmations, will be taken at our sole discretion. No matter how many times we take such actions they will not become part of our standard procedures for attempting to detect erroneous or unauthorized

requests or instructions or confirmations, and we will not in any situation be liable for failing to take or to correctly perform such actions.

4. REPRESENTATIONS AND WARRANTIES. We make no express or implied representations or warranties with respect to the services we are to provide to you under this Agreement or any Contract, other than those representations or warranties expressly stated in this Agreement. Each request by you that we enter into or amend a Contract shall be deemed a representation and warranty by you that the terms of the Contract or such amendment do not, and your compliance with such terms will not, violate any laws and regulations applicable to you, including, without limitation, those affecting your purchase or sale of the foreign currency covered by the Contract, and that no Event of Default (as defined in the Events of Default and Remedies section of this Agreement) has occurred and is continuing.

5. NO INVESTMENT ADVICE; RISK OF MARKET FLUCTUATIONS. You understand that we are not an investment advisor. We do not give, and we hereby disclaim, all investment advice with respect to any Contract or any amendment of a Contract. You bear the sole risk of any and all market fluctuations in any currency traded pursuant to the terms of this Agreement or any Contract.

6. EVENTS OF DEFAULT AND REMEDIES. We may cancel any Contract and liquidate our position in the currency of such Contract if performance of the Contract by you or us becomes unlawful as a result of the adoption of, or any change in, any applicable law after the date on which the Contract is entered into, or as a result of the promulgation of or any change in, or in the interpretation by any court or tribunal or regulatory authority with competent jurisdiction of, any applicable law after such date. Upon the occurrence and at any time during the continuance of any of the following events (each, an "Event of Default"), we may also cancel any or all the outstanding Contracts and liquidate our position in the currency of such Contracts and setoff against any of your cash, deposit accounts, securities, securities accounts or other property we hold or any obligation we have to you to recover any amounts you owe to us as a result of, or in connection with, such cancellation or liquidation: (a) you fail to give us settlement instructions as provided in this Agreement; (b) you fail for any other reason to settle a Contract on its Settlement Date; (c) you fail to perform any of your agreements or obligations under this Agreement or any Contract; (d) any representation or warranty made by you to us under this Agreement or any Contract is incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated; (e) a default, event of default or other similar condition or event (however described) occurs under one or more agreements or instruments relating to any of your obligations (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money ("Indebtedness") which has resulted in such Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable; (f) you (i) dissolve or liquidate, (ii) are not generally paying your debts as they become due, (iii) become insolvent, however such insolvency may be evidenced, or (iv) make any general assignment for the benefit of creditors; (g) a petition is filed by or against you seeking your liquidation or reorganization under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time, or a similar action is brought by or against you under any federal, state or foreign law; (h) a proceeding is instituted by or against you for any relief under any bankruptcy, insolvency or other law relating to the relief of debtors, reorganization, readjustment or extension of indebtedness or composition with creditors; (i) a custodian or a receiver is appointed for, or a writ or order of attachment, execution or garnishment

is issued, levied or made against, any of your property or assets; (j) an application is made by any of your judgment creditors for an order directing us to pay over money that we hold from you or to deliver other of your property; (k) any government authority or any court takes possession of any substantial part of your property or assets or assumes control over your affairs, or (l) we in our sole discretion make a commercially reasonable determination that such cancellation is necessary to protect us.

7. LOSSES RESULTING FROM CANCELLATIONS OR EXTENSIONS OF CONTRACTS. If you request that we cancel a Contract or amend a Contract by extending its term and we, in our sole discretion, agree to such request, or if we cancel a Contract as provided in this Agreement (a) you will, except as provided otherwise in the Limitation of Liability and Indemnity section of this Agreement, indemnify and reimburse us for, and hold us harmless from and against, all our Losses which arise directly or indirectly as a result of, or are in any way connected with, such cancellation or extension, including, without limitation, the liquidation of our position in the currency of the Contract, and (b) we may setoff and apply against your liability to us any of your cash, deposit accounts, securities, securities accounts or other property we hold or any other obligations we have to you, without regard to the nature or due date of such deposits or obligations and notwithstanding that such setoff may give rise to penalties for early withdrawal of funds.

8. LIMITATION OF LIABILITY AND INDEMNITY. Except to the extent your Losses or our Losses are caused directly by our gross negligence or willful misconduct, and subject to the remaining provisions of this section, we shall not be liable for any of your Losses, and you shall be liable for our Losses, to the extent your or our Losses arise directly or indirectly as a result of, or are in any way connected with, (a) the enactment or imposition after the date of this Agreement of, or the change after the date of this Agreement in, any laws, regulations, guidelines or other directives of any government or government entity affecting the Contracts or Transactions; provided, however, that your liability for our Losses and the limitation of our liability for your Losses will not apply to the extent we knew about such enactment, imposition, or change before it became effective and could have refused to enter into such Contracts or Transactions without causing any Losses to us and without violating the terms of this Agreement or any Contract, (b) the errors, acts or omissions of others, such as communications carriers or correspondents through which we may perform, or receive or transmit information in performing, our obligations under this Agreement or any Contract, (c) any event or circumstance beyond our control, or (d) any actions performed by us, or any actions not performed by us, in compliance with the terms of this Agreement or any Contract. With respect to your Losses and our Losses which arise directly or indirectly as a result of, or which are in any way connected with, your or our performance or failure to perform obligations under this Agreement or any Contract, we and you will negotiate in good faith in an effort to reach a mutually satisfactory allocation of such Losses. It is understood, however, that in such circumstances and unless otherwise agreed by you and us in such negotiations, we will not be responsible to you for any of your Losses, and you will indemnify us for any of our Losses, arising from claims by third parties who through their connection with you are affected by the Contracts or Transactions, if such Losses result from any cause other than our breach of this Agreement or any Contract or our negligence, gross negligence, or willful misconduct. To the extent the Losses referred to in the preceding sentence are caused by our breach of this Agreement or any Contract or by our negligence, you understand that (i) if our breach or negligence is the late payment of any amount due from us to you under any Contract, including, but not limited to, any late payment caused by our having to re-execute for any reason a Transaction covered by a Contract, our liability for your Losses in

such circumstances shall be limited to the interest on the amount due for the time period such amount remains due and unpaid calculated at that interest rate which is standard for late payments in the foreign exchange market, and your indemnification obligations shall extend to only that amount of our Losses which exceed such interest, and (ii) in all other cases, our liability for your Losses will be limited to those money damages arising directly as a result of such breach or negligence, and your indemnification obligations shall extend to only that amount of our Losses which exceed such direct money damages. You also agree to indemnify us for our Losses which arise directly or indirectly as a result of, or which are in any way connected with, the enforcement or protection of our rights under this Agreement and the Contracts. IN NO EVENT WILL WE BE LIABLE FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES, WHETHER ANY CLAIM IS BASED ON CONTRACT OR TORT, WHETHER THE LIKELIHOOD OF SUCH DAMAGES WAS KNOWN TO US, AND REGARDLESS OF THE FORM OF THE CLAIM OR ACTION. Any action against us under or related to this Agreement or any Contract must be brought within twelve (12) months after the cause of action arises.

9. NETTING. If on any date each party to this Agreement is to pay the other party the same aggregate amount in the same currency, then, on such date, unless both parties specifically agree otherwise, each party's obligation to make payment of such amount will be automatically satisfied and discharged without any payment being made. If on any date the parties are to pay each other differing aggregate amounts in the same currency, each party's payment obligation will be replaced by an obligation of only the party having to pay the larger aggregate amount to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

10. TERMINATION. Either of us may terminate this Agreement at any time with or without cause upon notice in writing to the other party. Upon such termination your obligations to us and our obligations to you under this Agreement will also terminate, except for (a) any obligations in connection with any Contract which is in existence at such time and cannot be canceled under the provisions of Section 6 of this Agreement, and (b) any obligations which, by the terms of this Agreement, survive such termination. All the obligations of the parties under this Agreement will survive the termination of any or all the Contracts, and the obligations of the parties under Sections 4, 6, 7, 8, 9 and 10 of this Agreement will survive the termination of this Agreement.

11. MODIFICATIONS, AMENDMENTS, AND WAIVERS. This Agreement may not be modified or amended, nor may any provision of this Agreement be waived, except in a writing signed by you and us.

12. NOTICES. Notices from one party to this Agreement to the other party shall be in writing, or be made by a telecommunications device capable of creating a written record, shall be delivered to the addressee at its address specified above, or to any other address a party may designate by written notice to the other party, and shall be effective upon receipt.

13. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of each of your and our respective heirs, legal representatives, successors and assigns; provided however, that you may not assign or otherwise transfer any of your rights

or obligations under this Agreement or any Contract without our prior written consent, which consent will not be unreasonably withheld.

14. GOVERNING LAW. This Agreement and all Contracts shall be governed by and be construed in accordance with the laws of the State of California.

15. SEVERABILITY. If any provision of this Agreement shall be prohibited or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

16. ENTIRE AGREEMENT. This Agreement, together with each Contract and any writing referring specifically to this Agreement or any Contract or referring in general to agreements or contracts which would include this Agreement or any Contract, contains the entire and only agreement between you and us with respect to your purchase from us or sale to us of foreign currencies and the terms of all Contracts for any such purchase or sale.

Please indicate your acceptance of the terms and conditions of this Agreement by signing, dating and returning a copy of this Agreement to us at our address specified above.

Very truly yours,

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: _____
Alva Diaz
Vice President

Agreed to and accepted as of _____:

FAIR, ISAAC AND COMPANY, INCORPORATED

By: _____

Title: _____

By: _____

Title: _____

EXHIBIT 10.36

# LEASE AGREEMENT

THIS LEASE AGREEMENT is made as of the 17th day of June, 1996, by and between, Williams Properties I, LLC & Williams Properties II, LLC, California Limited Liability Companies ("Landlord") and HNC Software, Inc., a Delaware Corporation ("Tenant"), who agree as follows:

## ARTICLE 1. DEFINITIONS

As used herein, the following terms shall have the following meanings:

1.1 PREMISES: Approximately 31,269 rentable square feet, consisting of approximately 13,556 rentable square feet with a portion of the second floor and the entire third floor consisting of approximately 17,713 rentable square feet of the Building (which term is defined in Article 2 hereof) as depicted on Exhibit A attached hereto and incorporated herein.

1.2 PROPERTY: The real properly which the Building is located as described in Exhibit A-1 attached hereto and incorporated herein and commonly referred to as 6020 Cornerstone Court West, San Diego, California 92121.

1.3 TERM: Eighty-one (81) months commencing on the Commencement Date (which is defined in Article 3 hereof).

1.4 BASIC RENT: Shall refer to a monthly amount of Thirty Five Thousand Three Hundred Thirty Three and 97/100ths ($35,333.97) Dollars during the first twelve (12) months of the Lease Term, which is subject to adjustments as set forth in Article 4 hereof.

1.5 INITIAL DIRECT OPERATING EXPENSES: Tenant's initial Direct Operating Expenses shall be the actual Direct Operation Expenses incurred for the Building during the first twelve (12) months after the Commencement Date which shall be computed as though the Building had been ninety-five percent (95%) occupied, provided that any Direct Operating Expenses attributable to improvements to the Premises costing in excess of the Tenant Improvement Allowance (as defined below) shall not be included as part of the base year calculation but shall be included for any subsequent years. In addition, any maintenance, repairs and/or replacement of specialized improvements and/or improvements not included in Landlord's Tenant Improvement Allowance shall not be included in defining expenses herein.

1.6 TENANT'S PRO RATA SHARE: 72.24% which percentage represents the proportion that the number of approximate rentable square feet of the Premises bears to the total number of rentable square feet of the Building (31,269 rentable square feet / 43,285 rentable square feet in the Building).

1.7 ESTIMATED COMPLETION DATE: September 1, 1996

1.8 SECURITY DEPOSIT: Thirty Thousand and No/lOOths ($30,000.00) Dollars

1.9 PERMITTED USE: General Office and software/research & development purposes only

1.10 TENANT'S NOTICE ADDRESS: For purposes of Article 19 of this Lease shall be

| PRIOR TO OCCUPANCY: | AFTER OCCUPANCY: |
|---|---|
| 5930 Cornerstone Court West<br>San Diego, CA 92121 | 5930 Cornerstone Court West<br>San Diego, CA 92121 |

1.11 LEASE: Shall collectively refer to this Agreement of Lease together with the fol1owing Exhibits and Addenda, attached hereto and incorporated herein by this reference:

| | |
|---|---|
| Exhibit A-1 | Premises Floor Plan |
| Exhibit A-1 | Property Legal Description |
| Exhibit B | Rules and Regulations |
| Exhibit C | Work Letter Agreement |
| Exhibit D | Preliminary Space Plan/Final Plans & Specifications |
| Addenda | Addendum |

1.12 BROKER: Landlord and Tenant recognize that The Irving Hughes Group, Inc. represents Tenant and CB Commercial Real Estate Group, Inc. represents the Landlord.

Initials /s/ EJC
---

Initials
---

## ARTICLE 2. PREMISES

Subject to the terms, provisions and conditions of this Lease, Landlord hereby leases to Tenant, and Tenant hereby takes and hires from Landlord, the Premises located in Landlord's Building 6020 Cornerstone Court West, San Diego, California ("Building"). The location of the Premises, within the Building, is more particularly shown on the attached Exhibit A-1.

## ARTICLE 3. TERM

3.1 TERM: The term of this Lease ("Term") shall be for the period specified in Section 1.3 hereof.

3.2 COMMENCEMENT DATE: The Commencement Date shall be the date of Substantial Completion of the Tenant Improvements (as such terms are defined in the Work Letter Agreement).

## ARTICLE 4. RENT

From and after the Commencement Date, Tenant agrees to pay Landlord, in advance, on the first day of each and every calendar month during the Term, the Basic Rent, together with rental adjustments as defined below. Such rent for any fraction of a month at the beginning of the Term will be prorated and paid at the Commencement Date. Payment of all such rent and other charges shall be without offset or demand, shall be in lawful money of the United States of America and shall be made to Landlord at the following address, or at such place Landlord may direct from time to time by written notice to Tenant:

William's Properties I & II, LLC
Attention: Elizabeth J. Clarquist
6170 Cornerstone Court East, Suite 140
San Diego, CA 92121

Such rent and other charges shall include the following:

4.1 BASIC RENT: Subject to annual increases pursuant to Section 4.2 below, Tenant agrees to pay Landlord on the first day of each month Basic Rent in the amount specified in Section 1.4 hereof. Tenant shall pay to Landlord, immediately upon execution of this Lease (in addition to the Security Deposit required pursuant to Section 4.7 below), the sum of one (1) month's prepaid Basic Rent which shall be applied to the first full calendar month of the Term for which payment of Basic Rent is due.

4.2 ANNUAL INCREASE OF BASIC RENT: Commencing on the first day of the thirteenth (13th) calendar month immediately following the Commencement Date, the remaining Term of the Lease shall be divided into consecutive one year periods (each of which, including the initial twelve (12) calendar months of the Term, shall be referred to as "Lease Year"). The Basic Rent provided in Section 4.1 above, shall be increased on the first day of each such Lease Year (i.e., on the first day of the thirteenth (13th), twenty-fifth (25th), thirty seventh (37th), forty-ninth (49th), sixty-first (61st), seventy-second (72nd), etc., months following the Commencement Date or, if the Commencement Date is the first day of a calendar month, on each anniversary of the Commencement Date ("Adjustment Date"). Each such increase shall be as set forth in Section 1 of the attached Addendum.

(i) The increase in Basic Rent provided by this Section 4.2 shall be in addition to any Excess Direct Operating Expenses Rent increases provided in Section 4.3. All references in this Lease to Basic Rent shall include any increase in Basic Rent.

4.3 EXCESS DIRECT OPERATING EXPENSES RENT:

(a) Subject to any limitations or exceptions stated in Section 1.5 or elsewhere provided, from and after the Commencement Date, Tenant agrees to pay to Landlord, as additional rent, Tenant's Pro Rata Share of Excess Direct Operating Expenses (hereinafter defined) incurred by Landlord ("Excess Direct Operating Expenses Rent"). Tenant shall pay to Landlord, Tenant's Excess Direct Operating Expenses Rent pursuant to the following procedures:

(i) Landlord shall provide to Tenant a good faith estimate of the annual Direct Operating Expenses and the total amount of annual Excess Direct Operating Expenses Rent with respect to each lease year of the Term. Each such estimate shall be provided by Landlord to Tenant as soon as possible following the first day of such lease year;

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(ii) Each estimate of total annual Excess Direct Operating Expenses Rent determined by Landlord pursuant to this Section, shall be divided into twelve (12) equal monthly installments. Tenant shall pay to Landlord such monthly installment of Excess Direct Operating Expenses Rent with each monthly payment of Basic Rent pursuant to Section 4.1 above. In the event the estimated amount of Excess Direct Operating Expenses Rent has not yet been determined for any lease year, Tenant shall pay the monthly installment in the estimated amount determined for the preceding lease year until the estimate for the current lease year has been provided to Tenant, at which time Tenant shall, within thirty (30) days following receipt of the notice pay to Landlord any existing shortfall and, thereafter, make the monthly installment payment in accordance with the current estimate;

(iii) As soon as reasonably possible following the end of each lease year of the term including the end of any initial particular lease year, Landlord shall determine and provide to Tenant a statement of the amount of Direct Operating Expenses actually incurred (except in the event that the Building is less than ninety-five percent (95%) occupied, in which case the Direct Operating Expenses shall be computed as though the Building had been ninety-five percent (95%) occupied) and the amount of Excess Direct Operating Expenses Rent payable by Tenant with respect to such lease year. In the event the amount of such Excess Direct Operating Expenses Rent exceeds the sum of the monthly installments actually paid by Tenant, pursuant to Section 4.3(a)(ii) above, for such lease year, Tenant shall pay to Landlord, on the first day of the calendar month immediately following receipt of such statement, the difference. In the event the sum of such installments exceeds the amount of Excess Direct Operating Expenses Rent actually due and owing, the difference shall be applied as a credit to Excess Direct Operating Expenses Rent payable by Tenant pursuant to Section 4.3(a)(ii). In no event shall the adjustment of Excess Direct Operating Expenses Rent decrease the amount of Basic Rent due and payable to Landlord under this Lease.

(b) For purposes of this Section, the following terms shall have the following prescribed meanings:

(i) The term "Building" means the Building as defined in Article 2, and the parking areas and other structures servicing the Building, and the Property upon which the Building and parking area such other structures are located.

(ii) The term "Direct Operating Expenses" as used herein means all operating costs and expenses associated with the operation and maintenance of the Building, exterior landscaping for the Building and such additional facilities relating to operations of the Property as are now in use or in subsequent years may be determined by Landlord to be reasonably desirable. Direct Operating Expenses shall include, by way of illustration, but not limitation, the following:

(1) Reasonable costs of wages and salaries of all employees engaged in operating and maintenance or security of the Building, including taxes, insurance and benefits relating thereto, and the reasonable rental value of the Building office.

(2) All supplies and materials used in operation and maintenance or security of the Building.

(3) Costs of all utilities other than separately metered electricity not utilized for common areas, including surcharges of the Building (including the cost of water, sewer, gas, power, heating, lighting, air conditioning and ventilating for the Building).

(4) Costs of all reasonable maintenance and service agreements for the Building, and equipment therein, including, but not limited to, common area utility and maintenance charges (including, but not limited to, assessments or contributions to maintenance associations or special benefit districts); security and energy management services; window cleaning; road, sidewalk, driveways and parking facility maintenance or cleaning; elevator maintenance; HVAC equipment maintenance and janitorial services. Tenant shall be responsible for any costs associated with its specialized equipment or other improvements not provided in Landlord's Tenant Improvement Allowance including, but not limited to, any service maintenance or repair costs.

(5) Cost of all insurance relating to the Building/Property, including the cost of casualty and liability insurance applicable to the Building together with Landlord's personal property used in connection therewith. Landlord agrees to commercially insure the Building/Property with a reputable insurance company at industry acceptable levels.

(6) Costs of repairs and general maintenance (excluding repairs and general maintenance paid by proceeds of insurance or by Tenant or other third parties).

(7) A management fee for the manager of the Building not to exceed four percent (4%) of the gross annual rent of the Building.

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(8) The costs of any additional services not provided to the Building at the Commencement Date but thereafter provided by Landlord in prudent management of the Building or at the direction of or resulting from statutes or regulations, or interpretations thereof, promulgated by any governmental authority in connection with the use or occupancy of the Building that was not applicable when such improvements were originally constructed.

(9) The costs of any capital improvements or alterations made to the Building after the Commencement Date that reduce other operating expenses or are required at the direction of or resulting from, statutes or regulations, or interpretations thereof, promulgated by any governmental authority in connection with the use or occupancy of the Building that were not applicable when such improvements were originally constructed, such cost thereof to be amortized over such reasonable period, i.e., generally acceptable accounting practices, as Landlord shall determine, together with interest on the unamortized balance at the actual rate paid by Landlord on funds borrowed for the purpose of constructing said capital improvements plus any financing costs.

(10) All taxes and assessments levied on the Building (including, without limitation, the land upon which it is located), including, but not limited to, real property taxes and assessments, and personal property taxes and assessments on all personal property of Landlord used in connection with the maintenance and operation of the Building and the reasonable costs incurred by Landlord in contesting, in good faith and by appropriate proceedings the amount or validity of any such tax or assessment.

(iii) The term "Excess Direct Operating Expenses" shall mean the amount, if any, that Direct Operating Expenses paid or incurred by Landlord during a lease year, exceeds the Initial Direct Operating Expenses.

4.4 ADDITIONAL RENT: Tenant shall pay to Landlord as additional rent ("Additional Rent") and without notice, abatement, deduction or set off, all sums, costs and expenses which Tenant, in any of the provisions of this Lease, or through a separate agreement relating to the Premises and/or the Building, assumes or agrees to pay, including, but not limited to, tenant improvement work, whether or not any of such sums, costs and expenses are specifically described in Additional Rent. In the event of any nonpayment of Additional Rent when required under this Lease, the Landlord shall have (in addition to all other rights and remedies) all the rights and remedies provided herein or by law in the case of non-payment of Basic Rent and Excess Direct Operating Expenses Rent. All references in this Lease to Rent shall mean and collectively refer to Basic Rent, Excess Direct Operating Expenses Rent and Additional Rent

4.5 LATE CHARGES: Tenant's failure to pay Rent promptly on the first day of each month may cause Landlord to incur unanticipated costs, the exact amount of which are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Building. Therefore, if Landlord does not receive any Rent payment within ten (10) days after it becomes due, Tenant shall pay Landlord a late charge equal to six percent (6%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment.

4.6 INTEREST: Any amount owed by Tenant to Landlord which is not paid when due shall bear interest at the rate of twelve percent (12%) per annum from the due date of such amount. However, interest shall not be payable on late charges to be paid by Tenant under this Lease. The payment of interest on such amounts shall not excuse or cure any default by Tenant under this Lease. If the interest rate specified in this Lease is higher than the rate permitted by law, the interest rate is hereby decreased to the maximum legal interest rate permitted by law.

4.7 SECURITY DEPOSIT: Tenant shall pay to Landlord, immediately upon execution of this Lease, the Security Deposit, which shall be held by Landlord as security for the faithful performance by Tenant of all of the terms, covenants and conditions of this Lease to be kept and performed by Tenant during the Term hereof. If Tenant defaults with respect to any provision of the Lease, including but not limited to, the provisions relating to the payment of Rent, Landlord may (but shall not be required to) use, apply or retain all or any part of the Security Deposit for the payment of any Rent or any other sum in default, or for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which landlord may suffer by reason of Tenant's default. If any portion of the Security Deposit is so used or applied, Tenant shall, upon demand therefor, deposit with Landlord cash, in an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant (or at Landlord's option to the last assignee of Tenant's interest hereunder) within thirty (30) days following expiration of the Term, provided that Landlord may retain the Security Deposit until such time as any amount due from Tenant in accordance hereof has been determined paid in full.

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ARTICLE 5. USE

5.1 PERMITTED USE: Tenant may use the Premises solely for the Permitted Use and for no other use without the written consent of Landlord, which may be withheld in Landlord's sole and absolute discretion.

5.2 COMPLIANCE WITH LAWS: Tenant shall comply with all laws, ordinances, rules and regulations pertaining to the use of the Premises, and/or Building. Tenant shall not do or permit anything to be done in or about the Premises which will, in any way, obstruct or interfere with the rights of other tenants or occupants of the Building, or injure them, or allow the Premises to be used for any immoral or unlawful purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant agrees to abide by all reasonable rules and regulations established by Landlord from time to time with respect to the Building. A copy of the rules and regulations in existence on the date of this Lease is attached hereto as Exhibit B, but Landlord reserves the right to amend the rules and regulations at any time by giving notice of amendment to Tenant, if Landlord determines such amendments to be in the best interest of the Building and its tenants.

With respect to any floor of the Building that is entirely leased by Tenant, including initially the third floor, Tenant shall be responsible for ensuring, at its sole cost and expense, that all areas within such floor (including restroom and lobby areas) comply with all applicable laws. Landlord shall be responsible for ensuring that any common areas within the Building other than on floors that are entirely leased to Tenant comply with all applicable laws. Notwithstanding the foregoing, Tenant shall be solely responsible for all costs relating to compliance with legal requirements to the extent triggered, caused or made applicable by any alteration, addition or improvement made by Tenant

5.3 INSURANCE USE REQUIREMENTS: Tenant shall neither use nor occupy the Premises in any manner, nor commit or omit any act, which would result in a cancellation or reduction of any insurance or increase in premiums on any insurance policy covering the Premises, or the property or Building. Tenant shall, at its expense, comply with all requirements of any insurer pertaining to use of the Premises and any other requirement which are reasonably necessary for the maintenance of economic and proper fire, liability and other insurance desired to be carried by Landlord

ARTICLE 6. IMPROVEMENTS TO THE PREMISES

6.1 LANDLORD'S WORK: INTENTIONALLY DELETED.

6.2 TENANT IMPROVEMENTS: Improvements to the Premises beyond that supplied as part of Landlord's Work, including, but not limited to, closures, ceilings, partitions, air conditioning components within the Premises, window coverings, carpet, lighting fixtures, electric systems, fire detection systems and, if required by Tenant's plans and specifications, modifications to the fire sprinkler system shall be made by or at the direction of Landlord pursuant to plans and specifications to be approved in writing by Landlord and Tenant ("Tenant Improvements"). The Tenant Improvements and the responsibility for preparation of plans and specifications required to construct the same are described in the Work Letter Agreement, attached hereto as Exhibit C. Landlord shall have complete and absolute discretion to select such persons and companies as it reasonably deems proper for designing, constructing or supplying all Tenant Improvements. By accepting occupancy of the Premises, Tenant acknowledges completion of all improvements constituting the Premises, including, but not limited to, Tenant Improvements and Landlord's Work.

6.3 PAYMENT FOR TENANT IMPROVEMENTS: Landlord shall pay, pursuant to the terms and conditions of the Work Letter Agreement, the cost and expense of Tenant Improvements in an amount not to exceed the Tenant Improvement Allowance. The cost and expense of any Tenant Improvements in excess of the Tenant Improvement Allowance, shall be paid by the Tenant in accordance with the provisions of the Work Letter Agreement.

6.4 ESTIMATED COMPLETION DATE: The Tenant Improvements shall be completed on or before the Estimated Completion Date. Landlord shall endeavor to give Tenant minimum thirty (30) day notice of the Estimated Completion Date. In the event that the Tenant Improvements are not completed on or before the Estimated Completion Date, for any cause or reason, Landlord, its agents and employees, shall not be liable or responsible for any damages or liabilities in connection therewith incurred by Tenant as a result thereof, nor shall the obligations of Tenant provided herein be excused by reason of any such delay, except that the failure to complete construction of the Tenant's Improvements on the Estimated Completion Date is due solely to the unexcused actions of Landlord hereunder, then, in such event, Tenant's sole remedy and right shall be to delay the Commencement Date by the number of days that completion of construction of the Tenant Improvements were delayed solely by the unexcused actions of Landlord, but in no event shall the Commencement Date be later than the date on which Tenant takes possession or

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commences business operations at the Premises or part thereof. Notwithstanding the foregoing, if Landlord has not completed construction of the Tenant Improvements and tendered possession of the Premises to Tenant within one hundred fifty (150) days from the Estimated Completion Date, and such delay was not the result of either (i) delays caused by force majeure or (ii) act or omission of Tenant or anyone for whom Tenant is responsible, then Tenant may, at its option, by notice in writing to Landlord given within thirty (30) days thereafter, cancel this Lease. If Tenant cancels this Lease in accordance with the foregoing, the Landlord shall return to Tenant, without interest, the first installment of Basic Rent, paid pursuant to Section 4.1 above, plus the Security Deposit (if previously deposited by Tenant) and the parties shall be discharged from any and all obligations hereunder. Notwithstanding the foregoing, the Commencement Date shall be the date when Landlord would otherwise have been able to tender possession of the Premises or complete construction thereof except for the delay which was caused by the acts or omissions of Tenant or anyone for whom Tenant is responsible, even though (i) Tenant may not, in fact, occupy the Premises on such date; (ii) the Tenant Improvements were not, in fact, completed on the Estimated Completion Date, and (iii) Landlord actually completes the Tenant Improvements after the Estimated Completion Date and delivers possession of the Premises after the Commencement Date. See Work Letter Section 5.

6.5 EARLY OCCUPANCY: Provided Landlord gives Tenant a minimum thirty (30) days prior notice and if Tenant occupies the Premises prior to the Commencement Date, Tenant's occupancy of the Premises shall be subject to all of the provisions of this Lease. Early occupancy of the Premises shall not advance the Termination Date of this Lease. Tenant shall pay Base Rent and all other charges specified in this Lease for the early occupancy period.

## ARTICLE 7. MAINTENANCE, REPAIR AND ALTERATION OF PREMISES

7.1 MAINTENANCE: Subject to Article 6 and Work Letter Agreement, by taking possession of the Premises, Tenant shall be deemed to have accepted the Premises as being in good, sanitary order, condition, and repair except for punch list items. Tenant shall, at Tenant's sole cost and expense, keep and maintain the Premises and every part thereof in good condition and repair, ordinary wear and tear excepted. Except as specifically provided in Section 6.1 of this Lease, Landlord shall have no obligation whatsoever to alter, remodel, improve, repair, decorate or paint the Premises or any part thereof, and the parties hereto affirm that Landlord has made no representations to Tenant respecting the condition of the Premises or the Building.

7.2 REPAIRS: Notwithstanding the provisions of Section 7.1 above, Landlord shall repair and maintain the structure portions, structural walls, utilities underground, sewer, roof structure, foundation and sub-flooring of the Building unless such maintenance and repairs are caused in part or in whole by the act, neglect, fault, or omission of any duty by the Tenant, its agents, servants, employees, contractors, licensees or invites, in which case Tenant shall pay Landlord the reasonable cost of such maintenance and repairs. Landlord shall not be liable for any such repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant. Except as provided in Article 13 hereof, there shall be no abatement of any item of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations, or improvements in or to any portion of the Building or the Premises or in or to fixtures, appurtenances, and equipment therein. Tenant waives the right to make repairs at Landlord's expense under any law, statute, or ordinance now or hereafter in effect.

7.3 ALTERATIONS: Subject to the removal/nonremoval qualifications stated in Section 7.5, Tenant shall not make any alteration, addition, or improvement to the Premises (whether structural or nonstructural) without the prior written consent of Landlord, which consent will not be unreasonably withheld. Tenant may, with notice to Landlord, make nonstructural modifications/alterations (to exclude, but not be limited to, base building, electrical, power, sewer, roof, etc.) if Tenant's expenditure per occurrence is less than $5,000.00 cumulative. In the event Landlord gives its consent, such consent may be conditioned upon the requirement that Tenant (i) supply to Landlord, plans and specifications which must be approved by Landlord in writing prior to commencement of any work; and (ii) provide, prior to the commencement of any work, a lien free completion bond in the form and amount satisfactory to Landlord. Any alteration, addition, or improvement for which Landlord gives its written consent shall be accomplished by Tenant in a good and workmanlike manner; in conformity with all applicable laws and regulations and by a contractor approved by Landlord. Upon completion of any such work, Tenant shall provide to Landlord "as-built" plans, copies, and proof of payment of all labor and materials. Tenant shall pay, when due, all claims for such labor and materials and shall give Landlord at least ten (10) days prior written notice of the commencement of any such work. Landlord may enter upon the Premises, in such case, for the purpose of posting appropriate notices, including, but not limited to, notices of non-responsibility. Any Tenant alterations which cause or trigger an increase in Landlord's tax assessment shall be incrementally passed directly through to Tenant. Further, the tax increase shall not be computed in calculating the Initial Base Operating Expenses per Article 1.5 or as provided. See Addendum Paragraph 6 for other requirements.

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7.4 LIENS: Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred by or for Tenant. In the event that Tenant shall not, within ten (10) days following the imposition of any such lien, cause the same to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of or defense against the claim giving rise to such lien. All sums paid by Landlord and all expenses incurred by it in connection therewith shall create automatically an obligation of Tenant to pay an equivalent amount as additional rent, which additional rent shall be payable by Tenant on Landlord's demand with interest at the maximum rate per annum permitted by law until paid.

7.5 CONDITION ON TERMINATION: Upon the expiration, or sooner termination, of the Lease, Tenant shall surrender the Premises to Landlord, broom clean, and in the same condition as received, except for ordinary wear and tear which Tenant was not otherwise obligated to remedy, under any provision of this Lease. Except for the improvements constructed pursuant to Article 6 hereof, Landlord may require Tenant to remove any alterations, additions or improvements made by Tenant prior to the termination of the Lease and to restore the Premises to its prior condition (i.e., the condition as of the Commencement Date), all at Tenant's expense. All alterations, additions, and improvements which Landlord does not require Tenant to remove shall become Landlord's property and shall be surrendered to Landlord upon termination of the Lease. In no event shall Tenant remove any materials or equipment (excluding trade fixtures) from the Premises without Landlord's prior written consent, including, but not limited to, any power wiring or power panels, lighting or lighting fixtures, wall coverings, window coverings, carpets, other floor coverings, heaters, air conditioners or any other heating or air conditioning equipment, fencing or security gates or other similar Building operating equipment and decorations. Notwithstanding, if Landlord approves a Tenant alteration as described in Section 7.3, then Landlord, with its consent, shall condition its approval either (i) to be removed at Lease expiration at Tenant's expense or (ii) not be removed.

## ARTICLE 8. UTILITIES AND SERVICES

8.1 UTILITIES AND SERVICES FURNISHED BY LANDLORD: Provided Tenant is not in default hereunder, Landlord shall furnish air conditioning and heating services to the Premises and common areas, i.e., Building cooling/heating tower. Such services shall be furnished between the hours of 6:00 a.m. and 8:00 p.m., Monday through Friday, and 8:00 a.m. to 6:00 p.m. on Saturday (generally accepted legal holidays excluded but not to exceed New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Day after Thanksgiving, Christmas Eve and Christmas Day) excepting electricity to the Premises which shall be furnished by Tenant. All of the foregoing utilities and services provided by Landlord shall be included in the Direct Operating Expenses. The common area electrical, air conditioning and heating services furnished by Landlord are not represented by Landlord to be adequate for any purpose other than the permitted use. It is acknowledged that the Landlord does not provide an uninterrupted source of electrical power and other services. Under no circumstance shall Landlord be liable to Tenant if any utility service to the Premises and/or Building is interrupted or terminated because of repairs, installations, improvements or causes beyond Landlord's control, nor shall any such interruption or termination be construed as an eviction (actual or constructive) of Tenant, nor entitle Tenant to an abatement of any item of Rent, nor relieve Tenant from fulfillment of any covenant or condition of this Lease. Tenant requested services shall be provided by Landlord, at an hourly rate established by Landlord from time to time, during additional hours on reasonable notice to Landlord, at Tenant's sole cost and expense, and payable by Tenant, as billed, as Additional Rent. See Addendum Paragraph 4 for additional utilities. Any specialized HVAC including, but not limited to, separate package units shall be one hundred percent (100%) Tenant's responsibility which includes maintenance, repairs, replacement and/or removal of said equipment. SEE ADDENDUM ATTACHED HERETO AND MADE A PART HEREOF.

8.2 OTHER UTILITIES AND SERVICES: Except as set forth in Sections 8.1 and 8.3 and the Addendum, Tenant shall furnish and pay to the local utility vendor, at Tenant's sole expense, all electrical service inside the Premises, all special electrical and Tenant provided HVAC requirements, telephone, cable and other services which Tenant requires with respect to the Premises.

8.3 JANITORIAL SERVICES PROVIDED BY LANDLORD: Landlord shall provide five (5) days per week janitorial services for the Premises and the common area of the Building consistent with practices found in similar office buildings. The cost of all such services shall be included in the Direct Operating Expenses.

## ARTICLE 9. TAXES

Tenant shall pay, prior to delinquency, all personal property taxes and license fees levied, assessed or imposed by reason of Tenant's use of the Premises, and all taxes on Tenant's personal property located on the Premises. Landlord shall pay all property taxes or assessment with respect to the Building, which shall be included in Direct Operating Expenses.

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## ARTICLE 10. LANDLORD'S RIGHT TO ALTER BUILDING

10.1 LANDLORD'S RIGHT TO ALTER BUILDING: Landlord reserves and shall, at any and all times, have the right to alter the Building (including, but not limited to, the parking garage and/or areas, and adjoining common areas) or add thereto, and may for the purpose erect scaffolding and all other necessary structures, and Tenant shall not, in that event, claim or be allowed, or paid, any damage for any injury or inconveniences occasioned thereby nor shall there be any abatement in any item of Rent. Landlord also reserves the right to install, use, maintain, repair and replace pipes, ducts, conduits, wires and appurtenant meters and equipment for service to other parts of the Building above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas, and to relocate any pipes, ducts, conduits, wires and appurtenant meters and equipment which are located within the Premises or outside the Premises.

## ARTICLE 11. SIGNS

11.1 Landlord shall paint, attach, or affix tenant's trade name and/or the individual names of its authorized representatives to the first floor lobby directory that is the principal entry to the Premises, the cost of the sign and its installation to be paid by Landlord and contained and accounted for as an initial operating expense.

11.2 Landlord has the sole right to determine the type of directory, bulletin board, and sign, and the content of each (including, without limitation, size of letters, style, color, and whether affixed or painted).

11.3 Tenant shall not place or permit to be placed, any sign, advertisement, notice or other similar matter on the doors, windows, exterior walls, roof or other areas of the Premises and/or Building which are open to the view of persons in the common area of the Building or grounds, except with the advance written consent of Landlord, which consent may be withheld for any reason. If any sign, advertisement, notice or similar matter is improperly placed by Tenant, Landlord shall have the right to remove the same, and Tenant shall be liable for any and all expenses incurred by Landlord by the removal. Any signs, advertisement, notice or similar matter (including, but not limited to, directories and nameplates) approved by Landlord shall be at the sole cost and expense of Tenant, except as otherwise provided.

## ARTICLE 12. LIABILITY INSURANCE AND INDEMNITY

12.1 TENANT INSURANCE: Tenant, at its own expense, shall provide and keep in force with companies reasonably acceptable to Landlord or Landlord's lender/beneficiary the following insurance policies:

(a) Broad form commercial general liability insurance, or equivalent, written on an occurrence form against liability for bodily injury and property damage arising out of or in connection with the use, occupancy or maintenance by Tenant of the Premises (including, without limitation, personal injury coverage and contractual liability insurance specifically covering liability with respect to the indemnity described in Section 12.4 below) in the amount of not less than Three Million Dollars ($3,000,000.00) in respect to injuries or death, and in the amount of not less than Three Hundred Thousand Dollars ($300,000.00) per occurrence in respect to damage to property;

(b) Fire insurance with standard form extended coverage endorsement to the extent of at least one hundred percent (100%) of the full insurable value of the Tenant Improvements, other additions, alterations and improvements to the Premises, and all trade fixtures, fixtures, equipment and other personal property which may, from time to time, be located upon the Premises; and

(c) Such other insurance as Tenant or Landlord or any beneficiary of any deed of trust encumbering the Building or the Property of which the Premises are a part, may from time to time, reasonably require, in form, amount and protecting against such risks as would be obtained by a prudent person.

Each of the foregoing policies of insurance shall name the Landlord and any mortgagee as an additional insured. The policy limits herein specified shall be increased, from time to time, upon written demand from Landlord, if Tenant's use reasonably justifies such increases and/or Landlord's lender/beneficiary or other third party requires said increase. Tenant may maintain such insurance as part of blanket policies containing a "per project, per location" endorsement. Landlord makes no representation that the minimum insurance amounts specified above are adequate to protect Tenant, and the amount of insurance obtained by Tenant shall not limit Tenant's liability under this Lease. Tenant shall furnish Landlord with a certificate of such policy prior to taking possession of the Premises or occupying any part thereof and whenever requested shall satisfy Landlord that such policy is in full force and effect. Each policy shall be primary and non-contributing with any insurance carried by Landlord. Each policy shall further provide that it shall not be canceled or materially altered without thirty (30) days prior written notice to Landlord.

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12.2 LANDLORD INSURANCE: Landlord shall carry such insurance with respect to the Building, of the type and amounts as Landlord, in its sole discretion, shall deem reasonably appropriate. The cost of any such insurance shall be included in the Direct Operating Expenses. In addition, in the event Tenant fails to provide or keep in force any of the insurance as required pursuant to Section 12.1 above, Landlord, in its discretion, may provide such insurance, in which event, the cost thereof shall be payable by Tenant to Landlord, as additional rent on the first day of the calendar month immediately following demand therefor from Landlord. Notwithstanding, Landlord agrees to commercially insure the Building/Property with a reputable insurance company at industry acceptable levels.

12.3 WAIVER OF LIABILITY OF LANDLORD: Landlord shall not be liable to Tenant for any injury or damage that may result to any person or property by or from any cause whatsoever (including, without limiting the generality of the foregoing, injury or damage due to water leakage of any character from the walls, basement or other portion of the Premises or Building or caused by gas, fire, oil, electricity or any use whatsoever, in, on or about the Premises or Building or any part thereof, or theft), other than injury or damage resulting from the gross negligence or willful misconduct of Landlord.

12.4 WAIVER OF SUBROGATION: Tenant and Landlord waive any rights or claims against the other for property damage to the extent covered by any of the waiving party's insurance policies required to be maintained hereunder and waive any right of subrogation against Landlord or Tenant under any insurance policy. Tenant and Landlord shall cause the insurance carriers to waive all such rights and to so notify Landlord and Tenant

12.5 INDEMNITY BY TENANT OF LANDLORD: Tenant agrees to indemnify, hold Landlord and its agents, employees, affiliates, officers, directors and shareholders (collectively, the "Indemnities") harmless from and defend Landlord and the Indemnities against any and all claims, damages, costs, expenses (including attorneys' fees and costs incurred in connection therewith or to enforce this indemnity obligation) and liabilities for any injury or damage to any person or property (i) occurring in, on or about the Premises or any part thereof, or (ii) occurring in, on or about any part of the Property (including, without prejudice to the generality of the term "Property", passageways or hallways) the use of which Tenant may have in conjunction with other tenants of the Building, when such injury or damage shall be caused in part or in whole, by the act, negligence or fault of, or omission of any duty with respect to the same by Tenant, its agents, servants or employees. In case any action, suit or proceeding is brought against Landlord and/or the Indemnities for which Tenant is required to provide indemnity pursuant to this Section, Tenant, upon Landlord's request and at Tenant's sole cost and expense, will resist and defend such action, suit or proceeding or cause the same to be resisted and defended by counsel designated by Tenant and approved by Landlord, or counsel designated by the insurer whose policy covers the cost, claim, damage or liability. At Landlord's election, Landlord may select and employ counsel to resist and defend the action, suit or proceeding and Tenant will reimburse Landlord for any reasonable legal fees or costs incurred by Landlord in connection therewith. The obligations of Tenant under this Section will survive the expiration or any termination of this Lease.

## ARTICLE 13. DAMAGE OR DESTRUCTION

13.1 DUTY TO RESTORE: In the event the Premises or the Building of which the Premises are a part are damaged as a result of any cause, then Landlord shall forthwith repair the same, provided the extent of the destruction be less than twenty percent (20%) of the full replacement cost of the Premises or the Building of which the Premises are a part and the insurance proceeds available to Landlord are adequate to complete such repairs. In the event the destruction of the Premises or the Building is to an extent greater than twenty percent (20%) of the full replacement cost, then Landlord shall have the option (i) to repair or restore such damage and this Lease will continue in full force and effect provided such repairs may be completed no more than nine (9) months after said occurrence, except that Tenant shall be entitled to a proportionate reduction of Basic Rent while such repairs are being made, such proportionate reduction to be based upon the extent to which the making of such repairs shall materially interfere with the business carried on by Tenant in the Premises (provided, however, that if the damage is due to the fault or neglect of Tenant or its employees, there shall be no abatement of Basic Rent); or (ii) give notice to Tenant at any time within sixty (60) days after such damage terminating this Lease as of the date specified in such notice, which date shall be no more than thirty (30) days after the giving of such notice. In the event of giving such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate on the date so specified in such notice and Rent shall be paid up to date of such termination.

13.2 EXCLUSIONS FROM DUTY TO RESTORE: Notwithstanding anything to the contrary contained in this Article:

(a) Landlord shall not have any obligation whatsoever to repair, reconstruct or restore the Premises when the damage resulting from any casualty covered under this article occurs during the last twelve (12) months of the term of this Lease or any extension thereof.

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(b) Landlord shall not be required to repair any damage by fire or other cause, or to make any repairs or replacements of any panels, decoration, office fixtures, railings, floor covering, partitions, or any other property installed in the Premises by Tenant.

(c) Tenant shall not be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises. Tenant's personal property or any inconvenience or annoyance occasioned by such damage, repair, reconstruction or restoration.

13.3 TOTAL TAKING: If the whole of the Premises or so much thereof as to render the balance unusable by Tenant shall be taken under power of eminent domain, this Lease shall automatically terminate as of the date of such condemnation, or as of the date possession is taken by the condemning authority, whichever is earlier. If a partial taking so renders the balance of the Premises unusable by Tenant, Tenant shall give written notice thereof to Landlord within thirty (30) days of the taking. No award of any partial or entire taking shall be apportioned and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; provided, however, Tenant shall be entitled to any award made to Tenant for the taking of personal property and fixtures belonging to Tenant or for Tenant's relocation costs or business interruption compensation.

13.4 PARTIAL TAKING: In the event of a partial taking of the Premises which does not result in a termination of this Lease pursuant to Section 13.3, rent shall be abated, effective as of the date possession of the Premises is required to be surrendered, in proportion to the part of the Premises so made unusable by Tenant. Landlord shall, at its expense, restore the portion of the Premises remaining usable to as near its former condition as reasonably possible using that portion of the condemnation award attributable to such restoration costs.

13.5 TEMPORARY TAKING: No temporary taking of the Premises and/or of Tenant's rights therein or under this Lease shall terminate this Lease or give Tenant any right to any abatement of rent hereunder. Any award made to Tenant by reason of any such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein.

13.6 SALE: A sale by Landlord to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes under this Article 13.

13.7 WAIVER: Tenant hereby waives any right under any statutes, ordinances, court decisions or other application law, whether existing now or in the future, to terminate this Lease following any taking, condemnation, damage or destruction of the Premises and/or the Building except as provided in this Lease.

## ARTICLE 14. DEFAULT BY TENANT

14.1 REMEDIES UPON DEFAULT: Tenant agrees that (i) if Tenant fails to make a payment of any item of Rent and such failure continues for a period of five (5) days after receipt of written notice thereof; or (ii) if Tenant fails to faithfully perform or observe this Lease Agreement and such failure continues for a period of thirty (30) days after written notice thereof; or (iii) if the Premises be vacated or abandoned; or (iv) if Tenant makes a general assignment for the benefit of its creditors and becomes unable to pay its debts as they become due in the normal course, or shall file a petition for bankruptcy or other reorganization, liquidation, dissolution or similar relief and tenant does not make payment of any item of rent; or (v) a proceeding is filed against Tenant seeking any relief mentioned in (iv) above; or (vi) a trustee, receiver or liquidator shall be appointed for Tenant or a substantial part of its property; or (vii) if Tenant's lease interest is sold under execution, then any such events shall constitute a breach of this Lease and Landlord may, at Landlord's option, exercise any or all rights available to a Landlord under the laws of the State of California, including, without limitation, the right to do any of the following:

(a) Terminate the Lease and recover:

(i) The worth at the time of the award of unpaid rent and other charges which had been earned at the time of such termination; plus

(ii) The worth at the time of the award of the amount by which the unpaid rent and other charges which would have been earned after termination until the time of award exceeds the amount of such rental loss, which Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of the award of the amount by which the unpaid rent and other charges for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss, which Tenant proves reasonably could be avoided; plus

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(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligation under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of restoring the Premises to the condition required in Article 7.5 of this Lease; plus

(v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law

(b) Utilize the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations), as follows:

(i) Landlord can continue this Lease in full force and effect without terminating Tenant's right of possession, and Landlord shall have the right to collect rent and other monetary charges when due and to enforce all other obligations of Tenant hereunder. Landlord shall have the right to enter the Premises to do acts of maintenance and preservation of the Premises, to make alterations and repairs in order to relet the Premises, and / or to undertake other efforts to relet the Premises. Landlord may also remove personal property from the Premises and store the same in a public or private warehouse at Tenant's expense and risk. No act by Landlord permitted under this Paragraph shall terminate this Lease unless a written notice of termination is given by Landlord to Tenant or unless the termination is decreed by a court of competent jurisdiction

(ii) In furtherance of the remedy set forth in this Section, Landlord may relet the Premises or any part thereof for Tenant's account, for such term (which may extend beyond the Lease term), at such rent, and on such other terms and conditions as Landlord may deem advisable in its sole discretion. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises. Any rents received by Landlord from such releting shall be applied to the payment of: (a) first, any indebtedness other than rent due hereunder from Tenant to Landlord; (b) second, the costs of such releting, including brokerage and attorney's fees and the cost of any alterations and repairs to the Premises; and (c) third, the payment of rent due and unpaid hereunder. Any remainder shall be held by Landlord and applied in payment of future amounts as the same become due and payable hereunder. In no event shall Tenant be entitled to any excess rent received by Landlord after a breach of this Lease by Tenant and the exercise of Landlord's remedies hereunder. If the rent from such releting during any month is less than the rent payable hereunder, Tenant shall pay such deficiency to Landlord immediately upon demand.

14.2 WORTH AT THE TIME OF AWARD. As used in Sections 14.1(a)(i) and 14.1(a)(ii) above, the "worth at the time of award" shall be computed by allowing interest at the lesser of twelve percent (12%) per annum or the maximum rate permitted by law. As used in Section 14.1 (a) (iii), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percentage point.

14.3 NOTIFICATION OF RELETTING: In the event Landlord terminates this Lease pursuant to Section 14.1(a) above, and Tenant has made an advance payment of rent as defined in California Civil Code Article 1951.7, and Tenant has requested in writing that Landlord notify it of any initial releting of Premises, then and only then must Landlord notify Tenant pursuant to California Civil Code Article 1951.7(c) that the Premises have been relet.

14.4 RIGHT OF LANDLORD TO RE-ENTER: In the event of any termination of this Lease, Landlord shall have the immediate right to enter upon and repossess the Premises, and any personal property of Tenant may be removed from the Premises and stored in any public warehouse at the risk and expense of Tenant.

14.5 LANDLORD'S LIEN: INTENTIONALLY DELETED

14.6 LANDLORD'S RIGHT TO PURSUE OTHER REMEDIES: In the event of any breach of this Lease, Landlord may pursue any of the foregoing remedies, and Landlord may consecutively or concurrently therewith pursue any other remedy or enforce any right to which Landlord may be entitled by law.

## ARTICLE 15. SUBORDINATION

15.1 This Lease and the leasehold estate created hereby are and shall be, at the option and upon written declaration of Landlord, subject, subordinate and inferior to the lien and estate of any liens, trust deeds and encumbrances, and all renewals, extensions or replacements thereof, now or hereafter imposed by Landlord upon the Premises or any part of the Building. Landlord hereby expressly reserves the right, at its option and declaration, to place liens, trust deeds and encumbrances upon and against the Premises

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and/or any part thereof and/or the Building, superior in lien and effect to this Lease and the estate created hereby. The execution by Landlord and the recording in the Office of the County Recorder of the county in which the Premises are situated, of a declaration that this Lease and leasehold estate are subject, subordinate and inferior to any lien, trust deed or encumbrance placed by Landlord upon or against the Premises, and/or any part thereof and/or the Building, shall, of and by itself (in favor of any lien or, mortgagee, beneficiary, trustee or title insurance company insuring the interest of any such person) and without further notice to or act or agreement of Tenant, make this Lease and the estate created hereby subject, subordinate and inferior thereto. Notwithstanding the foregoing, Tenant agrees, on request of Landlord, to forthwith execute and acknowledge any reasonable subordination agreement or other documents required to establish of record the priority of any such encumbrance over this Lease, and also to execute and deliver to Landlord, promptly on request, any reasonable estoppel certificate or other statement to be furnished to any prospective purchaser or lender against the Premises stating the matters specified in Article 27 hereof.

15.2 In the event any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or deed of trust made by the Landlord covering the Premises, the Tenant shall attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Landlord under this Lease.

15.3 The provisions of this Article to the contrary notwithstanding, and so long as Tenant is not in default hereunder, this Lease shall remain in full force and effect for the full term hereof.

15.4 Landlord agrees to use reasonable best efforts to obtain and deliver to Tenant, at Tenant's expense, a commercially reasonable non-disturbance agreement from any lender with a lien on the Building senior to this Lease.

## ARTICLE 16. ATTORNEY'S FEES

In case any suit shall be brought for any unlawful detainer of the Premises, for the recovery of any Rent due under this Lease, or because of the breach or alleged breach of any other covenant herein contained on the part of either party to be kept or performed, the prevailing party shall recover from the non-prevailing party all costs and expenses incurred therein, including reasonable attorney's fees, and reasonable attorney's fees and expenses incurred in enforcing any judgment. Further, (i) if for any reason Landlord consults legal counsel or otherwise incurs any reasonable costs or expenses as a result of its rightful attempt to enforce the provisions of this Lease, even though no litigation is commenced, or if commenced is not pursued to final judgment or (ii) Landlord is named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy hereunder, Tenant shall be obligated to pay to Landlord, in addition to all other amounts for which Tenant is obligated hereunder, all of Landlord's reasonable costs and expenses incurred in connection with any such acts, including reasonable attorneys' fees.

## ARTICLE 17. ASSIGNMENT AND SUBLETTING

17.1 LANDLORD'S CONSENT REQUIRED: The purpose of this Lease is to transfer possession of the Premises to Tenant for Tenant's personal use and Tenant has not entered into this Lease for the purpose of obtaining the right to convey the leasehold to others. The ability of Tenant to assign or sublet the Premises is subsidiary and incidental to the underlying purpose of this Lease. Tenant will not, either voluntarily or by operation of law, assign, transfer, mortgage, pledge, hypothecate or encumber this Lease or any interest herein, and will not sublet the Premises or any part thereof or any right or privilege appurtenant thereto, or allow any other person (the employees, agents, servants and invitees of Tenant excepted) to occupy or use the Premises or any portion thereof, without the prior written consent of Landlord, which consent will not be unreasonably withheld. Provided Tenant has received Landlord's consent herein, Tenant agrees throughout the term of this Lease not to sublease to more than four (4) tenants total. Any cumulative transfer of more than thirty percent (30%) of the voting stock will be deemed to be an assignment by Tenant of this Lease which requires the prior written notice to Landlord provided the controlling entity has a consolidated net worth equal to or greater than Tenant's. If notice is given to Landlord, then the controlling entity shall submit to Landlord for its approval all reasonably required financial documentation to support the financial qualifications.

Any transfer or subletting attempted or concluded without Landlord's prior written consent will be void and will constitute a default under this Lease. Consent by Landlord to any transfer (including, but not limited to, an assignment or subletting), shall be limited to the particular transfer approved by Landlord and shall not be deemed to be Landlord's consent to any subsequent transfer. Tenant acknowledges Landlord shall have no obligation to sublessees and Tenant agrees to be responsible for such parties' compliance with all rules, regulations, and other covenants.

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17.2 LANDLORD'S ELECTION: Tenant's request for consent to any transfer, described in Section 17.1 above must be accompanied by a written statement setting forth the details of the proposed transfer, including the name, type of business and financial condition (supported by financial statements) of the prospective transferee, financial details of the proposed transfer (e.g. the terms of the transaction, the rent and security deposit payable under any assignment or sublease), copies of all agreements and other writings pertaining in any way to the proposed transfer. Tenant, in addition to the foregoing information which must be delivered to Landlord at the time Tenant requests Landlord's consent to the proposed transfer, shall deliver to Landlord any additional information concerning the proposed transfer or prospective transferee as Landlord may reasonably request. Landlord will have the right (i) to reasonably withhold consent; (ii) to grant written consent to the transfer; or (iii) to terminate this Lease as of the date of the proposed transfer as to that portion of the Premises affected by the proposed transfer provided the third party transfer term is greater than thirty-nine (39) months long. Within fifteen (15) business days after submission of all required information for the request for consent of proposed transfer, Landlord shall give notice to Tenant of its election under this Section. If Landlord does waive in writing its right to terminate this Lease, such waiver shall be effective only for the transfer specifically covered in Tenant's notice for a period of sixty (60) days after the date of the waiver. If Landlord elects to terminate this Lease under Section 1 7.2(iii) above, Tenant shall have the right to withdraw its request to the proposed transfer within fifteen (15) days after Landlord's election to terminate this Lease, in which case Landlord shall have no right to terminate this Lease or any portion thereof. If Landlord does duly exercise its rights under Section 1 7.2(iii) above to terminate this Lease or any portion thereof, Landlord shall have the right to enter into a lease or other occupancy agreement directly with the prospective transferee, and Tenant shall have no right to any of the rents or other consideration payable by such prospective transferee under such other lease, even if such rents and other consideration exceed the rent payable under this Lease by Tenant. If Landlord elects to exercise its rights under Section 17.2(iii), then Landlord shall have the right to lease the Premises to any other tenant, or not lease the Premises, in its sole discretion. in the event of a sublease or assignment of a portion of the Premises, to which Landlord has elected to exercise its rights under Section 1 7.2(iii) above, Landlord and Tenant shall enter into an amendment of this Lease to effect a proportionate reduction in the size of the Premises and in the Basic Rent or other Additional Rent payable hereunder.

17.3 WITHHOLDING CONSENT: Under Section 17.2(i), Landlord may withhold its consent to the proposed transfer on any reasonable ground. Such reasonable grounds shall include, without limitation, any one or more of the following:

(i) That the prospective transferee's financial condition is or may become insufficient to support all of the financial and other obligations of this Lease;

(ii) That the use to which the Premises will be put by the prospective transferee is inconsistent with the terms of this Lease or other existing leases or is otherwise not suitable for a first class office building;

(iii) That the nature of the prospective transferee's proposed or likely use of the Premises would involve any increased risk of the use, release or mishandling of hazardous materials;

(iv) That the prospective transferee is not likely to conduct on the Property a business of a nature substantially equal to that conducted by Tenant or other tenants on the Property;

(v) That Landlord has not received assurances acceptable to Landlord in its sole discretion that all past due amounts owing from Tenant to Landlord (if any) will be paid and all other defaults on the part of Tenant (if any) will be cured prior to the effectiveness of the proposed transfer.

If Landlord withholds its consent to the proposed transfer pursuant to Section 17.2(i), and if Tenant shall so request in writing, Landlord shall provide to Tenant a statement of the basis on which Landlord denied its consent within a reasonable time, however, no greater than ten (10) days after the receipt of Tenant's notice. Landlord and Tenant agree that Tenant shall have the burden of proving that Landlord's consent to the proposed transfer was withheld unreasonably, and that such burden may be satisfied if Landlord fails to provide a statement of a reasonable basis for withholding its consent within a reasonable time after Tenant's request therefor. Tenant acknowledges and agrees that each of the rights of Landlord in the event of proposed transfer set forth in this Article is a reasonable restriction on transfer for purposes of California Civil Code Section 1951.4.

17.4 TENANT'S OBLIGATIONS CONTINUING: No transfer within the scope of this article, whether with or without Landlord's consent, will release Tenant or change Tenant's primary liability to pay Rent and to perform all other obligations of Tenant under this Lease. Landlord's acceptance of Rent from any other person is not a waiver of any provision of this Section. If Tenant's transferee defaults under this Lease, Landlord may proceed directly against Tenant without pursuing remedies against the transferee. Landlord may consent to subsequent assignments or modifications of this Lease by Tenant's transferee, without noticing Tenant or obtaining its consent, and such action will not relieve Tenant of its liability under this Lease.

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17.5 EXCESS RENTAL: With respect to any sublease entered into by Tenant with Landlord's consent as herein provided, if the rent and other compensation paid by the subtenant to Tenant under such sublease, and all agreements and other instruments pertaining in any way thereto, exceeds the Rent being paid by Tenant to Landlord computed on a square foot basis (i.e., the amount by which the rent and other compensation being paid by the subtenant to Tenant exceeds the Rent being paid by Tenant to Landlord under this Lease for each square foot leased by such subtenant) then Landlord will be entitled to the amount of such excess ("Excess Rent") and Tenant will pay to Landlord such Excess Rent within five (5) days after receipt by Tenant of the same. If Tenant receives any fee, bonus or other payment (whether payable in one or more installments) from any assignee or sublessee as partial consideration for the making of such sublease or assignment ("Bonus Payment"), the entire amount of such Bonus Payment shall be paid over to Landlord as additional rent hereunder. Notwithstanding the foregoing, Tenant shall be entitled to receive from any Excess Rent or Bonus Payment otherwise required to be paid to the Landlord the amount of out-of-pocket expenses actually incurred by Tenant for reasonable and customary brokerage commissions, tenant improvements, non-monetary lease concessions or other expenses in connection with sublease or assignment provided Tenant delivers sufficient evidence of such expenses to Landlord.

17.6 SECURITY INTEREST: Tenant immediately and irrevocably assigns to Landlord as security for Tenant's obligations under this Lease all rent from any subletting of all or a part of the Premises as permitted by this Lease, and Landlord as assignee and as attorney-in-fact for Tenant, or a receiver for Tenant appointed on Landlord's application, may collect such rent and apply it toward Tenant's obligations under this Lease; except that, until the occurrence of an event of default by Tenant, Tenant will have the right to collect such rent.

17.7 TRANSFER FEE: In the event Landlord consents to a sublease or assignment hereunder, Tenant shall reimburse Landlord for all attorney's fees incurred by Landlord in connection with review and preparation of documents in connection with such sublease or assignment and will pay Landlord a reasonable fee, not to exceed $250.00, for Landlord's processing of documents necessary to the giving of such consent and/or assumption by the assignees.

## ARTICLE 18. PARKING

Tenant shall have the right to park automobiles in connection with its use and occupancy of the Premises as more particularly described in the Addendum attached hereto.

## ARTICLE 19. NOTICES

19.1 MANNER OF SERVICE: All notices, demands or requests from one party to another shall be personally delivered or sent by mail, certified or registered, postage prepaid, to the address stated in this Article.

19.2 NOTICE OF LANDLORD: All such notices, demands or requests from Tenant to Landlord shall be given to Landlord, addressed as follows:

Williams Properties I & II, LLC
Attention: Elizabeth J. Clarquist
6170 Cornerstone Court East, Suite 140
San Diego, CA 92121

with copy to: Fisher Thurber, Ltd.
Attn.: David A. Fisher
4225 Executive Square, Suite 1600
La Jolla, CA 92037

Landlord may change its address for notices by giving written notice of such change to Tenant in the manner provided by this Article 19.

19.3 NOTICE TO TENANT: All such notices, demands or requests from Landlord to Tenant shall be given to Tenant, addressed, if prior to the Commencement Date, to Tenant's Notice Address and, after the Commencement Date, to 5930 Cornerstone Court West, San Diego, CA 92121.

## ARTICLE 20. HOLDING OVER BY TENANT

Tenant agrees upon the expiration or termination of this Lease, immediately and peaceably to yield up and surrender the Premises, notice to quit or vacate is hereby expressly waived. Tenant shall be liable to Landlord for any and all damages incurred by Tenant as the result of any failure by Tenant, timely, to surrender possession of the Premises as required herein. If Tenant shall hold over after the expiration of this Lease for any cause, such holding over shall be deemed a tenancy at sufferance or, at the sole discretion of Landlord, a tenancy from month-to-month only, in which event such month-to-month tenancy shall be upon the same terms, conditions and provisions as in this Lease contained, at one hundred forty percent (140%) of the monthly Rent as was in effect immediately prior to the termination.

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## ARTICLE 21. WAIVER

One or more waivers by Landlord of any breach of any covenant or condition shall not be construed as a waiver of a subsequent or continuing breach of the same or of any covenant or condition, and the consent or approval by Landlord to any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent or approval to or of any subsequent act. No waiver of any provision of this Lease shall be deemed to have been made, unless it be in writing and signed by the party to be charged therewith.

## ARTICLE 22. LANDLORD'S RIGHT OF ENTRY

Landlord and its agents may enter upon the Premises at any reasonable time with prior notice, except in the event of emergencies, to post such notices as Landlord may reasonably deem necessary to exempt Landlord and Landlord's title from responsibility on account of any work or repairs done by Tenant upon or in connection with the Premises; to inspect and examine the Premises and see that the covenants hereof are being kept and performed; to make such repairs, additions or improvements as Landlord shall deem necessary; or, to exhibit the Premises to prospective lessees or purchasers thereof.

## ARTICLE 23. TIME OF THE ESSENCE

Time is expressly declared to be of the essence of this Lease, and of all covenants and conditions herein contained.

## ARTICLE 24. SUCCESSORS AND ASSIGNS

The covenants and conditions herein contained shall, subject to the provisions of Article 17 and this Article, apply to and bind the heirs, successors, executors, administrators and assigns of the respective parties hereof. If this Lease is signed by more than one person as Tenant, their obligation shall be joint and several.

Landlord may freely and fully assign its interest hereunder. The term "Landlord" shall mean only the owner at the time in question of the Building or of a lease of the Building, so that in the event of any transfer or transfers of title to the Building or of Landlord's interest in a lease of the Building, the transferor shall be and hereby is relieved and freed of all obligation of Landlord under this Lease accruing after such transfer, and it shall be deemed, without further agreement, that such transferee has assumed and agreed to perform and observe all obligations of Landlord herein during the period it is the holder of Landlord's interest under this Lease. Tenant shall attorn to and recognize as its landlord under this Lease any transferee of the Building or Landlord's interest hereunder. In any event, Tenant shall look only to Landlord's estate and property in the Building and the land on which it is located for satisfaction of Tenant's remedies for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder, and no other property or assets of Landlord or its partners or principals, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, the relationship of Landlord and Tenant hereunder or Tenant's use or occupancy of the Premises and no such parties shall be named in any action or suit by Tenant against Landlord.

## ARTICLE 25. BUILDING NAME

Tenant shall not use the name of the Building or words to that effect in connection with any business on the Premises without the written consent of Landlord. Landlord may change the name of the Building at any time without consent of or notice to Tenant.

## ARTICLE 26. KEYS

Two (2) keys to the Premises will be furnished to Tenant by Landlord. Additional keys will be furnished upon Tenant paying Landlord the cost thereof. No additional lock or locks shall be placed by Tenant on any door in the Premises or Building unless written consent of Landlord shall have been first obtained; and, should such consent be so obtained, Landlord shall be supplied with keys to each such lock. Only the employees of Landlord or those it has authorized in writing shall work on or modify any lock which is part of the Premises. Tenant shall not cause or allow any keys to be possessed by any person other than an authorized agent of Tenant. Tenant agrees, at the termination of the tenancy, to return all keys of all doors and any security cards.

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## ARTICLE 27. ESTOPPEL CERTIFICATES

Tenant agrees, at any time and from time to time, upon not less than five (5) days prior written notice by Landlord, to execute, acknowledge and deliver to Landlord, a statement in writing (i) certifying this Lease is unmodified and in full force and effect, or, if there have been modifications, this Lease is in full force and effect as modified, and stating any such modifications; (ii) certifying that Tenant has accepted possession of the Premises, and that any improvements required by the terms of this Lease to be made by the Landlord have been completed to the satisfaction of the Tenant; (iii) stating that no rent under this Lease has been paid more than thirty (30) days in advance of its due date; (iv) stating the address to which notices to Tenant should be sent; (v) certifying, if applicable, that Tenant, as of the date of any such certification, has no charge, lien or claim of set-off under this Lease, or otherwise, against rents or other charges due or to become due hereunder, (vi) stating whether or not, to the best of Tenant's knowledge, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease, and, if so, specifying each such default of which Tenant may have knowledge and (vii) stating such other matters as Landlord may reasonably request. Any such statement delivered pursuant hereto may be relied upon by Landlord, any owner of the Building, any prospective purchaser of the Building, any mortgagee or prospective mortgagee of the Building or of Landlord's interest, or any prospective assignee of any such mortgagee.

Provided Tenant has received written notice of the mailing address of any mortgagee of Landlord, Tenant further agrees that, from the date of execution of this Lease, it will not seek to terminate this Lease by reason of any act or omission of the Landlord, until the Tenant shall have given written notice of such act or omission to Landlord's mortgagee and until a reasonable period of time shall have elapsed following the giving of such notice, during which period of time Landlord's mortgagee shall have the right, but shall not be obligated, to remedy such action or omission.

## ARTICLE 28. FORCE MAJEURE

Landlord shall not be required to perform any of its obligations under this Lease, nor be liable for loss or damage for failure to do so, nor shall Tenant thereby be released from any of its obligations under this Lease, where such failure arises from or through acts of God, strikes, lockouts, labor difficulties, explosions, sabotage, accidents, riots, civil commotions, acts of war, results of any warfare or warlike conditions in this or any foreign country, fire and casualty, legal requirements, energy shortage, or causes beyond the reasonable control of Landlord, unless such loss or damage results solely from willful misconduct or negligence of Landlord or its employees.

## ARTICLE 29. NO REPRESENTATIONS BY LANDLORD

Neither Landlord nor any agent or employee of Landlord, has made any representations or promises, with respect to the Premises or the Building except as herein expressly set forth, and no rights, privileges, easements or licenses are acquired by Tenant except as herein set forth.

## ARTICLE 30. BROKER

Tenant warrants to Landlord that there are no other brokerage commissions or fees payable in connection with this Lease except to the Broker named in Section 1.13 of this Lease, whose commission shall be paid by Landlord. Tenant agrees to indemnify and hold Landlord harmless from any cost, liability and expense (including attorney's fees) which Landlord may incur as the result of any breach of the warranty contained in this Article 30.

## ARTICLE 31. ANNOUNCEMENTS

Tenant shall not cause or permit to be disseminated, published or released, by itself or through any of its brokers, employees, agents or contractors, any public announcements, advertisements or other communication which, in any way, describes or refers to the general or specific Lease terms or conditions hereof, without the prior written consent of Landlord, which consent may be withheld for any reason, except for those announcements required under Tenant's securities laws.

## ARTICLE 32. COUNTERPARTS

This Lease may be executed in two (2) or more counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

Initials /s/ EJC
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Initials
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## ARTICLE 33. GOVERNING LAW AND VENUE

This Lease has been negotiated and entered into in the State of California, and shall be governed by, construed and enforced in accordance with the internal laws of the State of California applied to contracts made in California by California domiciliaries to be wholly performed in California. Venue for any action by any party pertaining to this Lease shall be in the appropriate court located in San Diego County, California.

## ARTICLE 34. CAPTIONS AND INTERPRETATIONS

Articles, Sections, paragraph titles or other captions contained in this Lease are inserted as a matter of convenience and for reference and in no way define, limit, extend or describe the scope of this Lease or any provision here of No provision in this Lease is to be interpreted for or against either party because that party or its legal representative drafted such provision.

## ARTICLE 35. SEVERABILITY

If any term, covenant, condition or provision of this Lease is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

## ARTICLE 36. LEASE NOT EFFECTIVE UNTIL EXECUTED

Submission by Landlord of this Lease for examination or signature by Tenant shall not constitute adoption and this Lease shall not become effective until executed by both Tenant and Landlord and delivery made of the fully executed instrument to such parties. The Lease shall not be deemed to be executed by Landlord until signed by an authorized General Partner of Landlord.

## ARTICLE 37. LIMITATION OF REMEDIES

Anything herein to the contrary notwithstanding, Tenant shall look solely to Landlord's interest in the Premises for the satisfaction of any claim, judgment or decree based upon any default hereunder by Landlord, and no other property or assets of Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of such claim, judgment or decree and no partner, master lessor, officer, agent, affiliate or employee of Landlord shall be sued or earned as a party in any suit or action, or served with process, or required to answer or otherwise plead to any service of process, except to the extent required to bring Landlord under the jurisdiction of the applicable court, nor will any judgment be take against any partner, master lessor, officer, agent, affiliate or employee of Landlord.

## ARTICLE 38. HAZARDOUS SUBSTANCES

38.1 HAZARDOUS SUBSTANCE RESTRICTION: Tenant shall not cause or permit any Hazardous Substance to be used, stored, generated, or disposed of on or in the Premises by Tenant, Tenant's agents, employees, contractors, licensees, or invitees. If Hazardous Substances are used, stored, generated, or disposed of on or in the Premises in violation of the foregoing sentence, or if the Premises become contaminated in any manner due to an act or omission of Tenant, Tenant's agents, employees, contractors, licensees or invitees, Tenant shall indemnify and hold harmless Landlord from any and all claims, damages, fumes, judgments, penalties, costs, liabilities, or losses (including, without limitation, a decrease in value of the Premises, damages caused by loss or restriction of rentable or usable space), or any damages caused by adverse impact on marketing of the space, and any and all sums paid for settlement of claims, litigation expenses, attorney's fees, consultation, and expert fees of whatever kind or nature, known or unknown, contingent or otherwise arising therefrom. This indemnification includes, without limitation any and all costs incurred because of any investigation of the site or any cleanup, removal, or restoration mandated by a federal, state, or local agency or political subdivision. Without limitation of the foregoing, if Tenant caused or permits the presence of any Hazardous Substances on the Premises and that results in contamination, Tenant shall promptly, at its sole expense, take any and all actions necessary to return the Premises to the condition existing prior to the presence of any such Hazardous Substance on the Premises. Tenant shall first obtain Landlord's approval for any such remedial action. The provisions of the Paragraph 37.1 shall be in addition to any other obligations and liabilities Tenant may have to Landlord under this Lease or at law or equity and shall survive the transactions contemplated herein and shall survive the termination of this Lease. Landlord, as of the date of this Lease, has no actual knowledge of the presence of Hazardous Materials.

Initials /s/ EJC
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38.2 HAZARDOUS SUBSTANCE DEFINED: As used in Section 37.1, ("Hazardous Substance" means any substance that is toxic, ignitable, reactive, or corrosive and that is regulated by any local government, the State of California, or the United States Government. "Hazardous Substance" includes any and all material or substances that are defined as "hazardous waste", "extremely hazardous waste", or a "hazardous substance" or similar term pursuant to state, federal, or local governmental law now or hereafter enacted. "Hazardous Substance" includes, but is not restricted to, asbestos, polychlorobiphenyls ("PCB's), and petroleum products.

## ARTICLE 39. RULES AND REGULATIONS

Tenant agrees to abide by all rules and regulations of the Building imposed by Landlord as set forth in Exhibit B attached to the Lease, as the same may be reasonably changed from time to time upon reasonable notice to Tenant. Any violation of such Rules and Regulations which continues after written notice by Landlord shall constitute a default by Tenant. Landlord shall not be liable for the failure of any Tenant, or its servants, employees, agents, contractors, licensees or invitees to conform to and comply with such rules and regulations.

## ARTICLE 40. ENTIRE AGREEMENT

This Lease constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof, and no oral statements or representations or prior written matter not contained or referred to herein shall have any force or effect. This Lease fully supersedes any and all prior understandings, representations, warranties and agreements between the parties hereto, or any of them, pertaining to the subject matter hereof, and may be modified only by written agreement, signed by all of the parties hereto.

| LANDLORD: | TENANT: |
|---|---|
| WILLIAMS PROPERTIES I, LLC<br>& WILLIAMS PROPERTIES II, LLC,<br>California Limited Liability Companies | HNC Software Inc., a Delaware Corp. |
| By: /s/ Elizabeth J. Clarquist<br>---<br>Elizabeth J. Clarquist | By: /s/ Raymond V. Thomas<br>---<br>Raymond V. Thomas |
| Title: Vice President | Title: Chief Financial Officer |

ADDENDUM TO OFFICE BUILDING LEASE AGREEMENT DATED JUNE 17, 1996 BY AND BETWEEN WILLIAMS PROPER'S I, LLC & WILLIAMS PROPERTIES II, LLC, CALIFORNIA LIMITED LIABILITY COMPANIES, AS LANDLORD AND HNC SOFTWARE, INC., A DELAWARE CORPORATION, AS TENANT, FOR THAT CERTAIN PROPERTY COMMONLY KNOWN AS 6020 CORNERSTONE COURT WEST, IN THE CITY OF SAN DEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA.

This Addendum is attached to and forms a part of the Lease. In the event of any conflict between the terms of the Lease and the terms of this Addendum, the terms of this Addendum shall govern and control.

1. BASIC RENT:

Tenant's Basic Rent per month shall be adjusted pursuant to Section 4.2 of the Lease as followings:

| | | |
|---|---|---|
| Months 13-24 | $36,747.33 per month net of utilities | 11/97 - 10/98 |
| Months 25-36 | $38,217.22 per month net of utilities | 11/98 - 10/99 |
| Months 37-48 | $39,745.91 per month net of utilities | 11/99 - 10/00 |
| Months 49-60 | $41,335.75 per month net of utilities | 11/00 - 10/01 |
| Months 61-72 | $42,989.18 per month net of utilities | 11/01 - 10/02 |
| Months 73-81 | $44,708.74 per month net of utilities | 11/02 - 07/03 |

2. PARKING:

Tenant shall have the right to use four (4) parking spaces per 1,000 square feet of usable area leased, subject to the reasonable rules and regulations adopted by Landlord from time to time. Parking shall be free of charge for the initial Term and provided on-site on an unreserved basis. However, in the event of governmental or governing agency imposed fees relating to parking, Tenant shall be required to pay any such fees. Should any violation of parking privileges occur, Landlord shall notify Tenant and request Tenant to immediately enforce internal procedures to comply with its parking obligations. If the Tenant's internal procedures do not resolve the parking violation, then Landlord, by necessity, may impose reasonable measures to control the parking obligations at Tenant's expense which payment shall be due upon invoicing to Tenant.

3. SIGNAGE:

Subject to all governmental laws, ordinances and regulations, any covenants, conditions and restrictions affecting the Premises, and space availability Tenant shall have the right, at Tenant's sole cost and expense, to install and maintain up to two (2) exclusive building signs at locations to be mutually agreed upon. The sign, its specifications, size, method of attachment and installation, and design shall be subject to the Landlord's reasonable approval. The sign shall not be illuminated at night, it is not transferable and is personal exclusively to Tenant such that no assignee or sublessee of Tenant shall be entitled to any such signage rights. All signage shall read' HNC" or '~NC Software". If eighteen (18) months after the Commencement Date, Tenant has not installed its sign, Tenant shall have no further right to install any signs.

4. BUILDING HOURS OF OPERATION (HEATING, VENTILATION & AIR CONDITIONING [HVAC]).

SECTION 8.1 OF THE LEASE IS MODIFIED AS FOLLOWS:

The hours of operation for the Building will be 6:00 am. to 8:00 p.m. Monday through Friday and 8:00 am. to 6:00 p.m. on Saturdays, except holidays. Tenant may request after hour heating, ventilation and air conditioning (HVAC) service. The minimum request for such service shall be four (4) hours. Landlord's currently hourly charge to Tenant for after hours HVAC shall be equal to Twenty-Five and No/lOOths ($25.00) Dollars per hour, subject to increase from time to time. Tenant agrees to pay Landlord for such service on the earlier occurrence of: (a) within five (5) days after the date on which Tenant receives a written invoice from Landlord for site service or (b) the first day of the calendar month following the month during which the service is rendered.

5. OPTION TO RENEW LEASE EXTENSION RIGHT:

Landlord hereby grants to Tenant one (1) option (the "Option") to renew the Term for a renewal period of five (5) years (the "Extension"). During any Extension, the terms and conditions set forth in this Lease shall apply, except that Basic Rent for the Extension shall be adjusted to an amount agreed upon by the parties in their sole and absolute discretion. If, for any reason, the parties do

Initials /s/ EJC
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not reach agreement on the amount of Basic Rent applicable during the Extension within forty-five (45) days after Tenant's notice of exercise of the Option, then the Option shall be of no further force or effect, Tenant shall have no right to extend the Term and the Term shall end on the date specified in Section 3.1 of the Lease. The Option shall be exercised only by written notice delivered to Landlord at least six (6) months, but not more than twelve (12) months, before the expiration of the initial Term of this Lease. If Tenant fails to timely deliver written notice of exercise of the Option to Landlord, the Option shall lapse and Tenant shall have no further right to extend the Term of this Lease. If Tenant so exercises any Option, then, effective on the commencement date of the Extension, all references herein to the Term of this Lease shall include such Extension, except for references to the "initial Term." Tenant's exercise of the Option shall be subject to the express conditions that (i) at the time of exercise, and at all times prior to, commencement of the Extension, no Event of Default by Tenant shall have occurred and (ii) Tenant has not been ten (10) or more days late in the payment of rent more than a total of three (3) times during the Term of this Lease and (iii) the Tenant named in this Lease occupies the entire Premises as of the date of exercise of the Option and the date the Extension commences. The Option is personal to Tenant and cannot be transferred to any assignee or sublessee.

6. FIRST RIGHT OF NEGOTIATION:

Provided Tenant is not in material default of the terms and conditions of this Lease, Tenant shall have a first right of negotiation on the terms and conditions described below on all available space on the first and second floors of the Building, subject to any existing renewal, expansion or similar rights of existing tenants. In the event Landlord receives an offer to lease any said available space, Landlord shall notify Tenant of such offer. If Tenant delivers written notice of Tenant's exercise of the right of first negotiation within five (5) business days after delivery of Landlord's notice, Landlord and Tenant shall meet and attempt negotiate in good faith terms which are acceptable to the parties, each in their sole and absolute discretion. If, within fifteen (15) days after Landlord's notice of an offer to Tenant, the parties have not entered into a lease agreement for any expansion, Tenant's first right of negotiation on available space shall be of no further force or effect for said space and Landlord shall have the absolute right at any time thereafter to lease such space free of any rights of Tenant. If Tenant does not elect to exercise its first right of negotiation within five (5) business days after delivery of Landlord's notice, then Tenant's right of first negotiation shall be of no further force or effect as to such space and Landlord shall have the absolute right at any time thereafter to lease such space free of any rights of Tenant.

| LANDLORD: | TENANT: |
|---|---|
| WILLIAMS PROPERTIES I, LLC<br>& WILLIAMS PROPERTIES II, LLC,<br>California Limited Liability Companies | HNC Software Inc., a Delaware Corp. |
| By: /s/ Elizabeth J. Clarquist<br>Elizabeth J. Clarquist | By: /s/ Raymond V. Thomas<br>Raymond V. Thomas |
| Title: Vice President | Title: Chief Financial Officer |

Initial /s/ EJC

Initial

EXHIBIT "A-1"
SITE PLAN

[DIAGRAM OF SITE PLAN]

SITE PLAN IS FOR ILLUSTRATION PURPOSES ONLY AND ACTUAL SITE PLAN, PARKING, BUILDINGS, LANDSCAPING ETC MAY VARY FROM TIME TO TIME.

Initial /s/ EJC
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EXHIBIT "A-1"
3RD FLOOR PLAN & "AS-BUILTS"

[DIAGRAM OF 3RD FLOOR PLAN & "AS-BUILTS"]

"AS-BUILT" PLANS ARE FOR REFERENCE PURPOSES ONLY AND ACTUAL FIELD CONDITIONS MAY VARY SLIGHTLY. ALL EQUIPMENT, FURNISHINGS, TRADE FIXTURES ETC BUT NOT LIMITED TO ARE PROVIDED BY TENANT AT ITS COST AND EXPENSE, IF APPLICABLE.

Initial /s/ EJC
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EXHIBIT "A-1"
2ND FLOOR PLAN & "AS-BUILTS"

[DIAGRAM OF 2ND FLOOR PLAN & "AS-BUILTS"]

"AS-BUILT" PLANS ARE FOR REFERENCE PURPOSES ONLY AND ACTUAL FIELD CONDITIONS MAY VARY SLIGHTLY. ALL EQUIPMENT, FURNISHINGS, TRADE FIXTURES ETC BUT NOT LIMITED TO ARE PROVIDED BY TENANT AT ITS COST AND EXPENSE, IF APPLICABLE.

Initial /s/ EJC
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EXHIBIT "A-1"
2ND FLOOR "AS-BUILTS"

[DIAGRAM OF 2ND FLOOR "AS-BUILTS"]

"AS-BUILT" PLANS ARE FOR REFERENCE PURPOSES ONLY AND ACTUAL FIELD CONDITIONS MAY VARY SLIGHTLY. ALL EQUIPMENT, FURNISHINGS, TRADE FIXTURES ETC BUT NOT LIMITED TO ARE PROVIDED BY TENANT AT ITS COST AND EXPENSE, IF APPLICABLE.

Initial /s/ EJC
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EXHIBIT B
RULES AND REGULATIONS

Any violation of these rules and regulations, which continues after written notice by Landlord, shall constitute a default by Tenant.

Landlord may upon request by Tenant, waive the compliance by Tenant with any of the following rules and regulations, providing that (i) no waiver shall be effective unless signed by Landlord or Landlord's authorized agent, (ii) any such waiver shall not relieve Tenant from the obligation to comply with such rule or regulation in the future unless expressly consented to, in writing, by Landlord, and (iii) no waiver granted to any other tenant shall relieve Tenant from the obligation of complying with the following rules and regulations unless Tenant has received a similar waiver in writing from Landlord.

1. Tenant and Tenants employees, shall not loiter in the entrances or corridors of the Building, or in any way obstruct the sidewalks, walkways, stairways and elevators, and shall use same only as a means of ingress and egress from the Premises.

2. Landlord shall have the right to control and operate the public portions of the Building, and the facilities furnished for the common use of the tenants, in such manner as Landlord deems best for the benefit of the tenants generally. Tenant shall not permit the visit to the Premises of persons in such numbers or under such conditions as to interfere with the use and enjoyment by other tenants of the entrances, corridors, elevators and other public portions or facilities of the Building.

3. The directory board at the entrance to the Building is provided for the exclusive display of the name and location in the Building of each tenant, and Landlord reserves the right to exclude any other name therefrom, and to make a charge for each and every name in addition to the name of Tenant, placed on the directory board at the request of Tenant.

4. The water and janitor closets and other plumbing fixtures shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances shall be thrown "herein. All damages resulting from any misuse of the fixtures by Tenant or its tenants, employees, agents, visitors or licensees shall be borne by Tenant.

5. Tenant shall see that the doors of the Premises are closed and securely locked before leaving the Premises, and must observe strict care and caution that all water faucets or water apparatus are shut off before Tenant or Tenant's employees leave and that all electricity shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness Tenant shall make good all injuries sustained by other tenants or occupants of the Building or Landlord.

6. All furniture, equipment and freight shall be moved into and out of the Building only during such hours and pursuant to such rules as shall be established by Landlord in its reasonable discretion and shall, if Landlord so requests, be done under the supervision of Landlord. Such moving and deliveries shall be done through such delivery entrances, and using such freight elevators, as Landlord may designate from time to time. Landlord will not be responsible for loss of or damage to any furniture, equipment or freight from any cause.

7. Except for normal office fixtures and decorations customarily utilized, Tenant shall not mark, paint, drill into or in any way deface or damage walls, ceilings, partitions, floors, wood, paint, stone or metal work of the Premises or the Building. Boring, cutting or stringing of wires is not permitted. Tenant is not permitted to construct, maintain, use or operate, within the Premises, or elsewhere within or on the outside of the Building, any electrical device, wiring or apparatus in connection with a loud speaker system or other sound system audible outside the Premises. Tenant shall not permit noise (whether mechanically, electrically, or manually created) to emanate from the Premises.

8. All electric and telephone wiring shall be installed in a manner reasonably acceptable to the Landlord. Boring or cutting of floors and partitions for wiring will not be permitted, except with written consent of Landlord.

9. Tenant shall not install or use any machinery in the Premises which may cause any unreasonable noise, jar or tremor to the floors or walls, or which by its weight might injure the floors of the Building. Landlord may restrict the weight, size and position of all files, safes and heavy equipment used in the Building, and may require such items to be mounted on a wood or metal base acceptable to Landlord. All damage to the Building caused by installing or removing any safe, furniture, equipment or other property shall be repaired at the expense of Tenant.

Initials /s/ EJC
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10. Bicycles, vehicles, animals, birds, or pets of any kind are not permitted in the Building except guide dogs for the blind. Bicycles may be stored in bicycle racks if provided within the Building

11. Tenant shall not use, keep or permit to be used, in the Premises, any inflammable, combustible or explosive substances, paints, chemicals or any toxic or hazardous materials or substances or other potentially dangerous or offensive substances or use or permit the use of dangerous or offensive substances or use or permit the use of the Premises in a manner offensive or objectionable to the Landlord or occupants of the Building by reason of noise, odors and/or vibrations.

12. Tenant shall not use the Building or the Premises for manufacturing or the storage of merchandise or for the sale of merchandise, goods, or property of any kind at auction.

13. Removal and disposal of trash, rubbish or other refuse must take place during the hours and using such procedures which Landlord or its agent may from time to time determine.

14. Contractors or persons employed by Tenant to perform work within the Premises must obtain Landlord's consent prior to commencing such work, and such person shall, while in the Building and outside of said Premises, comply with all instructions issued by the manager/superintendent of the Building.

15. No more than three (3) vending machines or similar machines of any description shall be installed, maintained, or operated upon the Premises without the written consent of the Landlord. Tenant shall not permit any cooking other than microwave cooking on the Premises.

16. Landlord reserves the right to exclude from the Building any person who, in the judgment of the Landlord, is intoxicated or under the influence of liquor or drugs or who is not known or does not property identify himself to the Building management or watchman on duty. landlord may, at its option, require all persons admitted to or leaving the Building during secured hours to register with Building security guards. Each tenant shall be responsible for all persons for whom he authorizes entry into the Building, and shall be liable to Landlord for all acts of such persons.

17. Canvassing, soliciting or peddling in the Building is prohibited and Tenant shall cooperate to prevent same.

18. Landlord shall have the right to prohibit any advertising by Tenant which in Landlord's reasonable opinion tends to impair the reputation of the Building or its desirability as a Building for offices, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

19. Tenant shall not install blinds, shades, awnings or other form of inside or outside window coverings, or window ventilators or similar devices without the prior written consent of Landlord.

20. Tenant shall give Landlord prompt notice of any accidents to or defects in the water pipes, gas pipes, electric lights and fixtures, heating apparatus or any other service equipment in the Premises or Building.

21. Landlord reserves the right to close and keep locked all doors of the Building during hours Landlord may reasonable deem advisable for the adequate protection of the property. Use of the Building before 7:00 am. or after 6:00 p.m. on Monday through Friday, and before 9:00 a.m. or after 2:00 p.m. on Saturday, or at any other time during weekends or generally accepted legal holidays, shall be permissive and subject to the rules and regulations Landlord may reasonably prescribe. Landlord assumes no responsibility and shall not be liable for any damage resulting from the entry of any authorized or unauthorized person to the Building.

22. Tenant's use of the property is governed by a Declaration of Restrictions which has been recorded in the Official Records, in the Office of the County Recorder of San Diego County, a copy of which is included as an Exhibit to this Lease, and Tenant shall comply with the terms thereof.

23. Landlord shall have the right to prohibit any use of the Building by Tenant which in Landlord's opinion impairs the appearance of the Building.

24. The Building Engineer must be in attendance during all move-ins and move-outs and for all deliveries of furniture and equipment in order to install and remove elevator pads, lock off freight elevator, key off security system and generally oversee moving/delivery operation as appropriate. The hours charge for the Building Engineer is its actual costs not to exceed Forty Dollars ($40.00) per hour. This charge does not apply to Tenant's initial move-in. The foregoing shall also apply to moves of Tenant's subtenants and/for assignees of Tenant.

Initials /s/ EJC
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25. The smoking of cigarettes or use of cigarettes or use of tobacco products in any form whatsoever is prohibited within the confines of 6020 Cornerstone Court West.

26. Landlord reserves the right, from time to time, to make reasonable amendments to the foregoing rules and regulations by giving notice to Tenant.

| LANDLORD: | TENANT: |
| --- | --- |
| WILLIAMS PROPERTIES I, LLC<br>& WILLIAMS PROPERTIES II, LLC,<br>California Limited Liability Companies | HNC SOFTWARE, INC., a Delaware Corp. |
| By: /s/ Elizabeth J. Clarquist<br>---<br>Elizabeth J. Clarquist | By: /s/ Raymond V. Thomas<br>---<br>Raymond V. Thomas |
| Title: Vice President | Title: Chief Financial Officer |

EXHIBIT C
WORK LETTER AGREEMENT

THIS WORK LETTER AGREEMENT is attached to and forms a part of that certain Lease dated June 17,1996 (the "Lease"), by and between Williams Properties I, LLC & Williams Properties II, LLC, California Limited Liability Companies ("Landlord") and HNC Software, Inc., a Delaware Corporation ("Tenant") and relates to the construction of certain improvements ("Tenant Improvements") to the Premises which shall be constructed by Landlord as described below. All terms not defined herein shall have the respective meanings set forth in the Lease.

1. TENANT IMPROVEMENT ALLOWANCE

(a) Landlord agrees to provide Tenant with the following tenant improvement allowance (the "Tenant Improvement Allowance"): (i) Fifteen Dollars ($15) per rentable square foot within the portion of the Premises on the third floor of the Building, or a total of Two Hundred Sixty-Five Thousand Six Hundred Ninety-Five Dollars ($265,695), (ii) Twenty Dollars ($20) per usable square foot within the portion of the Premises on the portion of the second floor of the Building that is unimproved shell space, or a total of One Hundred Fifty-Six Thousand Nine Hundred Sixty Dollars ($156,960), and (iii) Seven Dollars ($7) per usable square foot for the portion of the Premises on the portion of the second floor of the Building that has been previously improved, or a total of Thirty Thousand Two Hundred Forty-Seven Dollars ($30,247). The allowances described in clauses (i), (ii) and (iii) are specifically allocated to the applicable portions of the Premises and may not be used for Tenant Improvements to any other portion of the Premises, provided that Tenant may transfer up to five percent (5%) of the amounts allocated in such clauses from one such portion of the Premises to another. For example, Tenant may use not more than One Thousand Five Hundred Twelve Dollars and Thirty-Five Cents ($1,512.35) of the allowance for previously improved space on the second Door for Tenant Improvements to other portions of the Premises. Any other transfers of the Tenant Improvement Allowance from one portion of the Premises to another shall be subject to Landlord's prior written approval. All soft costs including, but not limited to, fees, contractor overhead, profit, processing, permits, architectural engineering and reimbursables attributable directly or indirectly to the Tenant Improvements shall be allocated between the portions of the Premises described above based upon their proportional Tenant Improvement Allowance expenditures.

(b) The Tenant Improvement Allowance may be used to pay for the construction by Landlord's Contractor (as defined below) of Tenant Improvements permanently installed and incorporated into the realty of the Premises, including costs of material and labor, fees for permits and licenses paid to any governmental agency in connection with such construction, and other actual out-of-pocket costs paid, directly or indirectly, by Landlord for such construction, but specifically excluding payment for Tenant's fixtures, furniture, cabling and other personal property, which shall be constructed and installed at Tenant's sole cost and expense and in accordance with the requirements of the Lease. Landlord shall not impose any charge upon the Tenant Improvement Allowance for Landlord's profit, overhead or supervision of the construction of the Tenant Improvements. Notwithstanding the foregoing, if Landlord engages any consultants to review specialized or upgraded improvements requested by Tenant, the reasonable costs incurred by Landlord shall be charged against the Tenant Improvement Allowance.

(c) The Tenant Improvement Allowance may also be used to pay for the services of the Space Planner (as defined below) to prepare the Space Plan and the Plans and Specifications (as such terms are defined below) and to provide construction administration, millwork plans and other space planning/architectural services customarily provided for similar projects, provided that the total amount of the Tenant Improvement Allowance that may be used to pay the Space Planner shall not exceed One Dollar and Forty-Five Cents ($1.45) per usable square foot within the Premises ("Architectural Cap"). Tenant shall be solely responsible for any fees or other amounts payable to the Space Planner in excess of the Architectural Cap.

(d) Tenant shall be solely responsible for the cost of any Tenant Improvements in excess of the Tenant Improvement Allowance (or in excess of the portion of the Tenant Improvement Allowance allocated to each portion of the Premises, subject to Tenant's limited right to reallocate such amounts as described in (a) above), for the cost of any fees and costs of the Space Planner in excess of the Architectural Cap and the cost of any decorating devices, Tenant's fixtures, cabling, such as nonstandard items requested by Tenant to be incorporated in the Tenant Improvements. Tenant shall pay to Landlord fifty percent (50%) of any such excess cost upon presentation of an invoice to Tenant and the remaining fifty percent (50%) upon Substantial Completion (as defined below). Any such payments shall be collectible as additional obligations of Tenant pursuant to the Lease and, in default of payment thereof, Landlord shall (in addition to all other remedies) have the same rights as in the event of default in payment of rent. Any portion of the Tenant Improvement Allowance that is not used by Tenant upon Substantial Completion of the Tenant Improvements shall be retained by Landlord and Tenant shall have no right or claim, then or in the future, to any unused portion. The parties agree that the intent of the Tenant Improvement Allowance is to cause to be constructed generic/building standard Tenant Improvements throughout the Premises.

Initials /s/ EJC
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(e) Tenant hereby agrees to accept the existing improvements within the previously improved portion of the Premises on the second floor and entire third floor in an "as-is, where-is" basis subject to Exhibit "A". On existing improvements, Landlord shall be responsible, at its cost, for the proper working order of all systems prior to Lease Commencement for only those improvements which are not to be modified or planned to be modified by the Landlord provided Tenant Improvement Allowance.

2. SPACE PLANNER

(a) Tenant shall contract directly with Jackson & Bryan (the "Space Planner") to prepare the Space Plan the Plans and Specifications and other architectural documentation (collectively, the "Design Documents") and to provide other space planning services in connection with the Tenant Improvements.

(b) Tenant and the Space Planner shall be solely responsible for ensuring that the Design Documents are architecturally sound and fully comply with all applicable building codes, rules, regulations, ordinances and other applicable laws. Tenant shall indemnify, defend and hold Landlord and its Indemnitees harmless from all damages, liabilities, claims, penalties, fines, costs and expenses (including attorneys' fees and costs incurred in connection therewith or to enforce this indemnity agreement) arising from or relating to any defects in the Design Documents or the failure of the Design Documents to comply with all applicable building codes, rules, regulations, ordinances or other laws.

(c) Landlord will disburse payments from the Tenant Improvement Allowance to the Space Planner, subject to the Architectural Cap, within thirty (30) days after presentation of invoices and lien releases and waivers reasonably satisfactory to Landlord.

(d) Tenant shall meet with the Space Planner as soon as reasonably possible following the execution of the Lease for the purpose of advising the Space Planner of the nature and extent of the Tenant Improvements which Tenant requests. On or before June 19, 1996, Tenant shall cause the Space Planner to prepare and deliver to Landlord a space layout and improvement plan for the Premises which shall have been previously approved by Tenant (the "Space Plan"). The Space Plan and the Final Plans and Specifications shall be attached to the Lease as Exhibit D.

(e) Within twenty-one (21) days after Landlord's approval of the Space Plan, Tenant shall cause the Space Planner to prepare and deliver to Landlord the plans and specifications (the "Plans and Specifications") for the Tenant Improvements which shall have been previously approved by Tenant. The Plans and Specifications shall include complete architectural drawings and specifications required to construct the Tenant Improvements, including detailed plans for doors, partitioning, reflected ceilings, electrical fixtures, outlets and switches, telephone and computer outlets, plumbing fixtures, extraordinary floor loads and other special requirements.

(f) All Design Documents are subject to Landlord's prior written approval, which the Landlord agrees shall not be unreasonably withheld, delayed or conditioned. If Landlord disapproves any Design Documents, Tenant shall cause the Space Planner to deliver revised Design Documents to Landlord within ten (10) days. Without limiting the foregoing, Landlord may withhold its approval of any Design Documents which require work which:

(i) exceeds or affects the structural integrity of the Building or any part of the heating, ventilating, air conditioning, plumbing, mechanical, electrical, communication or other systems of the Building;

(ii) violates any agreement which affects the Building or which binds Landlord;

(iii) Landlord reasonably believes will disproportionately increase the cost of operation or maintenance of any of the systems of the Building;

(iv) Landlord reasonably believes will materially reduce the market value of the Building at the end of the Lease Term;

(v) does not conform to applicable building codes or is not approved by any governmental authority with jurisdiction over the Premises and/or the Building; or

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(vi) does not conform to the standards prepared by Landlord, includes designs that are not generic or upgrades which are specialized, or requires demolition of existing improvements or improvements that may adversely impact the Building. Any upgrades or specialized improvements shall be detailed and specified on an initial single line hand sketch to be approved by Landlord before any such items may charged against the Tenant Improvement Allowance.

(g) Landlord's review and approval of any Design Documents for the Tenant Improvements shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with laws, rules, and regulations of governmental agencies or authorities and shall not relieve Tenant of its obligations under Section 2(b). Landlord makes no warranty or representation as to the adequacy, efficiency, performance or desirability of the Tenant Improvements.

(h) After approval of the Plans and Specifications, Tenant may authorize changes in the work during construction only by written instructions from Tenant to Landlord on a form approved by Landlord. All such changes shall be subject to Landlord's prior written approval. Tenant shall be solely responsible for the cost of any such changes, and such costs shall be chargeable against the Tenant Improvement Allowance provided Landlord consents to such requested change. Prior to commencing any change, Landlord shall prepare and deliver to Tenant, for Tenant's approval, a change order (the "Change Order") setting forth the additional time required to perform the change and the total cost of such change, which will include associated architectural, engineering and construction contractor's fees. If Tenant fails to approve such Change Order in writing within two (2) business days after such delivery by Landlord, Tenant shall be deemed to have withdrawn the proposed Change Order and Landlord shall not proceed to perform the change. Upon Landlord's receipt of Tenant's approval, Contractor shall proceed to perform the change and Tenant shall pay for such Change Order in accordance with Section 1 (d) above. Notwithstanding any minor change order request(s), in the event Tenant substantially changes the scope of work, Landlord reserves the right to charge a reasonable administration fee not to exceed Forty and No/1 00ths ($40.00) Dollars per hour relating to the administration of the change order(s). Upon Landlord's approval of change orders, it shall state the fee, if applicable, and then Tenant shall pay Landlord the fee within ten (10) days of written commencement of the change order. Change orders caused by existing conditions or unknown conditions shall be excepted from Landlord's fees.

3. TENANT IMPROVEMENT CONTRACTOR

Landlord, based upon approved Plans and Specifications, shall competitively bid the construction among the following contractors or other approved contractors: FCC Construction, Bycor and Johnson & Jennings. Landlord shall select a contractor (the "Contractor") and subcontractors in its reasonable discretion based upon pricing, reputation and selection of subcontractors and other factors Landlord deems relevant, and shall seek the input of Tenant. Landlord will review with Tenant relevant contractor bids.

4. CONSTRUCTION OF IMPROVEMENTS

(a) If the estimated cost ("Estimated Cost") to design and construct the Tenant Improvements, including the Contractor's bid ("Bid Amount"), is more than the amount of the Tenant Improvement Allowance, Landlord shall notify Tenant in writing. Within three (3) business days following receipt of such notice, Tenant shall either (i) agree in writing to pay the amount by which the Estimated Cost exceeds the amount of the Tenant Improvement Allowance in accordance with Section 1 (d) above or (ii) notify Landlord in writing of Tenant's election to cause the Space Planner to revise the Plans and Specifications to reduce the Estimated Cost. The revised Plans and Specifications shall not be rebid, but shall instead be provided to the Contractor for Contractor to revise the Bid Amount. This procedure shall be repeated until the Plans and Specifications, the Bid Amount and the Estimated Cost have been approved by Tenant and Landlord, but all revisions of the Plans and Specifications and all revised Bid Amounts pursuant to this Section 4.A. shall be a Tenant delay pursuant to Section 6.4 of the Lease and elsewhere provided.

(b) Contractor shall construct the Tenant Improvements pursuant to a contract with Landlord. Following approval of the Plans and Specifications, the Bid Amount and the Estimated Cost by Landlord and Tenant, Contractor will cause application to be made to the appropriate governmental authorities for necessary approvals and building permits. Upon receipt of the necessary approvals and permits, Contractor shall begin construction of the Tenant Improvements.

(c) Landlord shall furnish Tenant, as soon as is reasonably practicable after Substantial Completion (as defined below) of the Tenant Improvements, a cost breakdown for the Tenant Improvements. Landlord shall also provide any reasonable supporting data requested by Tenant in writing.

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5. SUBSTANTIAL COMPLETION

As used herein and in the Lease, the terms "Substantial Completion" or "Substantially Complete" (or any other variant of such terms) with respect to the Tenant Improvements shall mean that (i) the Premises have been approved to occupy by the City of San Diego Building Inspection Department, and (ii) it has been determined by a joint inspection of the Premises by a representative of the Landlord and the Tenant that the Tenant Improvements have been constructed substantially in accordance with the Plans and Specifications, except for finishing details of construction, mechanical and other adjustments and other items of the type commonly found on an architectural punch list, none of which materially interfere with Tenant's use or occupancy of the Premises for Tenant's intended normal business operation. Based on such joint inspection, Landlord shall present to Tenant a Suite Acceptance Letter in Landlord's standard form which Tenant shall promptly execute and deliver to Landlord. Any items of work required by the Plans and Specifications and approved change order(s) that have not been completed upon Substantial Completion shall be listed in the Suite Acceptance Letter. Landlord shall promptly proceed to complete such items.

If Substantial Completion is delayed as a result of (a) Tenant's failure to comply with any time frames set forth herein or in the Lease, (b) any changes to the approved Plans and Specifications requested by Tenant, (c) Tenant's failure to furnish any documents required hereby, to approve any item as required hereby or to perform any other act or obligation imposed on Tenant by the Lease or this Work Letter as and when required, or (d) any other delay caused by Tenant, its agents, employees or contractors (collectively, "Tenant Delay"), then the Commencement Date and Tenant's obligation to pay Rent shall begin on the date when Substantial Completion would have occurred but for the Tenant Delay.

6. AMERICANS WITH DISABILITIES ACT (ADA)/TITLE 24/CODE COMPLIANCE

In order to establish a baseline, Landlord agrees that it will be responsible at its sole cost for ensuring the compliance with applicable laws of all existing unimproved areas and existing improvements within the common areas of the Building and Premises, including all restrooms, corridors and access areas. Landlord shall also be responsible for the cost of compliance with applicable laws relating to areas affected by the Tenant Improvements to the extent such Tenant Improvements are standard and generic, and such costs shall not be charged against the Tenant Improvement Allowance. However, Tenant shall be responsible for such cost of compliance, and such cost shall be charged against the Tenant Improvement Allowance, to the extent the Tenant Improvements (i) include special or upgraded improvements beyond those that are standard and generic and trigger code compliance obligations for previously conforming areas of the Building and (ii) require replacement and/or modification of the existing fire rated corridors on floors two and three of the Building.

7. UNAVOIDABLE DELAYS

Performance by either party hereunder shall not be deemed to be in default where delays or defaults are due to war, insurrection, strikes, lock-outs, riots, floods, earthquakes, fires, casualties, acts of God, acts of the public enemy, epidemics, quarantine restrictions, freight embargoes, lack of transportation, governmental restrictions, moratoriums, third party litigation, unusually severe weather, inability to secure necessary labor, materials or tools, delays of any contractor or subcontractor or supplier, acts of the other party, acts or failure to act of any public, private or governmental agency or entity or any other causes beyond the control or without the fault of the party claiming an extension of time to perform ("Unavoidable Delays").

| LANDLORD: | TENANT: |
|---|---|
| WILLIAMS PROPERTIES I, LLC & WILLIAMS PROPERTIES n, LLC, California Limited Liability Companies | HNC SOFTWARE, INC., a Delaware Corporation |
| By: /s/ Elizabeth J. Clarquist<br>Elizabeth J. Clarquist | By: /s/ Raymond V. Thomas<br>Raymond V. Thomas |
| Title: Vice President | Title: Chief Financial Officer |

Initials /s/ EJC

Initials

EXHIBIT D
PRELIMINARY SPACE PLAN/FINAL PLANS & SPECIFICATIONS
(TO BE ATTACHED)

Initials _____

Initials _____

# EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of August 5, 2002 by and between FAIR, ISAAC AND COMPANY, INCORPORATED, a Delaware corporation ("FIC") located at 200 Smith Ranch Road, San Rafael, California 94903, and KENNETH J. SAUNDERS ("Employee").

W I T N E S S E T H:

WHEREAS, Employee is currently employed by HNC Software, Inc. ("HNC") as Chief Financial Officer and Secretary; and

WHEREAS, pursuant to an Agreement and Plan of Merger dated as of April 28, 2002, among FIC, HNC and Northstar Acquisition Inc. (the "Merger Agreement"), FIC is acquiring all of the outstanding shares of HNC by way of the merger of HNC with a wholly owned subsidiary of FIC (the "Merger"), with HNC as the surviving entity; and

WHEREAS, FIC intends to maintain and operate the business of HNC after the Merger; and

WHEREAS, FIC desires to have the benefits of Employee's knowledge and experience as a full-time employee of FIC without distraction by employment-related uncertainties and considers such employment a vital element to protecting and enhancing the best interests of FIC and its stockholders, and Employee desires to be employed full-time with FIC; and

WHEREAS, FIC and Employee desire to enter into an agreement reflecting the terms under which Employee will be employed by FIC after the Merger;

NOW, THEREFORE, in consideration of the mutual covenants set forth in the Merger Agreement and this Agreement, the parties hereto agree as follows:

1. Effectiveness.

This Agreement shall become effective only upon the later of (i) the Closing of the Merger as defined in the Merger Agreement (the "Closing") or (ii) approval by FIC Board of Directors (the "Board") of Employee's employment as Chief Financial Officer of FIC, which date shall be the "Effective Date."

2. Term.

FIC hereby agrees to employ Employee and Employee hereby agrees to be employed by FIC on a full-time basis for a four-year period commencing on the Effective Date and ending on the fourth anniversary of the Effective Date, provided that such period shall be automatically extended for one year and from year to year thereafter until notice of termination is given by FIC or Employee to the other party hereto at least 60 days prior to the fourth anniversary of the Effective Date or the one-year extension period then in effect, as the case may be, unless sooner terminated as provided in Section 9(a) hereof (the "Term"). Employee's employment is

contingent on his ability to prove his identity and authorization to work in the United States for FIC and his compliance with the Immigration and Naturalization Service's employment verification requirements.

3. Duties.

Employee shall serve as Chief Financial Officer of FIC upon the terms and conditions set forth in this Agreement, and shall have the duties and responsibilities that are customarily associated with such position. Employee shall report directly to the Chief Executive Officer of FIC. Employee will also have such other powers and duties as may be prescribed by the Chief Executive Officer of FIC, the Board or by FIC's bylaws.

Employee is required to exercise his specialized expertise, independent judgment and discretion to provide high-quality services, and to devote his full business time, energies, efforts and abilities exclusively to his employment, and shall use his best efforts and abilities to promote FIC's interests; provided, however, that Employee may serve in any capacity with any civic, educational or charitable organization, so long as such activities do not interfere with his duties or obligations under this Agreement or arising out of his position as an employee or an officer of FIC.

Employee shall follow Employer's written policies, including any policies published on FIC's internal or external websites, and procedures adopted from time to time by Employer and to which Employee has had access, which the Employer may change at any time. During the Term, Employee may not engage, directly or indirectly, in any business activity that competes with or is adverse to FIC's business, whether alone or as a partner, officer, director, employee, consultant or investor in such business activity, including but not limited to soliciting or assisting or causing others to solicit employees of FIC or its subsidiaries for competitive employment. Notwithstanding the foregoing, Employee may own, as a passive investor, securities of any competitor corporation, provided that Employee's direct holdings in any one such corporation shall not in the aggregate constitute more than three percent (3%) of the voting stock of such corporation and further provided that such investment does not violate Employee's fiduciary duties owed to FIC.

4. Compensation.

FIC shall compensate Employee for the services rendered under this Agreement as follows:

(a) A base salary at the annual rate of $341,000, less regular payroll deductions, which covers all hours worked (the "Base Salary"), payable at such other intervals and in such amounts in accordance with the then-customary payroll practices of Employer for the payment of its employees. Employee acknowledges that Employer's current payroll practices provide for payment of annual base salaries on a bi-weekly basis in arrears. Employer will review the Base Salary annually and may, in its sole discretion, increase the Base Salary. Decreases in the Base Salary may be made if such is made generally with respect to all other similarly situated employees and does not single out Employee.

(b) Employee shall be reimbursed for all reasonable business expenses incurred on behalf of FIC while on business, upon submission of appropriate documentation in

accordance with FIC's general policies, as they may be amended from time to time during the Term.

(c) Employee shall also be eligible for an annual incentive bonus under FIC's management incentive plan, as it may be changed or replaced from time to time, on the same basis that such participation is normally granted to vice presidents of FIC of similar levels of authority and base compensation. Under FIC's current management incentive plan Employee shall be eligible for an annual incentive bonus based on FIC's performance and Employee's achievement of specific mutually agreed goals and objectives incorporating subjective and objective measurable outcomes, with an annual payout opportunity from zero to 100% of the Base Salary, which bonus currently is calculated and paid on a fiscal quarterly basis. Under the current plan, quarterly and year to date performance will be considered in paying bonuses. Employee's participation will begin on the first day of the first quarter that commences following the Effective Date; provided, however, that Employee shall be eligible to receive a pro-rated bonus for the partial quarter following the Effective Date on similar terms.

(d) All payments of compensation made by FIC under this Agreement to Employee will be subject to tax withholding as required pursuant to applicable laws and regulations.

5. Employee Benefits and Expenses.

In addition to the compensation specified in Section 4 above, Employee shall be entitled to participate in any benefit plan or arrangement for, or to receive employment benefits, such as medical, dental, vision care insurance and life insurance, which are normally available to employees of Employer, on the same basis that such participation or such benefits are normally granted to such employees and to perquisites and fringe benefits no less favorable than those generally received by any other vice-president of FIC of similar levels of authority (the "Benefit Plans"). Employee shall also be entitled to holidays and paid time off ("PTO") in accordance with FIC's policies as they may be in effect from time to time. Employer reserves the right to modify, suspend or discontinue any and all Benefit Plans and benefits, holidays and PTO policies and practices at any time without notice to or recourse by Employee, so long as such action is taken generally with respect to other similarly situated persons and does not single out Employee. Employee, to the extent not prohibited by law, shall receive service credit that includes his employment by HNC and Risk Data Corporation prior to the Closing under all Benefit Plans and paid time off ("PTO") policies. A list and description of the foregoing benefits and policies has been provided to Employee. These benefits and policies may change from time to time.

All expenses reasonably incurred by Employee, including but not limited to, relocation expenses (if Employer relocates Employee to a work location other than the San Diego, California metropolitan area after employment hereunder commences), travel, telephone, entertainment and miscellaneous expenses in connection with the proper discharge of his duties of employment will be paid by Employer in accordance with Employer's relocation and/or reimbursement policy as established and amended from time to time and generally distributed to employees of Employer.

6. Place of Employment.

During the Term, Employee shall perform the services he is required to perform at Employer's office in San Diego, California. Employer may from time to time require Employee to travel temporarily to other locations on Employer's business; provided, however, that Employee will perform the substantial majority of his services at the Employer's San Diego, California offices. Subject to Employee's consent, and subject to Sections 9(b) and 12(c) hereof, Employer reserves the right to transfer Employee to any other place or places determined by Employer at any time in good faith deemed necessary or advisable by Employer for business purposes and in such case, shall pay such relocation expenses as provided for in Employer's then current written relocation policy.

7. Stock Options.

(a) On the first business day following the Closing, Employee shall be granted options to purchase two hundred thousand (200,000) non-qualified shares of FIC common stock, at an exercise price equal to the closing sale price of FIC common stock on the New York Stock Exchange on August 6, 2002, pursuant to the Nonstatutory Stock Option Agreement (attached as Exhibit A) and the Notice of Grant of Stock Options and Options Agreement to be entered into as of the Effective Date between FIC and Employee. Such agreement shall provide that 25% of such options shall be subject to vesting on each of the first four anniversaries of the grant date, conditioned upon Employee's continued employment by FIC. The option shall have a term of ten years from the date of grant.

(b) Approximately six (6) months after the Effective Date Employee shall be eligible for additional options to purchase up to sixty thousand (60,000) non-qualified shares of FIC common stock, at an exercise price equal to the closing sale price of FIC common stock on the New York Stock Exchange on the date of grant, pursuant to the Fair, Isaac and Company, Incorporated 1992 Long-term Incentive Plan (attached as Exhibit B) and the Stock Option Agreement to be entered into between FIC and Employee for such grant. Such agreement shall provide that 25% of such options shall be subject to vesting on each of the first four anniversaries of the grant date, conditioned upon Employee's continued employment by FIC. The option shall have a term of ten years from the date of grant. This grant is entirely contingent upon the sole good faith assessment by the Chief Executive Officer that the following broad objectives have been satisfactorily achieved by Employee, as solely determined by the Chief Executive Officer:

(i) Significant improvement of core accounting and reporting function to build process rigor, data reliability, regulatory compliance and timeliness, including but not limited to staff integration.

(ii) Building an effective investor relations strategy and taking appropriate steps to implement it;

(iii) Playing a central role on leading and facilitating merger integration activities. In this capacity Employee will serve as a critical regional Employee (San Diego) charged with ensuring real-time resolution of issues that arise.

(c) Employee shall be eligible to receive options based on FIC's annual key manager grant cycle starting with the November, 2003 cycle.

8. Waiver of Certain Rights; Non-Waiver of April 1, 2002 HNC Software Letter Agreement.

Except as specified in the proviso below, Employee agrees to irrevocably relinquish and waive any rights he has pursuant to any employment or other service arrangements and agreements he has with HNC, and all such arrangements and agreements shall be deemed terminated as of the Closing; provided, however, that the letter agreement by and between Employee and HNC Software effective April 1, 2002 (the "Letter Agreement") shall remain in full force and effect.

9. Termination.

(a) Employee may terminate his employment hereunder for any reason upon thirty (30) days' prior written notice to FIC. Employee's employment hereunder will terminate automatically upon the death or Disability (as defined below) of Employee or upon expiration of the Term after notice as provided in Section 2 above. FIC may terminate Employee's employment hereunder, with or without "Cause" (as defined below), upon thirty (30) days' prior written notice to Employee; provided, however, that, immediately upon receipt of such notice, Employee shall cease to hold himself out to any third party as an officer of FIC, shall refrain from acting as an officer of FIC (including but not limited to refraining from executing contracts and instruments in the name or on behalf of FIC) and shall refrain from taking any action which may lead any third party to believe that he is authorized to act on behalf of FIC.

(b) In the event that Employee's employment hereunder is terminated by FIC without "Cause" or by Employee for "Pre-Change of Control Good Reason" (as defined below) then, if (and only if) Employee has not materially breached this Agreement and Employee has executed and delivered to FIC a full and unconditional release and non-solicit agreements in accordance with Section 11 in form satisfactory to FIC, Employee shall be entitled to the following payments:

(i) 200% of the Base Salary, in accordance with the payroll practices described in Section 4(a) (the "Base Salary Severance");

(ii) a bonus equal to 100% of the Base Salary (the "Severance Bonus"), it being understood that no bonus with respect to any succeeding anniversary or anniversaries would thereafter be payable; and

(iii) any accrued but unused paid time off (PTO) through the date of termination.

In addition, Employee's options that would otherwise vest within the twelve-month period following the termination date shall immediately vest on the date of termination.

In the event Employee is in material breach of this Agreement at the time of termination by FIC without "Cause" or by Employee for "Pre-Change of Control Good Reason", FIC shall provide Employee written notice of the specific grounds for such breach within one week of such termination. If Employee cures such breach within 30 days of receipt of such notice and is not otherwise in material breach (which breach shall also be subject to 30 days' written notice and

opportunity to cure), then Employee shall be entitled to the payments and other benefits outlined in this Section 9(b).

(c) In the event that Employee's employment hereunder is terminated voluntarily by Employee, by FIC with "Cause", by reason of Employee's death or Disability, or upon expiration of the Term after notice as provided in Section 2, then Employee shall be entitled to receive his Base Salary and benefits earned through the Termination Date, in accordance with the practices, policies and plans of FIC then in effect.

(d) Termination due to a Change in Control Event shall be governed by Section 10 below. If Employee is eligible for benefits under Section 10, Employee shall not be entitled to receive any benefits under Section 9(b).

(e) Regardless of the reason for the termination of this Agreement or of Employee's employment hereunder, Employee shall continue to be subject to and bound by the provisions of Sections 14 through 20, inclusive, after any termination of employment or termination of this Agreement.

(f) In the event of a termination of employment of Employee for any reason, possession of each corporate record and file shall be retained by FIC, and Employee or his heirs, assigns and legal representatives shall have no right whatsoever in any such material, information or property. Employee agrees to deliver to FIC at termination of employment or at any time upon written request by FIC, all memoranda, notes, plans, records, records, reports and other documents relating to the business of FIC and its subsidiaries which he may have within his possession or control.

10. Change in Control Events.

No amounts or benefits shall be payable or provided for pursuant to this Section 10 unless a Change in Control Event shall occur during the Term.

(a) For purposes of this Agreement, a "Change in Control Event" shall be deemed to have occurred if any of the following occur in one or a series of related transactions:

(i) Any "person" (as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, or any successor statute thereto (the "Exchange Act")) acquires or becomes a "beneficial owner" (as defined in Rule 13d-3 or any successor rule under the Exchange Act), directly or indirectly, of securities of FIC representing 30% or more of the combined voting power of FIC's securities entitled to vote generally in the election of directors ("Voting Securities") then outstanding or 30% or more of the shares of common stock of FIC ("Common Stock") outstanding, provided, however, that the following shall not constitute an Event pursuant to this Section 10(a)(i):

(A) any acquisition or beneficial ownership by FIC or a subsidiary of FIC;

(B) any acquisition or beneficial ownership by any employee benefit plan (or related trust) sponsored or maintained by FIC or one or more of its subsidiaries;

(C) any acquisition or beneficial ownership by any corporation (including without limitation an acquisition in a transaction of the nature described in Section 10 (a)(iii)) with respect to which, immediately following such acquisition, more than 70%, respectively, of (x) the combined voting power of FIC's then outstanding Voting Securities and (y) the Common Stock is then beneficially owned, directly or indirectly, by all or substantially all of the persons who beneficially owned Voting Securities and Common Stock, respectively, of FIC immediately prior to such acquisition in substantially the same proportions as their ownership of such Voting Securities and Common Stock, as the case may be, immediately prior to such acquisition; or

(D) any acquisition of Voting Securities or Common Stock directly from FIC; and;

Continuing Directors shall not constitute a majority of the members of the Board of Directors of FIC. For purposes of this Section 10(a)(i), "Continuing Directors" shall mean: (A) individuals who, on the date hereof, are directors of FIC, (B) individuals elected as directors of FIC subsequent to the date hereof for whose election proxies shall have been solicited by the Board of Directors of FIC or (C) any individual elected or appointed by the Board of Directors of FIC to fill vacancies on the Board of Directors of FIC caused by death or resignation (but not by removal) or to fill newly-created directorships, provided that a "Continuing Director" shall not include an individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the threatened election or removal of directors (or other actual or threatened solicitation of proxies or consents) by or on behalf of any person other than the Board of Directors of FIC; or,

(ii) Consummation of a reorganization, merger or consolidation of FIC or a statutory exchange of outstanding Voting Securities of FIC (other than a merger or consolidation with a subsidiary of FIC), unless immediately following such reorganization, merger, consolidation or exchange, all or substantially all of the persons who were the beneficial owners, respectively, of Voting Securities and Common Stock immediately prior to such reorganization, merger, consolidation or exchange beneficially own, directly or indirectly, more than 70% of, respectively, (x) the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such reorganization, merger, consolidation or exchange and (y) the then outstanding shares of common stock of the corporation resulting from such reorganization, merger, consolidation or exchange in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or exchange, of the Voting Securities and Common Stock, as the case may be; or.

(iii)(x) Approval by the shareholders of FIC of a complete liquidation or dissolution of FIC or (y) the sale or other disposition of all or substantially all of the assets of FIC (in one or a series of transactions), other than to a corporation with respect to which, immediately following such sale or other disposition, more than 70% of, respectively, (1) the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (2) the then outstanding shares of common stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the persons who were the beneficial owners, respectively, of the Voting Securities and Common Stock immediately prior to such sale or other disposition in substantially the same proportions as their ownership, immediately prior to such sale or other disposition, of the Voting Securities and Common Stock, as the case may be; or

(iv) A majority of the members of the Board of Directors of the Company shall have declared that a Change in Control Event has occurred or that a Change of Control Event will occur upon satisfaction of specified conditions, in which case the Change in Control Event shall be deemed to occur upon satisfaction of such specified conditions; or

(v) FIC enters into a letter of intent, an agreement in principle or a definitive agreement relating to a Change in Control Event described in Section 10(a)(i), 10(a)(ii), 10(a)(iii) or 10(a)(iv) hereof that ultimately results in such a Change in Control Event, or a tender or exchange offer or proxy contest is commenced which ultimately results in a Change in Control Event described in Section 10(a)(i) hereof; or

(v) There shall be an involuntary termination of employment of the Employee or Termination for Good Reason (as defined below), and the Employee reasonably demonstrates that such event (x) was requested by a party other than the Board of Directors of FIC that had previously taken other steps reasonably calculated to result in a Change in Control Event described in Section 10(a)(i), 10(a)(ii), 10(a)(iii) or 10(a)(iv) hereof and which ultimately results in a Change in Control Event described in Section 10(a)(i), 10(a)(ii), 10(a)(iii) or 10(a)(iv) hereof, or (y) otherwise arose in connection with or in anticipation of a Change in Control Event described in Section 10(a)(i), 10(a)(ii), 10(a)(iii) or 10(a)(iv) hereof that ultimately occurs.

Notwithstanding anything stated in this Section 10(a), a Change in Control Event shall not be deemed to occur with respect to Employee if (x) the acquisition or beneficial ownership of the 30% or greater interest referred to in Section 10(a)(i) is by Employee or by a group, acting in concert, that includes Employee or (y) a majority of the then combined voting power of the then outstanding voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of FIC shall, immediately after a reorganization, merger, exchange, consolidation or disposition of assets referred to in Section 10(a)(ii) or 10(a)(iii), be beneficially owned, directly or indirectly, by Employee or by a group, acting in concert, that includes Employee.

(b) For purposes of this Agreement, a "subsidiary" of FIC shall mean any entity of which securities or other ownership interests having general voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by FIC.

(c) If any Change in Control Event shall occur during the Term, then the Employee shall be entitled to receive from FIC or its successor (which term as used herein shall include any person acquiring all or substantially all of the assets of FIC) a cash payment and other benefits on the following basis (unless the Employee's employment by FIC is terminated voluntarily or involuntarily prior to the occurrence of the earliest Change in Control Event to occur (the "First Change in Control Event"), in which case Employee shall be entitled to no payment or benefits under this Section 10):

(i) If at the time of, or at any time after, the occurrence of the First Change in Control Event and prior to the end of the Transition Period, the employment of Employee with FIC is voluntarily or involuntarily terminated for any reason (unless such termination is a voluntary termination by Employee other than for Post-Change of Control Good Reason, is on account of the death or Disability of the Employee or is a termination by FIC for Cause), subject to the limitations set forth in Section 11, Employee shall be entitled to the following:

(A) FIC shall pay Employee's full base salary through the Termination Date at the rate then in effect.

(B) FIC or its successor, within 90 days after the Termination Date, shall make a cash payment to Employee in an amount equal to two times the sum of (A) the Base Salary of Employee in effect immediately prior to the First Change in Control Event plus (B) a cash bonus equal to 100% of the Base Salary.

(C) For a 24-month period after the Termination Date, FIC shall allow Employee to participate in any health, disability and life insurance plan or program in which the Employee was entitled to participate immediately prior to the First Event as if Employee were an employee of FIC during such 24-month period; provided, however, that in the event that Employee's participation in any such health, disability or life insurance plan or program of FIC is barred, FIC, at its sole cost and expense, shall arrange to provide Employee with benefits substantially similar to those which Employee would be entitled to receive under such plan or program if Employee were not barred from participation. Benefits otherwise receivable by Employee pursuant to this section 10(a)(iii) shall be reduced to the extent comparable benefits are received by Employee from another employer or other third party during such 24-month period, and Employee shall promptly report receipt of any such benefits to FIC.

(D) Any outstanding and unvested stock options granted to Employee shall be accelerated and become immediately exercisable by Employee and shall remain exercisable for the lesser of one year from the date of termination or the original ten-year term of the option and any restricted stock awarded to Employee and subject to forfeiture shall be fully vested and shall no longer be subject to forfeiture.

(ii) FIC shall also pay to Employee all legal fees and expenses incurred by the Employee as a result of such termination, including, but not limited to, all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Section 10.

(iii) In addition to all other amounts payable to Employee under this Section 10(c), Employee shall be entitled to receive all benefits payable to Employee under any other plan or agreement relating to retirement benefits.

(iv) Employee shall not be required to mitigate the amount of any payment or other benefit provided for in this Section 10 by seeking other employment or otherwise, nor shall the amount of any payment or other benefit provided for in this Section 10(c) be reduced by any compensation earned by Employee as the result of employment by another employer after the Termination Date or otherwise, except as specifically provided in this Agreement.

11. Conditions to Receipt of Termination Benefits.

Notwithstanding any other provision of this Agreement, FIC will not pay to Employee, and Employee will not be entitled to receive, any payment pursuant to Sections 9(b) or 10(c) unless and until:

(a) Employee executes, and there shall be effective following any statutory period for revocation or rescission, a release that irrevocably and unconditionally releases FIC,

any person acquiring FIC or its assets, and their past and current shareholders, directors, officers, employees and agents from and against any and all claims, liabilities, obligations, covenants, rights and damages of any nature whatsoever, whether known or unknown, anticipated or unanticipated; provided, however, that the release shall not adversely affect Employee's rights to receive benefits to which he is entitled under this Agreement or Employee's rights to indemnification under applicable law, the charter documents of FIC, any insurance policy maintained by FIC or any written agreement between FIC and Employee; and

(b) Employee executes an agreement prohibiting Employee for a period of one (1) year following the Termination Date from soliciting, recruiting or inducing, or attempting to solicit, recruit or induce, any employee of FIC or of any FIC acquiring FIC or its assets to terminate the employee's employment.

12. Definitions.

As used herein, the following terms shall have the meaning set forth in below for purposes of this Agreement:

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

(b) "Disability" shall mean Employee's absence from his duties with FIC on a full time basis for 180 consecutive business days, as a result of Employee's incapacity due to physical or mental illness, unless within 30 days after written notice of intent to terminate is given by FIC following such absence Employee shall have returned to the full time performance of Employee's duties.

(c) "Pre-Change of Control Good Reason" shall mean, if, prior to a Change of Control, without the Employee's express written consent, any of the following shall occur:

(i) The assignment to Employee of any material duties inconsistent with Employee's status or position with FIC, or any other action by FIC that results in a substantial diminution in such status or position, excluding any isolated, insubstantial, or

inadvertent action not taken in bad faith and which is remedied by FIC promptly after receipt of notice thereof from Employee.

(ii) A material reduction by FIC in Employee's annual Base Salary or target incentive (other than consistently with a reduction instituted for all senior executives of FIC);

(iii) FIC requiring Employee to relocate to any place other than a location within forty miles of FIC's San Diego location, except for required travel on FIC business consistent with Section 6 hereof.

(d) "Post-Change of Control Good Reason" shall mean, if, on or following a Change of Control, without the Employee's express written consent, any of the following shall occur:

(i) The Assignment to Employee of any material duties inconsistent with Employee's status or position with FIC, or any other action by FIC that results in a substantial diminution in such status or position, excluding any isolated, insubstantial, or inadvertent action not taken in bad faith and which is remedied by FIC promptly after receipt of notice thereof from Employee.

(ii) A material reduction by FIC in Employee's annual Base Salary or target incentive in effect immediately prior to the First Change in Control Event or Termination;

(iii) The failure by FIC to continue to provide Employee with benefits at least as favorable in the aggregate to those enjoyed by Employee under FIC's pension, life insurance, medical, health and accident, disability, deferred compensation, incentive awards, employee stock options or savings plans in which Employee was participating at the time of the First Change in Control Event, the taking of any action by FIC that would directly or indirectly materially reduce any of such benefits or deprive Employee of any material fringe benefit enjoyed at the time of the First Change in Control Event, or the failure by FIC to provide Employee with the number of paid vacation days to which Executive is entitled at the time of the First Change in Control Event, but excluding any failure or action by FIC that is not taken in bad faith and which is remedied by FIC promptly after receipt of notice thereof from Employee;

(iv) FIC requiring Employee to relocate to any place other than a location within forty miles of the location at which Employee performed his primary duties immediately prior to the First Change in Control Event, or if Employee is based at FIC's principal executive offices to a location more than forty miles from its location immediately prior to the First Change in Control Event, except for required travel on FIC business to an extent substantially consistent with Employee's prior business travel obligations; or

(v) The failure of the Company to obtain agreement form any successor to assume and agree to perform this Agreement, as contemplated in Section 22(b).

(e) Other than in Section 10(a) hereof, the term "person" shall mean an individual, partnership, corporation, estate, trust or other entity.

(f) "Termination Date" shall mean the date of termination of Employee's employment, which in the case of termination for Disability shall be the 30th day after notice is given as required in Section 12(b).

(g) "Transition Period" shall mean the one-year period commencing on the date of the earliest to occur of an Event described in Section 10(a)(i), 10(a)(ii), 10(a)(iii) or 10(a)(iv) hereof (the "Commencement Date") and ending on the first anniversary of the Commencement Date.

13. Excise Tax.

(a) Notwithstanding anything contained herein to the contrary, prior to the payment of any amounts pursuant to Section 10(c) hereof, an independent national accounting firm designated by FIC (the "Accounting Firm") shall compute whether there would be any "excess parachute payments" payable to Employee, within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), taking into account the total "parachute payments," within the meaning of Section 280G of the Code, payable to Employee by FIC or any successor thereto under this Agreement and any other plan, agreement or otherwise. If there would be any excess parachute payments, the Accounting Firm will compute the net after-tax proceeds to Employee, taking into account the excise tax imposed by Section 4999 of the Code, if (i) the payments hereunder were reduced, but not below zero, such that the total parachute payments payable to Employee would not exceed three (3) times the "base amount" as defined in Section 280G of the Code, less One Dollar ($1.00), or (ii) the payments hereunder were not reduced. If reducing the payments hereunder would result in a greater after-tax amount to Employee, such lesser amount shall be paid to Employee. If not reducing the payments hereunder would result in a greater after-tax amount to Employee, such payments shall not be reduced. The determination by the Accounting Firm shall be binding upon FIC and Employee subject to the application of Section 13(b) hereof.

(b) As a result of uncertainty in the application of Sections 280G of the Code, it is possible that excess parachute payments will be paid when such payment would result in a lesser after-tax amount to Employee; this is not the intent hereof. In such cases, the payment of any excess parachute payments will be void ab initio as regards any such excess. Any excess will be treated as an overpayment by FIC to Employee. Employee will return the overpayment to FIC, within fifteen (15) business days of any determination by the Accounting Firm that excess parachute payments have been paid when not so intended, with interest at an annual rate equal to the rate provided in Section 1274(d) of the Code (or 120% of such rate if the Accounting Firm determines that such rate is necessary to avoid an excise tax under Section 4999 of the Code) from the date Employee received the excess until it is repaid to FIC.

(c) All fees, costs and expenses (including, but not limited to, the cost of retaining experts) of the Accounting Firm shall be borne by FIC and FIC shall pay such fees, costs, and expenses as they become due. In performing the computations required hereunder, the Accounting Firm shall assume that taxes will be paid for state and federal purposes at the highest possible marginal tax rates which could be applicable to Employee in the year of receipt of the payments, unless Employee agrees otherwise.

14. Proprietary Information.

Employee is required to, and agrees to sign and abide by the terms of Employer's Non-Disclosure Agreement (Exhibit C) and Customer Information Confidentiality Agreement (Exhibit D) (collectively the "Proprietary Information Agreements") attached hereto as Exhibits C and D. Employee agrees that the Non-Disclosure Agreement and Customer Information Confidentiality Agreements are separate agreements independently supported by good and adequate consideration and, notwithstanding anything in this Agreement to the contrary, shall be severable from the other provisions of, and shall survive, this Agreement.

15. Dispute Resolution Procedure.

If Employee disputes any determination made by FIC regarding Employee's eligibility for any Change of Control Events benefits under Section 10, the amount or terms of payment of any benefits under Section 10, or FIC's application of any provision of Section 10, then Employee shall, before pursuing any other remedies that may be available to Employee, seek to resolve such dispute by submitting a written claim notice to FIC. The notice by Employee shall explain the specific reasons for Employee's claim and basis therefor. The Board of Directors shall review such claim and FIC will notify Employee in writing of its response within sixty (60) days of the date on which Employee's notice of claim was given. The notice responding to Employee's claim will explain the specific reasons for the decision. Employee shall submit a written claim hereunder before pursuing any other process for resolution of such claim. This Section 15 does not otherwise affect any rights that Employee or FIC may have in law or equity to seek any right or benefit under this Agreement.

Nothing herein shall limit any remedy available under the Proprietary Information Agreements with respect to violations or threatened violations thereof, including the pursuit of injunctive relief in court.

16. Representations and Warranty of Employee.

Employee represents and warrants to FIC that the performance of his duties hereunder will not violate any agreement with or any trade secret of any other person or entity.

17. Notices.

All notices, requests, demands and other communication called for or contemplated hereunder shall be in writing and shall be deemed to have been duly given when delivered personally or when mailed by United States certified or registered mail, postage prepaid, addressed to the parties or their successors in interest at the following addresses or such other addresses as the parties may designate by notice in the manner aforesaid:

If to FIC: Fair, Isaac and Company, Incorporated.
4295 Lexington Avenue North
St. Paul, MN 55126 USA
Attn: Chief Executive Officer

With a copy to: Fair, Isaac and Company, Incorporated
4295 Lexington Avenue North
St. Paul, MN 55126 USA
Attn: General Counsel

If to Employee:

18. Governing Law.

This Agreement and the resolution of any disputes hereunder shall be governed by and construed in accordance with the laws of the State of California.

19. Entire Agreement.

The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the subject matter hereof and may not be contradicted by evidence of any prior or contemporaneous agreements, representations or promises of any kind, whether written, oral, express or implied, between HNC or FIC and Employee with respect to the subject matters herein, including any former employment agreements. This Agreement is intended as the complete and exclusive agreement between the parties with respect to Employee's employment by FIC, and no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceeding involving this Agreement

20. Validity.

If any provision of this Agreement, or the application thereof to any person, place or circumstance, shall be held to be invalid, unenforceable or void, the remainder of this Agreement and such provision as applied to other persons, places and circumstances shall remain in full force and effect.

21. Employee Acknowledgment.

Employee acknowledges that he has had an opportunity to consult with his own separate counsel regarding the terms of this Agreement.

22. Successors and Assigns.

(a) This Agreement shall be binding upon and inure to the benefit of the successors, legal representatives and assigns of the parties hereto; provided, however, that the Employee shall not have any right to assign, pledge or otherwise dispose of or transfer any interest in this Agreement or any payments hereunder, whether directly or indirectly or in whole or in part, without the written consent of FIC or its successor.

(b) FIC will require any successor (whether direct or indirect, by purchase of a majority of the outstanding voting stock of FIC or all or substantially all of the assets of FIC, or by merger, consolidation or otherwise), by agreement in form and substance satisfactory to Employee, to assume expressly and agree to perform this Agreement in the same manner and to

the same extent that FIC would be required to perform it if no such succession had taken place. Failure of FIC to obtain such agreement prior to the effectiveness of any such succession (other than in the case of a merger or consolidation) shall be a breach of this Agreement and shall entitle Employee to compensation from FIC in the same amount and on the same terms as Employee would be entitled hereunder in the event of termination by FIC without Cause. As used in this Agreement, "FIC" shall mean FIC as hereinbefore defined and any successor to its business and/or assets as aforesaid that is required to execute and deliver the agreement as provided for in this Section 22(b) or that otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

23. Integration.

In the event that any payments or benefits become payable to Employee pursuant to Section 9 or 10 of this Agreement, then this Agreement will supersede and replace any other agreement, plan or program applicable to Employee to the extent that such other agreement, plan or program provides for payments or benefits to Employee arising out of the involuntary termination of Employee's employment or termination by Employee for Good Reason. In addition, the acceleration of stock options and lapsing of forfeiture provisions of restricted stock provided pursuant to Section 10(c)(i)(D) of this Agreement shall not be subject to the provisions of Article 13 of FIC's 1992 Long-Term Incentive Plan (or similar successor provision or plan).

24. No Offsets. No amount payable to Employee pursuant to this Agreement shall be reduced for purposes of offsetting either directly or indirectly any indebtedness or liability of Employee to FIC, unless FIC claims in good faith that an indebtedness or liability of Employee to FIC exists as a result of acts by Employee that are illegal or constitute a violation of Employee's fiduciary duties to FIC.

25. Attorney Fee Reimbursement.

Employee shall be entitled to reimbursement of reasonable attorneys' fees for reviewing this Agreement and related documentation, not to exceed $10,000.

26. Miscellaneous.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the parties, and, to the extent required, is approved by the Board. No waiver by either party hereto at any time of any breach by the other party to this Agreement of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior to similar time.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

FAIR, ISAAC AND COMPANY, INCORPORATED

By
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Title
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EMPLOYEE

/s/ Kenneth J. Saunders
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KENNETH J. SAUNDERS

Exhibits attached:

| | |
|---|---|
| Exhibit A | Nonstatutory Stock Option Agreement |
| Exhibit B | 1992 Long-Term Incentive Plan |
| Exhibit C | Employer's Non-Disclosure Agreement |
| Exhibit D | Customer Information Confidentiality Agreement |

EXHIBIT A

NOTICE OF GRANT OF STOCK OPTION

Fair, Isaac and Company, Incorporated
Id: 94:1499887
200 Smith Ranch Road
San Rafael, CA 94903

Kenneth J. Saunders

OPTION NUMBER: _____
PLAN: None
ID: _____

Effective 8/6/2002, you have been granted a Non-Qualified Stock Option to buy 200,000 shares of common stock of Fair, Isaac and Company, Incorporated ("Fair, Isaac") at $31.2600 per share (the "Option"). The Option will expire on August 5, 2012 (the "Expiration Date"). This Option is not granted pursuant to the terms of the Fair, Isaac 1992 Long-Term Incentive Plan.

The total option price of the shares granted is $6,252,000.00.

Subject to the Terms and Conditions of Nonstatutory Stock Option Agreement attached to this Notice, the Option shall become exercisable as to the number of shares of common stock on the dates specified below.

| SHARES | VESTING DATE |
|---|---|
| 50,000 | 8/6/2003 |
| 50,000 | 8/6/2004 |
| 50,000 | 8/6/2005 |
| 50,000 | 8/6/2006 |

By your signature and Fair, Isaac's signature below, you and Fair, Isaac agree that this Notice of Grant of Stock Option and the Terms and Conditions of Nonstatutory Stock Option Agreement, which is attached hereto constitute the Nonstatutory Stock Option Agreement governing this Option.

Andrea M. Fike, Vice President
Fair, Isaac and Company, Incorporated

Date:

Kenneth J. Saunders

Date:

FAIR, ISAAC AND COMPANY, INCORPORATED

TERMS AND CONDITIONS OF NONSTATUTORY STOCK OPTION AGREEMENT

FOR EXECUTIVE OFFICERS

These are the terms and conditions applicable to the NONSTATUTORY STOCK OPTION granted by Fair, Isaac and Company, Incorporated, a Delaware corporation ("Fair, Isaac"), to you, the optionee listed on the Notice of Grant of Stock Option attached hereto as the cover page (the "Cover Page"), effective as of the date of grant. The Cover Page together with these Terms and Conditions of Nonstatutory Stock Option Agreement constitute the Nonstatutory Stock Option Agreement (the "Option Agreement").

NONSTATUTORY

This Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code.

VESTING

Your Option vests and will be exercisable on the Vesting Dates, as shown on the Cover Page. In addition, your entire Option vests and will be exercisable in full in the event that:

- your service as an employee or director of Fair, Isaac (or any subsidiary) terminates because of your Disability or death, or

- any written employment agreement (other than an option agreement) between you and Fair, Isaac provides for acceleration of this Option in connection with a change in control of Fair, Isaac or upon any other specified event or combination of events.

No additional shares become exercisable after your employment or service with Fair, Isaac has terminated for any reason.

EXERCISE PERIOD

The right to purchase shares under this Option Agreement terminates at 3:00 p.m. Pacific Time on the earliest of

- the Expiration Date shown on the Cover Page; or

- the 90th day after the termination date of your service as an employee or director of Fair, Isaac (or any subsidiary), except if your termination results from Retirement, Disability or death or if your termination was in connection with a change in control of Fair, Isaac and any employment agreement or other written agreement between you and Fair, Isaac requires that any payments be made to you as a result of such termination; or

- the anniversary date of your Retirement as an employee or director of Fair, Isaac (or any subsidiary); or

- the anniversary date of the commencement of your Disability, if you become disabled while an employee, director, consultant or advisor of Fair, Isaac (or any subsidiary); or

- the anniversary date of your death, if you die while an employee or director of Fair, Isaac (or any subsidiary); or

- the anniversary date of your termination, if your termination was in connection with a change in control of Fair, Isaac and any employment agreement or other written agreement between you and Fair, Isaac requires that any payments be made to you as a result of such termination.

LEAVES OF ABSENCE

For purposes of this Option, your service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by Fair, Isaac in writing. Unless you return to active work upon termination of your approved leave, your service will be treated as terminating on the later of 90 days after you went on leave or the date that your right to return to active work is guaranteed by law or by a contract.

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| RESTRICTIONS ON EXERCISE | You may not exercise this Option if the issuance of shares at that time would violate any law or regulation, as determined by Fair, Isaac. Moreover, you cannot exercise this Option unless you have returned a signed copy of the Option Agreement to Fair, Isaac. |
| NOTICE OF EXERCISE | If you do not exercise this Option through an automated electronic exercise vehicle approved by Fair, Isaac, then you must notify Fair, Isaac of your intent to exercise this Option by completing the appropriate Notice of Exercise form and delivering it to the address provided on the Notice of Exercise before your right to purchase shares under this Option Agreement terminates. If you send your Notice of Exercise by facsimile transmission, it will be effective only if it is promptly confirmed by filing a form with an original signature.<br><br>The Notice of Exercise must specify how many shares you wish to purchase and must specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship).<br><br>If someone else wants to exercise this Option after your death, that person must prove to Fair, Isaac's satisfaction that he or she is entitled to do so. |
| FORM OF PAYMENT | When you submit your Notice of Exercise, you must include payment of the exercise price shown on the Cover Page for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms as approved by Fair, Isaac in its sole discretion:<br><br>- Your personal check, a cashier's check or a money order;<br><br>- Irrevocable directions to a securities broker approved by Fair, Isaac to sell shares underlying this Option and to deliver all or a portion of the sale proceeds to Fair, Isaac in payment of the exercise price and the balance of the sale proceeds to you; all pursuant to a special "Notice of Exercise" form provided by Fair, Isaac; or<br><br>- Certificates for shares of Fair, Isaac common stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of those shares to Fair, Isaac with the value of the shares, determined as of the effective date of the exercise of this Option, applied to the exercise price. |
| WITHHOLDING TAXES | You will not be allowed to exercise this Option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the exercise of this Option. These arrangements must be satisfactory to Fair, Isaac. You may direct Fair, Isaac to withhold shares with a market value equal to the withholding taxes due from the shares to be issued as a result of your exercise of this Option. |
| RESTRICTIONS ON RESALE | By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair, Isaac policies prohibit a sale. |
| TRANSFER OF OPTION | Prior to your death, only you or a permitted assignee as defined herein may exercise this Option (unless this Option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this Option or a portion of this Option by gift to members of your immediate family, a partnership consisting solely of you and/or members of your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons). For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children or step-grandchildren. Any of these persons is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair, Isaac notice of such transfer. You cannot transfer, pledge, hypothecate, assign or otherwise dispose of this Option, including using this Option as security for a loan. Any attempts to do any of these things contrary to the provisions of this Option, and the levy of any attachment or similar process upon this Option, shall be null and void. You may, however, dispose of this Option in your will or by a written beneficiary designation. Such a designation must be filed with Fair, Isaac on the proper form. |

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| RETENTION RIGHTS | Neither your Option nor the terms of this Option Agreement give you the right to continue as an employee or director of Fair, Isaac (or any subsidiaries) in any capacity. Fair, Isaac (and any subsidiaries) reserve the right to terminate your service at any time, with or without cause, subject to the terms of any written employment agreement signed by you and Fair, Isaac. |
| STOCKHOLDER RIGHTS | You, or your assignees, estate, beneficiaries or heirs, have no rights as a stockholder of Fair, Isaac until a certificate for any portion of the shares underlying this Option has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued. |
| ADJUSTMENTS | In the event of a subdivision of the common stock of Fair, Isaac ("Common Stock") outstanding, a declaration of a divided payable in Common Stock, a declaration of a dividend payable in a form other than Common Stock in an amount that has a material effect on the price of the Common Stock, a combination or consolidation of the outstanding Common Stock (by reclassification or otherwise) into a lesser number of shares, a recapitalization, a spinoff or a similar occurrence, the Compensation Committee of the Board of Directors of Fair, Isaac shall make appropriate adjustments in one or more of (a) the number of shares underlying this Option, or (b) the exercise price of this Option. Except as provided herein, you shall have no rights by reason of any issue by Fair, Isaac of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class. In the event that Fair, Isaac is a party to a merger or other reorganization, this Option shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of this Option by the surviving corporation or its parent, for its continuation by Fair, Isaac (if Fair, Isaac is a surviving corporation), for accelerated vesting or for settlement in cash. |
| APPLICABLE LAW | This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law). |
| OTHER AGREEMENTS | This Option Agreement and any written agreement between you and Fair, Isaac (or any subsidiaries) providing for acceleration of options granted to you by Fair, Isaac upon a change in control of Fair, Isaac constitute the entire understanding between you and Fair, Isaac regarding this Option. Any other prior agreements, commitments or negotiations concerning this Option are superseded. This Agreement may be amended only in writing. |
| DEFINITIONS | "Retirement" means that you are eligible for normal retirement or early retirement, as defined as follows:<br>- "Normal Retirement Age" means age 65<br>- "Early Retirement" means age 55 and completed 10 Years of Service. One Year of Service is the completion of at least 1,000 hours of service during the year.<br>"Disability" means that you are unable to engage in any substantial gainful activity by reason of a medically determinable, physical or mental impairment which can be expected to result in death or which has lasted (or can be expected to last) for a continuous period of not less than 12 months. |

BY SIGNING THE COVER PAGE, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE.

Exhibit 10.49

# INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "Agreement"), dated as of _____ ___, 2002, between Fair, Isaac and Company, Incorporated, a Delaware corporation (the "Corporation"), and _____ ("Indemnitee"),

W I T N E S S E T H:

WHEREAS, Indemnitee is either a member of the board of directors of the Corporation (the "Board of Directors") or an officer of the Corporation, or both, and in such capacity or capacities, or otherwise as an Agent (as hereinafter defined) of the Corporation, is performing a valuable service for the Corporation; and

WHEREAS, Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Corporation on the condition that he or she be indemnified as herein provided; and

WHEREAS, it is intended that Indemnitee shall be paid promptly by the Corporation all amounts necessary to effectuate in full the indemnity and advancement of expenses provided for herein:

NOW, THEREFORE, in consideration of the premises and the covenants in this Agreement, and of Indemnitee continuing to serve the Corporation as an Agent and intending to be legally bound hereby, the parties hereto agree as follows:

1. Services by Indemnitee. Indemnitee agrees to serve (a) as a director or an officer of the Corporation, or both, so long as Indemnitee is duly appointed or elected and qualified in accordance with the applicable provisions of the Restated Certificate of Incorporation and By-Laws of the Corporation, and until such time as Indemnitee resigns or fails to stand for election or is removed from Indemnitee's position, or (b) otherwise as an Agent of the Corporation. Indemnitee may from time to time also perform other services at the request or for the convenience of, or otherwise benefiting the Corporation. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or other obligation imposed by operation of law), in which event the Indemnitee shall have no obligation under this Agreement to continue to serve in any such position and the Corporation shall have no obligation under this Agreement to continue Indemnitee in any such position. The Corporation acknowledges that the execution of this Agreement by Indemnitee represents Indemnitee's written demand for an indemnification contract as contemplated by Section 6(b) of Article Third of this Corporation's Restated Certificate of Incorporation.

2. Indemnification. Subject to the terms and conditions of this Agreement, the Corporation hereby agrees to indemnify Indemnitee as follows:

The Corporation shall, with respect to any Proceeding (as hereinafter defined) associated with Indemnitee's being an Agent (as hereinafter defined), indemnify Indemnitee to the fullest extent permitted by applicable law and the Restated Certificate of Incorporation of the Corporation in effect on the date hereof or as such law or Restated Certificate of Incorporation may from time

to time be amended (but, in the case of any such amendment, only to the extent such amendment permits the Corporation to provide broader indemnification rights than the law or Restated Certificate of Incorporation permitted the Corporation to provide before such amendment). The right to indemnification conferred herein and in the Restated Certificate of Incorporation shall be presumed to have been relied upon by Indemnitee in serving or continuing to serve the Corporation as an Agent and shall be enforceable as a contract right. Without in any way limiting or diminishing the scope of the indemnification provided by this Section 2, the Corporation agrees to indemnify Indemnitee to the fullest extent permitted by law if and wherever Indemnitee is or was a party to, or is threatened to be made a party to, any Proceeding, including without limitation any Proceeding brought by or in the right of the Corporation, by reason of the fact that Indemnitee is or was an Agent or by reason of anything done or not done by Indemnitee in such capacity as an Agent, against all Expenses (as hereinafter defined) and Liabilities (as hereinafter defined) actually and reasonably incurred by Indemnitee or on his or her behalf in connection with the investigation, defense, settlement or appeal of such Proceeding. In addition to, and not as a limitation of, the foregoing, the rights of indemnification of Indemnitee provided under this Agreement shall include those rights set forth in Sections 3 and 8 below. Notwithstanding the foregoing, the Corporation shall not be required to indemnify Indemnitee in connection with a Proceeding commenced by Indemnitee unless (i) such Proceeding was commenced by Indemnitee to enforce Indemnitee's rights under this Agreement or (ii) the commencement of such Proceeding was authorized by the Board of Directors.

3. Advancement of Expenses; Letter of Credit.

(a) Advancement of Expenses. The Corporation agrees with Indemnitee that all reasonable Expenses incurred by or on behalf of Indemnitee (including costs of enforcement of this Agreement) in connection with a Proceeding shall be advanced from time to time by the Corporation to Indemnitee within thirty (30) days after the receipt by the Corporation of a written request by or on behalf of Indemnitee for an advance of such Expenses, whether prior to, during or after final disposition of a Proceeding (including without limitation any Proceeding brought by or in the right of the Corporation), except to the extent that there has been a Final Adverse Determination (as hereinafter defined) that Indemnitee is not entitled to be indemnified for such Expenses. A written request by an Indemnitee for an advancement of any and all Expenses under this paragraph shall contain reasonable detail of the Expenses incurred by Indemnitee for which the Indemnitee is seeking an advance. In the event that such written request shall be accompanied by an affidavit of counsel to Indemnitee to the effect that such counsel has reviewed such Expenses and that such Expenses are reasonable in such counsel's view, then such expenses shall be deemed reasonable in the absence of clear and convincing evidence to the contrary. By execution of this Agreement, Indemnitee shall be deemed to have made whatever undertaking as may be required by law at the time of any advancement of Expenses with respect to repayment to the Corporation of such advanced Expenses. In the event that the Corporation shall breach its obligation to advance Expenses under this Section 3, the parties hereto agree that Indemnitee's remedies available at law would not be adequate and that Indemnitee would be entitled to the remedies of specific performance and injunctive relief to enforce such obligation of the Corporation. The Corporation acknowledges that it has agreed to advance Expenses hereunder in order to promote the business interests of the Corporation and the Corporation agrees with Indemnitee that it will not fail to comply with its obligation to advance Expenses to Indemnitee as required under this Agreement on the ground that such advancement violates or would violate Section 13(k) of the

Securities Exchange Act of 1934, as amended, unless the Corporation has received an affirmative and unqualified written opinion of Independent Legal Counsel to the effect that such an advance of Expenses would result in a violation of said Section 13(k).

(b) Witness Expenses in Certain Proceedings. Notwithstanding any other provision of this Agreement to the contrary, to the extent that Indemnitee was or is, by reason of the fact that the Indemnitee is or was an Agent, a witness or other non-party participant in any Proceeding to which the Indemnitee is not made a party, the Corporation shall indemnify the Indemnitee against all Expenses actually and reasonably incurred by the Indemnitee or on the Indemnitee's behalf solely in connection with the Indemnitee's being a witness or other non-party participant in such Proceeding, and in preparing to be a witness or such other non-party participant in such Proceeding without the need for any determination with respect to the Indemnitee's conduct pursuant to Section 5 of this Agreement.

(c) Letter of Credit. In order to secure the obligations of the Corporation to indemnify and advance Expenses to Indemnitee pursuant to this Agreement, the Corporation agrees that it shall obtain and have in force at the time of any Change in Control (as hereinafter defined) an irrevocable standby letter of credit naming Indemnitee as the sole beneficiary (the "Letter of Credit"). The Letter of Credit shall be in an appropriate amount not less than one million dollars ($1,000,000), shall be issued by a commercial bank headquartered in the United States having assets in excess of $20 billion and capital according to its most recent published reports equal to or greater than the then applicable minimum capital standards promulgated by such bank's primary federal regulator and shall contain terms and conditions reasonably acceptable to Indemnitee. The Letter of Credit shall provide that Indemnitee may from time to time draw certain amounts thereunder, upon written certification by Indemnitee to the issuer of the Letter of Credit that (i) Indemnitee has made written request upon the Corporation for an amount not less than the amount Indemnitee is drawing under the Letter of Credit and that the Corporation has failed or refused to provide Indemnitee with such amount in full within thirty (30) days after receipt of the request, and (ii) Indemnitee believes that he or she is entitled under the terms of this Agreement to the amount that Indemnitee is drawing upon under the Letter of Credit. The issuance of the Letter of Credit shall not be an exclusive remedy, nor shall it in any way diminish the Corporation's obligations to advance Expenses and to indemnify Indemnitee against Expenses and Liabilities to the full extent required by this Agreement.

(d) Term of Letter of Credit. Once the Corporation has obtained the Letter of Credit, the Corporation (or its successor) shall maintain in effect and renew the Letter of Credit or a substitute letter of credit meeting the criteria of Section 3(c) during the term of this Agreement. The Letter of Credit shall have an initial term of five (5) years, be renewed for successive five-year terms, and always have at least one (1) year of its term remaining.

4. Presumptions and Effect of Certain Proceedings. Upon making a request for indemnification, Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Corporation shall have the burden of proof to overcome that presumption in reaching any contrary determination. The termination of any Proceeding by judgment, order, settlement (whether with or without court approval), arbitration award or conviction, or upon a plea of nolo contendere or its equivalent shall not affect this presumption or, except as determined by a judgment or other final adjudication adverse to Indemnitee, establish a presumption with

regard to any factual matter relevant to determining Indemnitee's rights to indemnification hereunder. If the forum so empowered to make a determination of Indemnitee's entitlement to indemnification pursuant to Section 5 hereof shall have failed to make the requested determination within sixty (60) days after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere or its equivalent, or other disposition or partial disposition of any Proceeding or any other event that could enable the Corporation to determine Indemnitee's entitlement to indemnification, the requisite determination that Indemnitee is entitled to indemnification shall be deemed to have been made.

5. Procedure for Determination of Entitlement to Indemnification.

(a) Whenever Indemnitee believes that Indemnitee is entitled to indemnification pursuant to this Agreement, Indemnitee shall submit a written request for indemnification to the Corporation. The Corporation's obligation to comply with such request for indemnification is subject to the condition that the matter of the Indemnitee's entitlement to such indemnification under applicable law has been heard before a forum referred to in Section 5(b) below and such forum shall not have determined that the Indemnitee did not meet the required standard of conduct under applicable law; provided, however, that such condition shall not be applicable (and no such hearing or determination shall be required) (i) where indemnification is mandatory under applicable law, (ii) with respect to any request for indemnification by an Indemnitee under Section 3(b) or (iii) in any case in which such determination is, by the express terms of this Agreement (including but not limited to Section 4 hereof), deemed to have been made or is otherwise not required to be made under this Agreement, and in each such case payment of indemnification to which an Indemnitee is entitled under this Agreement shall be made within thirty (30) days after such request is received by the Corporation. Any request for indemnification shall include sufficient documentation or information reasonably available to Indemnitee for the determination of entitlement to indemnification. In any event, Indemnitee shall submit Indemnitee's claim for indemnification within a reasonable time, not to exceed five (5) years after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere or its equivalent, or final determination, whichever is the later date for which Indemnitee requests indemnification. The Secretary or other appropriate officer of the Corporation shall, promptly upon receipt of Indemnitee's request for indemnification, advise the Board of Directors in writing that Indemnitee has made such request. Determination of Indemnitee's entitlement to indemnification shall be made not later than sixty (60) days after the Corporation's receipt of Indemnitee's written request for such indemnification, provided that any request for indemnification for Liabilities, other than amounts paid in settlement, shall have been made after a determination thereof in a Proceeding.

(b) The Indemnitee shall be entitled to select the forum in which the Indemnitee's entitlement to indemnification will be heard, which selection shall be included in the written request for indemnification referred to in Section 5(a), except that the Indemnitee may not choose to have the stockholders of the Corporation make such determination without the consent of the Board of Directors. Subject to the foregoing, the forum shall be any one of the following:

(i) the stockholders of the Corporation (with such approval being sufficient if it is given by stockholders holding a majority of the shares present at a meeting of the stockholders at which a quorum is present);

(ii) a majority vote of Disinterested Directors (as hereinafter defined), even though less than a quorum;

(iii) Independent Legal Counsel, whose determination shall be made in a written opinion; or

(iv) a panel of three arbitrators, one selected by the Corporation, another by Indemnitee and the third by the first two arbitrators; or if for any reason three arbitrators are not selected within thirty (30) days after the appointment of the first arbitrator, then selection of additional arbitrators shall be made by the American Arbitration Association. If any arbitrator resigns or is unable to serve in such capacity for any reason, the American Arbitration Association shall select such arbitrator's replacement. The arbitration shall be conducted pursuant to the commercial arbitration rules of the American Arbitration Association now in effect.

(c) Payment of indemnification for Liabilities and Expenses as to which Indemnitee is entitled determined pursuant to Section 5 or deemed determined pursuant to Section 4 shall be made as promptly as practicable after such determination or deemed determination and in any event within thirty (30) days thereafter.

6. Specific Limitations on Indemnification. Notwithstanding anything in this Agreement to the contrary, the Corporation shall not be obligated under this Agreement to make any payment to Indemnitee with respect to any Proceeding:

(a) To the extent that such payment is actually made to Indemnitee under any insurance policy, or is made to Indemnitee by the Corporation or an affiliate otherwise than pursuant to this Agreement. Notwithstanding the availability of such insurance, Indemnitee also may claim indemnification from the Corporation pursuant to this Agreement by assigning to the Corporation any claims under such insurance to the extent Indemnitee is paid by the Corporation;

(b) Provided there has been no Change in Control, for Liabilities in connection with Proceedings settled by the Indemnitee without the Corporation's consent, which consent, however, shall not be unreasonably withheld or delayed;

(c) For an accounting of profits made from the purchase or sale by Indemnitee of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or similar provisions of any state statutory or common law; or

(d) To the extent it would be otherwise prohibited by law, if so established by a judgment or other final adjudication adverse to Indemnitee.

7. Fees and Expenses of Forum. The Corporation agrees to pay all reasonable fees and expenses associated with the determination of the Indemnitee's entitlement to indemnification in accordance with Section 5(b), including, without limitation, fees and expenses in connection with a meeting of the stockholders of the Corporation and the reasonable fees and expenses of Disinterested Directors, Independent Legal Counsel or a panel of three arbitrators should such Disinterested Directors, Independent Legal Counsel or such arbitrators be retained to make a

determination of Indemnitee's entitlement to indemnification pursuant to Section 5(b) of this Agreement, and the Corporation shall fully indemnify such Disinterested Directors, Independent Legal Counsel or arbitrators against any and all expenses and losses incurred by any of them arising out of or relating to this Agreement or their engagement pursuant hereto.

8. Remedies of Indemnitee.

(a) In the event that (i) a determination pursuant to Section 5 hereof is made that Indemnitee is not entitled to indemnification, (ii) advances of Expenses are not timely made pursuant to this Agreement, (iii) payment of indemnification to the Indemnitee has not been timely made pursuant to this Agreement, or (iv) Indemnitee otherwise seeks enforcement of this Agreement, then Indemnitee shall be entitled to a final adjudication in the Court of Chancery of the State of Delaware of the Indemnitee's rights and remedies under this Agreement (which remedies may include, without limitation, an order compelling enforcement of the Corporation's obligations under this Agreement through the remedy of specific performance or injunctive relief). Alternatively, unless (i) the determination of the Indemnitee's entitlement to indemnification was made by a panel of arbitrators pursuant to Section 5(b)(iv) hereof, or (ii) court approval is required by law for the indemnification sought by Indemnitee, Indemnitee at Indemnitee's option may seek an award in arbitration to be conducted by a single arbitrator pursuant to the commercial arbitration rules of the American Arbitration Association now in effect, which award is to be made within ninety (90) days following the filing of the demand for arbitration. The Corporation shall not oppose Indemnitee's right to seek any such adjudication or arbitration award. In any such proceeding or arbitration Indemnitee shall be presumed to be entitled to indemnification and advancement of Expenses under this Agreement and the Corporation shall have the burden of proof to overcome that presumption.

(b) In the event that a determination that Indemnitee is not entitled to indemnification, in whole or in part, has been made pursuant to Section 5 hereof, the decision in the judicial proceeding or arbitration provided in paragraph (a) of this Section 8 shall be made de novo on the merits and Indemnitee shall not be prejudiced by reason of such prior determination that Indemnitee is not entitled to indemnification.

(c) If a determination that Indemnitee is entitled to indemnification has been made pursuant to Section 5 hereof, or is deemed to have been made pursuant to Section 4 hereof or otherwise pursuant to the terms of this Agreement, then the Corporation shall be bound by such determination or deemed determination in the absence of an intentional misrepresentation or omission of a material fact by Indemnitee in connection with such determination.

(d) The Corporation shall be precluded from asserting that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Corporation shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Agreement and is precluded from making any assertion to the contrary.

(e) Expenses reasonably incurred by Indemnitee in connection with Indemnitee's request for indemnification under this Agreement, seeking enforcement of this Agreement or to recover damages for breach of this Agreement shall be borne by the Corporation when and as

incurred by Indemnitee irrespective of any Final Adverse Determination that Indemnitee is not entitled to indemnification.

9. Contribution. If the Indemnitee is not entitled to the indemnification provided in Section 2 for any reason other than the statutory limitations set forth in the Delaware General Corporation Law, then the Corporation, in lieu of indemnifying Indemnitee, shall contribute to the amount of Expenses and Liabilities actually and reasonably incurred and paid or to be paid by the Indemnitee in such proportion as is deemed fair and reasonable in light of all the circumstances of the relevant Proceeding to reflect (i) the relative benefits received by the Corporation on the one hand and the Indemnitee on the other hand from the transaction from which such Proceeding arose and (ii) the relative fault of the Corporation on the one hand and of the Indemnitee on the other hand in connection with the events which resulted in such Expenses and Liabilities, as well as any other relevant equitable considerations. The relative fault of the Corporation on the one hand and of the Indemnitee on the other hand shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent the circumstances resulting in such Expenses and Liabilities. The Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

10. Partial Indemnification. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of any Expenses or Liabilities of any type whatsoever, but the Indemnitee is not entitled, however, to indemnification for the total amount thereof, then the Corporation shall nevertheless indemnify the Indemnitee for the portion thereof to which the Indemnitee is entitled.

11. Maintenance of Insurance; Notice.

(a) The Corporation represents that it presently has in place certain directors' and officers' liability insurance policies covering its directors and officers. Subject only to the provisions within this Section 11, the Corporation agrees that so long as Indemnitee shall have consented to serve or shall continue to serve as a director or officer of the Corporation, or both, or as an Agent of the Corporation, and thereafter so long as Indemnitee shall be subject to any possible Proceeding (such periods being hereinafter sometimes referred to as the "Indemnification Period"), the Corporation will use all reasonable efforts to maintain in effect for the benefit of Indemnitee one or more valid, binding and enforceable policies of directors' and officers' liability insurance from established and reputable insurers, providing, in all respects, coverage both in scope and amount which is no less favorable than that presently provided. Notwithstanding the foregoing, the Corporation shall not be required to maintain said policies of directors' and officers' liability insurance during any time period if during such period such insurance is not reasonably available or if it is determined in good faith by the then Board of Directors either that:

(i) The premium cost of maintaining such insurance is substantially disproportionate to the amount of coverage provided thereunder; or

(ii) The protection provided by such insurance is so limited by exclusions, deductions or otherwise that there is insufficient benefit to warrant the cost of maintaining such insurance.

Anything in this Agreement to the contrary notwithstanding, to the extent that and for so long as the Corporation shall choose to continue to maintain any policies of directors' and officers' liability insurance during the Indemnification Period, the Corporation shall maintain similar and equivalent insurance for the benefit of Indemnitee during the Indemnification Period (unless such insurance shall be less favorable to Indemnitee than the Corporation's existing policies).

(b) If, at the time of the receipt of a written request for indemnification pursuant to Section 5(a), the Corporation has directors' and officers' liability insurance in effect, the Corporation shall give prompt notice of the commencement of the Proceeding to which such indemnification request relates to the insurer or insurers providing such directors' and officers' liability insurance in accordance with the procedures set forth in the respective directors' and officers' liability insurance policies. The Corporation shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable by such insurers as a result of such proceeding in accordance with the terms of such directors' and officers' liability insurance policies.

12. Modification, Waiver, Termination and Cancellation. No supplement, modification, termination, cancellation or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver.

13. Subrogation. In the event of a payment to the Indemnitee under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee with respect to the circumstances giving rise to such payment, and such Indemnitee shall execute all papers reasonably required and shall do everything that may be necessary to secure any such subrogation rights, including the execution of such documents reasonably necessary to enable the Corporation effectively to bring suit to enforce such rights.

14. Notice by Indemnitee and Defense of Claim. Indemnitee shall promptly notify the Corporation in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter, whether civil, criminal, administrative or investigative, but the omission so to notify the Corporation will not relieve it from any liability that it may have to Indemnitee if such omission does not prejudice the Corporation's rights. If such omission does prejudice the Corporation's rights, the Corporation will be relieved from liability only to the extent of such prejudice. Notwithstanding the foregoing, such omission will not relieve the Corporation from any liability that it may have to Indemnitee otherwise than under this Agreement. With respect to any Proceeding as to which Indemnitee notifies the Corporation of the commencement thereof:

(a) The Corporation will be entitled to participate therein at its own expense; and

(b) The Corporation jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee; provided, however, that the Corporation shall not be entitled to assume the defense of any Proceeding without the Indemnitee's written consent if there has been a Change in Control or if Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee with respect to such Proceeding. After notice from the Corporation to Indemnitee of the Corporation's election to assume the defense thereof, the Corporation will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ Indemnitee's own counsel in such Proceeding, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of Indemnitee unless:

(i) the employment of counsel by Indemnitee has been authorized by the Corporation;

(ii) Indemnitee shall have reasonably concluded that counsel engaged by the Corporation may not adequately represent Indemnitee due to, among other things, actual or potential differing interests; or

(iii) the Corporation shall not in fact have employed counsel to assume the defense in such Proceeding or shall not in fact have assumed such defense and be acting in connection therewith with reasonable diligence; in each of which cases the fees and expenses of such counsel shall be at the expense of the Corporation.

(c) The Corporation shall not settle any Proceeding in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; provided, however, that Indemnitee will not unreasonably withhold his or her consent to any proposed settlement.

15. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to:

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(b) If to the Corporation, to:
Fair, Isaac and Company, Incorporated
200 Smith Ranch Road
San Rafael, California 94903
Attn: General Counsel

or to such other address as may have been furnished to Indemnitee by the Corporation or to the Corporation by Indemnitee, as the case may be.

16. Nonexclusivity. The rights of Indemnitee hereunder shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under applicable law, the Corporation's Restated Certificate of Incorporation or By-laws, or any agreements, vote of stockholders, resolution of the Board of Directors or otherwise, and to the extent that during the Indemnification Period the rights of the then existing directors and officers are more favorable to such directors or officers than the rights currently provided to Indemnitee thereunder or under this Agreement, Indemnitee shall be entitled to the full benefits of such more favorable rights.

17. Certain Definitions.

(a) "Agent" shall mean any person who: (i) is or was a director or officer of the Corporation or a Subsidiary (as defined below) of the Corporation or serves or served as a member of any committee of the board of directors of the Corporation of any Subsidiary; (ii) is or was serving at the request of, for the convenience of, or to represent the interest of, the Corporation or a Subsidiary of the Corporation as a director or officer of, or member of a committee of the board of directors of (or comparable management body of), another foreign or domestic corporation, partnership, joint venture, limited liability company, trust or other enterprise or an affiliate of the Corporation; or (iii) is or was a director or officer (or member of a committee of the board of directors) of a foreign or domestic corporation which was a predecessor corporation of the Corporation or a Subsidiary of the Corporation, or is or was a director or officer (or member of a committee of the board of directors) of another enterprise or affiliate of the Corporation at the request of, for the convenience of, or to represent the interests of, such predecessor corporation. The term "ENTERPRISE" includes, without limitation, any employee benefit plan of the Corporation, its Subsidiaries, affiliates and predecessor corporations. The term "SUBSIDIARY" means any corporation of which more than fifty percent (50%) of the outstanding voting securities is owned directly or indirectly by (i) the Corporation, (ii) the Corporation and one or more of its Subsidiaries or (iii) one or more of the Corporation's Subsidiaries.

(b) "Change in Control" shall mean the occurrence after the date of this Agreement of any of the following:

(i) Both (A) any "person" (as defined below) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing at least 15% of the total voting power represented by the Corporation's then outstanding voting securities; and (B) the beneficial ownership by such person of securities representing such percentage has not been approved by a majority of the "continuing directors" (as defined below);

(ii) Any "person" is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing at least 50% of the total voting power represented by the Corporation's then outstanding voting securities;

(iii) A change in the composition of the Board of Directors occurs, as a result of which fewer than two-thirds of the incumbent directors are directors who either (A) had been directors of the Corporation on the "look-back date" (as defined below) (the "Original Directors") or (B) were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority in the aggregate of the Original Directors who were still in office at the time of the election or nomination and directors whose election or nomination was previously so approved (the "continuing directors");

(iv) The stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, if such merger or consolidation would result in the voting securities of the Corporation outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving entity) 50% or less of the total voting power represented by the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation; or

(v) The stockholders of the Corporation approve (A) a plan of complete liquidation of the Corporation or (B) an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets.

For purposes of Subsection (i) above, the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act, but shall exclude (x) a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or of a parent or subsidiary of the Corporation or (y) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of the common stock of the Corporation.

For purposes of Subsection (iii) above, the term "look-back date" shall mean the later of (x) the date hereof or (y) the date 24 months prior to the date of the event that may constitute a "Change in Control."

Any other provision of this Section 17(b) notwithstanding, the term "Change in Control" shall not include a transaction, if undertaken at the election of the Corporation, the result of which is to sell all or substantially all of the assets of the Corporation to another corporation (the "surviving corporation"); provided that the surviving corporation is owned directly or indirectly by the stockholders of the Corporation immediately following such transaction in substantially the same proportions as their ownership of the Corporation's common stock immediately preceding such transaction; and provided, further, that the surviving corporation expressly assumes this Agreement.

(c) "Disinterested Director" shall mean a director of the Corporation who is not or was not a party to or otherwise involved in the Proceeding in respect of which indemnification is being sought by Indemnitee.

(d) "Expenses" shall include all direct and indirect costs (including, without limitation, attorneys' fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, all

other disbursements or out-of-pocket expenses and reasonable compensation for time spent by Indemnitee for which Indemnitee is otherwise not compensated by the Corporation or any third party) actually and reasonably incurred in connection with either the investigation, defense, settlement or appeal of a Proceeding or establishing or enforcing a right to indemnification under this Agreement, any similar agreement, the Restated Certificate of Incorporation or By-laws of the Corporation or any Subsidiary, applicable law or otherwise; provided, however, that "Expenses" shall not include any Liabilities.

(e) "Final Adverse Determination" shall mean that a determination that Indemnitee is not entitled to indemnification shall have been made pursuant to Section 5 hereof and either (i) a final adjudication in the Court of Chancery of the State of Delaware or decision of an arbitrator pursuant to Section 8(a) hereof shall have denied Indemnitee's right to indemnification hereunder, or (ii) Indemnitee shall have failed to file a complaint in a Delaware court or seek an arbitrator's award pursuant to Section 8(a) for a period of one hundred eighty (180) days after the determination made pursuant to Section 5 hereof.

(f) "Independent Legal Counsel" shall mean a law firm or a member of a firm selected by the Corporation and approved by Indemnitee (which approval shall not be unreasonably withheld) or, if there has been a Change in Control, selected by Indemnitee and approved by the Corporation (which approval shall not be unreasonably withheld), that neither is presently nor in the past five (5) years has been retained to represent: (i) the Corporation or any of its Subsidiaries or affiliates, or Indemnitee or any corporation of which Indemnitee was or is a director, officer, employee or agent, or any subsidiary or affiliate of such a corporation, in any material matter, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Corporation or Indemnitee in an action to determine Indemnitee's right to indemnification under this Agreement.

(g) "Liabilities" shall mean liabilities of any type whatsoever including, but not limited to, any judgments, fines, ERISA excise taxes and penalties, penalties and amounts paid in settlement (including all interest assessments and other charges paid or payable in connection with or in respect of such judgments, fines, penalties or amounts paid in settlement) of any Proceeding.

(h) "Proceeding" shall mean any threatened, pending or completed action, claim, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative, including any appeal therefrom, that is associated with Indemnitee's being an Agent of the Corporation.

18. Binding Effect; Duration and Scope of Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Corporation), spouses, heirs and personal and legal representatives. This Agreement shall continue in effect during the Indemnification Period, regardless of whether Indemnitee continues to serve as an Agent.

19. Severability. If any provision or provisions of this Agreement (or any portion thereof) shall be held to be invalid, illegal or unenforceable for any reason whatsoever:

(a) the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby; and

(b) to the fullest extent legally possible, the provisions of this Agreement shall be construed so as to give effect to the intent of any provision held invalid, illegal or unenforceable.

20. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within the State of Delaware, without regard to conflict of laws rules.

21. Consent to Jurisdiction. The Corporation and Indemnitee each irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding that arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of Delaware.

22. Entire Agreement. This Agreement represents the entire agreement between the parties hereto, and there are no other agreements, contracts or understandings between the parties hereto with respect to the subject matter of this Agreement, except (a) as specifically referred to in Section 16 hereof or (b) [identify any applicable agreements].

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

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by a duly authorized officer and Indemnitee has executed this Agreement as of the date first above written.

FAIR, ISAAC AND COMPANY, INCORPORATED

By
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INDEMNITEE

EXHIBIT 10.58

FAIR, ISAAC AND COMPANY, INCORPORATED
STOCK OPTION AGREEMENT
FEBRUARY 5, 2002
(FOR A. GEORGE BATTLE)

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| NONSTATUTORY STOCK OPTION | This option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code. |
| VESTING | Your entire option is 100% vested and exercisable in full at all times. |
| TERM | Your option will expire at the close of business at Fair, Isaac and Company, Incorporated ("Fair, Isaac") headquarters on the earlier of (a) the Expiration Date shown on the Notice of Grant of Stock Options and Options Agreement ("Option Agreement,) or (b) 12 months after the date on which your service, whether as a non-employee director, consultant or employee with Fair, Isaac terminates.<br><br>Fair, Isaac determines when your service terminates for this purpose. |
| RESTRICTIONS ON EXERCISE | You agree not to exercise this option if the issuance of shares at that time would violate any law or regulation, as determined by Fair, Isaac. Moreover, you cannot exercise this option unless you have returned a signed copy of the Option Agreement to Fair, Isaac. |
| NOTICE OF EXERCISE | When you wish to exercise this option, you must notify Fair, Isaac by filing Fair, Isaac's "Notice of Exercise" form at the address given on the form. The notice will be effective when it is received by Fair, Isaac. If your notice was sent by facsimile transmission, it will be effective only if it is promptly confirmed by filing a form with an original signature.<br><br>Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship).<br><br>If someone else wants to exercise this option after your death, that person must prove to Fair, Isaac's satisfaction that he or she is entitled to do so. |
| FORM OF PAYMENT | When you submit your Notice of Exercise, you must include payment of the exercise price for the shares you are purchasing, as shown on the Option Agreement. Payment may be made in one (or a combination) of the following forms:<br><br>- Cash or certified check.<br><br>- Irrevocable directions to a securities broker approved by Fair, Isaac to sell your option shares and to deliver all or a portion of the sale proceeds to Fair, Isaac in payment of the exercise price. (The |

balance of the sale proceeds, if any, will be delivered to you via your broker.) The directions must be given by signing a special "Notice of Exercise" form provided by Fair, Isaac.

- Certificates for Fair, Isaac stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of the shares to Fair, Isaac. The value of the shares, determined as of the effective date of the option exercise, will be applied to the exercise price.

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| WITHHOLDING TAXES | Fair, Isaac will not withhold taxes on stock option exercises made by non-employee directors. |
| RESTRICTIONS ON RESALE | By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair, Isaac policies prohibit a sale. This restriction will apply as long as you are a non-employee director of Fair, Isaac (or a subsidiary). |
| TRANSFER OF OPTION | Prior to your death, only you or a permitted assignee as defined herein may exercise this option (unless this option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this option or a portion of this option by gift to members of your immediate family, a partnership consisting solely of you and/or members of your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons). For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children or step-grandchildren. Any of these persons is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair, Isaac notice of such transfer. You cannot otherwise transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will or by a written beneficiary designation. Such a designation must be filed with Fair, Isaac on the proper form and will be recognized only if it is received at Fair, Isaac headquarters before your death. |
| RETENTION RIGHTS | Neither the Option Agreement nor the terms of this Agreement give you the right to be retained by Fair, Isaac (or any subsidiaries) in any capacity. |
| STOCKHOLDER RIGHTS | You, or your estate, beneficiaries or heirs, have no rights as a stockholder of Fair, Isaac until a certificate for your option shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as otherwise described herein. |

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| ADJUSTMENTS | In the event of a subdivision of the outstanding common stock of Fair, Isaac, a declaration of a dividend payable in common stock, a declaration of a dividend payable in a form other than common stock in an amount that has material effect on the price of common stock, a combination or consolidation of the outstanding common stock (by reclassification or otherwise) into a lesser number of common stock, a recapitalization, a spinoff or a similar occurrence, the Compensation Committee of the Board of Directors shall make appropriate adjustments in (a) the number of shares of common stock underlying this option and (b) the exercise price under this option. Except as provide herein you shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.<br><br>In the event that the Company is a party to a merger or other reorganization, this option shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of this option by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), or for settlement in cash. |
| APPLICABLE LAW | This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law). |
| OTHER AGREEMENTS | This Agreement constitutes the entire understanding between you and Fair, Isaac regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only in writing.<br><br>BY SIGNING THE NOTICE OF GRANT AND STOCK OPTION AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE. |

EXHIBIT 10.59

FAIR, ISAAC AND COMPANY, INCORPORATED

NONSTATUTORY STOCK OPTION AGREEMENT

NOVEMBER 16, 2001

FOR THOMAS GRUDNOWSKI

NONSTATUTORY

This option is not intended to qualify as an incentive stock STOCK OPTION option under Section 422 of the Internal Revenue Code.

VESTING

Your entire option vests and will be exercisable in full on the Vesting Date, as shown on the Notice of Grant of Stock Options and Options Agreement ("Option Agreement"). In addition, your entire option vests and will be exercisable in full in the event that:

- Your service as an employee or director of Fair, Isaac (or any subsidiary) terminates because of your disability or death, or

- Fair, Isaac is subject to a Change in Control while you are still an employee or director of Fair, Isaac (or any subsidiary).

No additional shares become exercisable after your Fair, Isaac service has terminated for any reason.

DEFINITIONS

"Retirement" means that you are eligible for normal retirement or early retirement, as defined as follows:

- "Normal Retirement Age" means age 65

- "Early Retirement" means age 55 and completed 10 Years of Service. One Year of Service is the completion of at least 1,000 hours of service during the year.

"Disability" means that you are unable to engage in any substantial gainful activity by reason of a medically determinable, physical or mental impairment which can be expected to result in death or which has lasted (or can be expected to last) for a continuous period of not less than 12 months.

"Change in control" shall be deemed to occur upon the occurrence of BOTH (A):

i. The sale, lease conveyance or other disposition of all or substantially all of Fair, Isaac's assets as an entirety or substantially as an entirety to any person, entity or group of persons acting in concert;

ii. Any "person" (as such term is used in Section 13(d) and 14(d) of the Securities and Exchange Act of 1934, as amended) becoming the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly of securities of Fair, Isaac representing 50% or more of the total voting power represented by Fair, Isaac's then outstanding voting securities; or

iii. A merger or consolidation of Fair, Isaac with any other corporation, other than a merger or consolidation which would result in the voting securities of Fair, Isaac outstanding

immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

AND (B):

i. A material adverse change in your position with Fair, Isaac which materially reduces your responsibility, without "cause" and without your written consent;

ii. A material reduction in your compensation without your written consent; or

iii. A relocation of your place of employment without your written consent.

TERM

Your option will expire in any event at the close of business at Fair, Isaac headquarters on the Expiration Date shown on the Option Agreement. (It will expire earlier if your Fair Isaac service terminates, as described below.)

REGULAR TERMINATION

If your service as an employee, director, consultant or advisor of Fair, Isaac (or any subsidiary) terminates for reasons other than retirement, disability or death, then your option will expire at the close of business at Fair, Isaac headquarters on the earlier of the expiration date stated in the Option Agreement or the 90th day after your termination date.

Fair, Isaac determines when your service terminates for this purpose.

RETIREMENT

If you retire as an employee or director of Fair, Isaac (or any subsidiary), or your service as a non-employee director terminates for any reason, then your option will expire at the close of business at Fair, Isaac headquarters on the earlier of the expiration date stated in the Option Agreement or the date 12 months after the date of your retirement. During that 12-month period, you may exercise your option.

Fair, Isaac determines your retirement date for this purpose.

DISABILITY

If you become disabled as an employee, director, consultant or advisor of Fair, Isaac (or any subsidiary), then your option will expire at the close of business at Fair, Isaac headquarters on the earlier of the expiration date stated in the Option Agreement or the date 12 months after the commencement of your disability.

Fair, Isaac determines the commencement date of your disability for this purpose.

DEATH

If you die as an employee, director, consultant or advisor of Fair, Isaac (or any subsidiary), then your option will expire at the close of business at Fair, Isaac headquarters on the earlier of the expiration date stated in the Option Agreement or the date 12 months after the date of death. During that 12-month period, your estate, beneficiary or heirs may exercise your option.

LEAVES OF ABSENCE

For purposes of this option, your service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by Fair, Isaac in writing. But your service will be treated as terminating 90 days after you went on leave, unless your right to return to active work is guaranteed by law or by a contract. And your service terminates in any event when the approved leave ends, unless you immediately return to active work.

Fair, Isaac determines which leaves count for this purpose.

RESTRICTIONS ON EXERCISE

You agree not to exercise this option if the issuance of shares at that time would violate any law or regulation, as determined by Fair, Isaac. Moreover, you cannot exercise this option unless you have returned a signed copy of the Option Agreement to Fair, Isaac.

NOTICE OF EXERCISE

When you wish to exercise this option, you must notify Fair, Isaac by filing the proper "Notice of Exercise" form at the address given on the form. The notice will be effective when it is received by Fair, Isaac. But if your notice was sent by facsimile transmission, it will be effective only if it is promptly confirmed by filing a form with an original signature.

Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship).

If someone else wants to exercise this option after your death, that person must prove to Fair, Isaac's satisfaction that he or she is entitled to do so.

FORM OF PAYMENT

When you submit your Notice of Exercise, you must include payment of the exercise price for the shares you are purchasing, as shown on the Option Agreement. Payment may be made in one (or a combination of two or more) of the following forms:

- Your personal check, a cashier's check or a money order.

- Irrevocable directions to a securities broker approved by Fair, Isaac to sell your option shares and to deliver all or a portion of the sale proceeds to Fair, Isaac in payment of the exercise price. (The balance of the sale proceeds, if any, will be delivered to you via your broker.) The directions must be given by signing a special "Notice of Exercise" form provided by Fair, Isaac.

- Certificates for Fair, Isaac stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of the shares to Fair, Isaac. The value of the shares, determined as of the effective date of the option exercise, will be applied to the exercise price.

WITHHOLDING TAXES

You will not be allowed to exercise this option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the option exercise. These arrangements must be satisfactory to Fair, Isaac. You may direct Fair, Isaac to withhold shares with a market value equal to the withholding taxes due from

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| | the shares to be issued as a result of your exercise. |
| RESTRICTIONS ON RESALE | By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair, Isaac policies prohibit a sale. This restriction will apply as long as you are an employee or director of Fair, Isaac (or a subsidiary). |
| TRANSFER OF OPTION | Prior to your death, only you or a permitted assignee as defined herein may exercise this option (unless this option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this option or a portion of this option by gift to members of your immediate family, a partnership consisting solely of you and/or members of your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons). For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children or step-grandchildren. Any of these persons is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair, Isaac notice of such transfer. You cannot otherwise transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will or by a written beneficiary designation. Such a designation must be filed with Fair, Isaac on the proper form and will be recognized only if it is received at Fair, Isaac headquarters before your death. |
| RETENTION RIGHTS | Your option, the Option Agreement or the terms of this Agreement do not give you the right to be retained by Fair, Isaac (or any subsidiaries) in any capacity. Fair, Isaac (and any subsidiaries) reserve the right to terminate your service at any time, with or without cause. |
| STOCKHOLDER RIGHTS | You, or your estate, beneficiaries or heirs, have no rights as a stockholder of Fair, Isaac until a certificate for your option shares has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan. |
| ADJUSTMENTS | In the event of a stock split, a stock dividend or a similar change in Fair, Isaac stock, the number of shares covered by this option and the exercise price per share may be adjusted as Fair, Isaac may determine pursuant to the Plan. |
| APPLICABLE LAW | This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law). |

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| OTHER AGREEMENTS | The Option Agreement and this Nonstatutory Stock Option Agreement constitute the entire understanding between you and Fair, Isaac regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only in writing. |

BY SIGNING THE NOTICE OF GRANT AND STOCK OPTION AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE.

EXHIBIT 10.60

FAIR, ISAAC AND COMPANY, INCORPORATED

TERMS AND CONDITIONS OF NONSTATUTORY STOCK OPTION AGREEMENT

EFFECTIVE OCTOBER 7, 2002

These are the terms and conditions applicable to the NONSTATUTORY STOCK OPTION granted by Fair, Isaac and Company, Incorporated, a Delaware corporation ("Fair, Isaac"), to you, the optionee listed on the Notice of Grant of Stock Option attached hereto as the cover page (the "Cover Page"), effective as of the date of grant. The Cover Page together with these Terms and Conditions of Nonstatutory Stock Option Agreement constitute the Nonstatutory Stock Option Agreement (the "Option Agreement"). This Option is granted pursuant to the terms of Fair, Isaac's 1992 Long-Term Incentive Plan (the "Plan").

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| NONSTATUTORY | This Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code. |
| VESTING | Your Option vests and will be exercisable on the Vesting Dates, as shown on the Cover Page. In addition, your entire Option vests and will be exercisable in full in the event that:<br><br>- your service as an employee or director of Fair, Isaac (or any subsidiary) terminates because of your Disability or death, or<br><br>- any written employment agreement (other than an option agreement) between you and Fair, Isaac provides for acceleration of this Option upon a change in control of Fair, Isaac or upon any other specified event or combination of events.<br><br>No additional shares become exercisable after your employment or service with Fair, Isaac has terminated for any reason. |
| EXERCISE PERIOD | The right to purchase shares under this Option Agreement terminates at 3:00 p.m. Pacific Time on the earliest of<br><br>- the Expiration Date shown on the Cover Page; or<br><br>- the 90th day after the termination date of your service as an employee, director, consultant or advisor of Fair, Isaac (or any subsidiary), except if your termination results from Retirement, Disability or death; or<br><br>- the anniversary date of your Retirement as an employee or director of Fair, Isaac (or any subsidiary); or<br><br>- the anniversary date of the commencement of your Disability, if you become disabled while an employee, director, consultant or advisor of Fair, Isaac (or any subsidiary) or<br><br>- the anniversary date of your death, if you die while an employee or director of Fair, Isaac (or any subsidiary). |

LEAVES OF ABSENCE

For purposes of this Option, your service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by Fair, Isaac in writing.

Unless you return to active work upon termination of your approved leave, your service will be treated as terminating on the later of 90 days after you went on leave or the date that your right to return to active work is guaranteed by law or by a contract.. Fair, Isaac will determine which leaves count for this purpose.

RESTRICTIONS ON EXERCISE

You may not exercise this Option if the issuance of shares at that time would violate any law or regulation, as determined by Fair, Isaac. Moreover, you cannot exercise this Option unless you have returned a signed copy of the Option Agreement to Fair, Isaac.

NOTICE OF EXERCISE

If you do not exercise this option through an automated electronic exercise vehicle approved by Fair, Isaac, then you must notify Fair, Isaac of your intent to exercise this Option by completing the appropriate Notice of Exercise form before your right to purchase shares under this Option Agreement terminates. If you send your Notice Of Exercise by facsimile transmission, it will be effective only if it is promptly confirmed by filing a form with an original signature.

The Notice of Exercise must specify how many shares you wish to purchase and must specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship).

If someone else wants to exercise this Option after your death, that person must prove to Fair, Isaac's satisfaction that he or she is entitled to do so.

FORM OF PAYMENT

When you submit your Notice of Exercise, you must include payment of the exercise price shown on the Cover Page for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms, as approved by Fair, Isaac in its sole discretion:

- Your personal check, a cashier's check or a money order;

- Irrevocable directions to a securities broker approved by Fair, Isaac to sell shares underlying this Option and to deliver all or a portion of the sale proceeds to Fair, Isaac in payment of the exercise price and the balance of the sale proceeds to you; all pursuant to a special "Notice of Exercise" form provided by Fair, Isaac; or

- Certificates for shares of Fair, Isaac common stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of those shares to Fair, Isaac with the value of the shares, determined as of the effective date of the exercise of this Option, applied to the exercise price.

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| WITHHOLDING TAXES | You will not be allowed to exercise this Option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the exercise of this Option. These arrangements must be satisfactory to Fair, Isaac. You may direct Fair, Isaac to withhold shares with a market value equal to the withholding taxes due from the shares to be issued as a result of your exercise of this Option. |
| RESTRICTIONS ON RESALE | By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair, Isaac policies prohibit a sale. |
| TRANSFER OF OPTION | Prior to your death, only you or a permitted assignee as defined herein may exercise this Option (unless this Option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this Option or a portion of this Option by gift to members of your immediate family, a partnership consisting solely of you and/or members of your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons). For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children or step-grandchildren. Any of these persons is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair, Isaac notice of such transfer. You cannot transfer, pledge, hypothecate, assign or otherwise dispose of this Option, including using this Option as security for a loan. Any attempts to do any of these things contrary to the provisions of this Option, and the levy of any attachment or similar process upon this Option, shall be null and void. You may, however, dispose of this Option in your will or by a written beneficiary designation. Such a designation must be filed with Fair, Isaac on the proper form. |
| RETENTION RIGHTS | Neither your Option nor the terms of this Option Agreement give you the right to continue as an employee or director of Fair, Isaac (or any subsidiaries) in any capacity. Fair, Isaac (and any subsidiaries) reserve the right to terminate your service at any time, with or without cause, subject to the terms of any written employment agreement signed by you and Fair, Isaac. |
| STOCKHOLDER RIGHTS | You, or your assignees, estate, beneficiaries or heirs, have no rights as a stockholder of Fair, Isaac until a certificate for any portion of shares underlying this Option has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan. |
| ADJUSTMENTS | In the event of any adjustments to the capital stock of Fair, Isaac as described in Article 10 of the Plan, the number of shares covered by this Option and the exercise price per share may be adjusted as Fair, Isaac may determine pursuant to the Plan. |

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| APPLICABLE LAW | This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law). |
| OTHER AGREEMENTS | This Option Agreement, the Plan and any written agreement between you and Fair, Isaac (or any subsidiaries) providing for acceleration of options granted to you by Fair, Isaac upon a change in control of Fair, Isaac constitute the entire understanding between you and Fair, Isaac regarding this Option. Any other prior agreements, commitments or negotiations concerning this Option are superseded. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern. This Agreement may be amended only in writing. |
| DEFINITIONS | "Retirement" means the date that you are eligible for normal retirement or early retirement, as defined as follows:<br><br>- "Normal Retirement Age" means age 65<br><br>- "Early Retirement" means age 55 and completed 10 Years of Service. One Year of Service is the completion of at least 1,000 hours of service during the year.<br><br>"Disability" means that you are unable to engage in any substantial gainful activity by reason of a medically determinable, physical or mental impairment which can be expected to result in death or which has lasted (or can be expected to last) for a continuous period of not less than 12 months. |

BY SIGNING THE COVER PAGE, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

EXHIBIT 21.1

SUBSIDIARIES OF
FAIR, ISAAC AND COMPANY, INCORPORATED

| Name of company and name under which it does business | Jurisdiction of incorporation or organization |
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| Fair, Isaac International Corporation(1) | California |
| Risk Management Technologies(1) | California |
| Data Research Technologies(1) | Minnesota |
| Lindaro Office Park, Inc.(1) | California |
| Fair, Isaac International Germany Corporation(2) | California |
| Fair, Isaac International Canada Corporation(2) | California |
| Fair, Isaac International UK Corporation(2) | California |
| Fair, Isaac International Japan Corporation(2) | California |
| Fair, Isaac International Ltd(2) | England |
| Fair, Isaac International France Corporation(2) | California |
| Fair, Isaac International Mexico Corporation(2) | California |
| Fair, Isaac International Spain Corporation(2) | California |
| Fair, Isaac Brazil, LLC(2) | Delaware |
| Fair, Isaac Do Brasil Ltda.(3) | Brazil |
| Fair, Isaac UK Limited(2) | England |
| HNC Software Inc.(1) | Delaware |
| HNC Software International Inc.(4) | Delaware |
| HNC Software LLC (4) | Delaware |

Footnotes:

(1) 100% owned by Fair, Isaac and Company, Incorporated

(2) 100% owned by Fair, Isaac International Corporation

(3) 99% owned by Fair, Isaac International Corporation and 1% owned by Fair, Isaac Brazil, LLC

(4) 100% owned by HNC Software Inc.

Revised 10-02

EXHIBIT 23.1

CONSENT OF KPMG LLP

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

We consent to incorporation by reference in the registration statements (Nos. 33-63426, 333-02121, 333-32309, 333-65179, 333-83905, 333-95889, 333-32396, 333-32398, 333-66348 and 333-66332) on Form S-8 and the registration statements (Nos. 333-20537 and 333-42473) on Form S-3 of Fair, Isaac and Company, Incorporated, of our report dated October 25, 2002, except as to note 20, which is as of November 18, 2002, relating to the consolidated balance sheets of Fair, Isaac and Company, Incorporated, and subsidiaries as of September 30, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2002, which reports appear in the September 30, 2002 annual report on Form 10-K of Fair, Isaac and Company, Incorporated. Our report dated October 25, 2002, except as to note 20, which is as of November 18, 2002, contains an explanatory paragraph describing the Company's change in accounting for Business Combinations.

/s/ KPMG LLP
San Francisco, California
November 18, 2002