

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

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FORM 10-Q

(Mark One)

[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13  
OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1998

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

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  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

The number of shares of Common Stock, \$0.01 par value per share,  
outstanding on May 6, 1998, was 13,905,394.

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PART I - FINANCIAL INFORMATION  
ITEM 1. Financial Statements.  
FAIR, ISAAC AND COMPANY, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
March 31, 1998 and September 30, 1997

(dollars in thousands)

	March 31 -----	September 30 -----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,180	\$ 13,209
Short-term investments	4,607	6,108
Accounts receivable, net	35,396	36,147
Unbilled work in progress	21,142	18,176
Prepaid expenses and other current assets	4,639	3,673
Deferred income taxes	4,449	4,517
	-----	-----
Total current assets	87,413	81,830
Long-term investments	12,735	13,261
Property and equipment, net	40,363	34,486
Intangibles, net	11,037	8,361
Deferred income taxes	3,369	3,369
Other assets	3,772	3,921
	-----	-----
	\$ 158,689	\$ 145,228
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 12,387	\$ 8,228
Accrued compensation and employee benefits	15,541	19,160
Billings in excess of earned revenues	6,993	6,346
Capitalized leases	403	369
	-----	-----
Total current liabilities	35,324	34,103
Other liabilities	6,832	6,753
Capitalized leases	999	1,183
Commitments and contingencies	--	--
	-----	-----
Total liabilities	43,155	42,039
	-----	-----
Stockholders' equity:		
Preferred stock	--	--
Common stock	139	135
Paid in capital in excess of par value	29,308	26,025
Retained earnings	86,363	77,453
Less treasury stock at cost (11,077 shares at 3/31/98; 12,114 at 9/30/97)	(396)	(433)
Cumulative translation adjustments	(278)	(308)
Unrealized gains on investments	398	317
	-----	-----
Total stockholders' equity	115,534	103,189
	-----	-----
	\$ 158,689	\$ 145,228
	=====	=====

See accompanying notes to the consolidated financial statements.

FAIR, ISAAC AND COMPANY, INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME

For the six month and three month periods ended March 31, 1998 and 1997  
(dollars in thousands, except per share data)

	Six Months Ended March 31		Three Months Ended March 31	
	1998	1997	1998	1997
Revenues	\$ 113,166	\$ 91,703	\$ 59,655	\$ 48,366
Costs and expenses:				
Cost of revenues	41,632	34,197	21,624	17,825
Sales and marketing	17,329	13,204	8,725	7,199
Research and development	13,980	7,742	7,382	4,199
General and administrative	24,115	18,993	12,717	9,511
Amortization of intangibles	576	655	255	319
Total costs and expenses	97,632	74,791	50,703	39,053
Income from operations	15,534	16,912	8,952	9,313
Other income (expense), net	539	(333)	510	(440)
Income before income taxes	16,073	16,579	9,462	8,873
Provision for income taxes	6,618	6,511	3,974	3,503
Net income	\$ 9,455	\$ 10,068	\$ 5,488	\$ 5,370
Earnings per share:				
Diluted	\$ .66	\$ .71	\$ .38	\$ .38
Basic	\$ .70	\$ .76	\$ .40	\$ .40
Shares used in computing earnings per share:				
Diluted	14,310,000	14,189,000	14,304,000	14,228,000
Basic	13,596,000	13,326,000	13,707,000	13,361,000

See accompanying notes to the consolidated financial statements.

FAIR, ISAAC AND COMPANY, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended March 31, 1998 and 1997  
(dollars in thousands)

	Six Months Ended March 31	
	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 9,455	\$ 10,068
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	7,191	5,618
Deferred compensation	324	--
Gain on sale of investment	(165)	--
Equity (gain) loss in investment	(30)	1,051
Deferred income taxes	149	(82)
Change to reflect change in Risk Management Technologies fiscal year	--	(214)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	781	(3,646)
Increase in unbilled work in progress	(2,966)	(2,429)
Increase in prepaid expenses and other assets	(966)	(1,152)
Decrease (increase) in other assets	149	(936)
Increase in accounts payable and other accrued liabilities	4,009	718
Decrease in accrued compensation and employee benefits	(2,212)	(4,176)
Increase in billings in excess of earned revenues	647	2,012
Increase (decrease) in other liabilities	(545)	533
	-----	-----
Net cash provided by operating activities	15,821	7,365
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(11,205)	(8,428)
Proceeds from sale of property and equipment	--	340
Payments for acquisitions	(3,140)	(78)
Purchases of investments	(788)	(6,140)
Proceeds from maturities of investments	3,010	5,000
	-----	-----
Net cash used by investing activities	(12,123)	(9,306)
	-----	-----
Cash flows from financing activities:		
Principal payments of capital lease obligations	(190)	(207)
Issuance of common stock	1,028	283
Dividends paid	(545)	(505)
Repurchase of company stock	(20)	--
	-----	-----
Net cash provided (used) by financing activities	273	(429)
	-----	-----
Increase (decrease) in cash and cash equivalents	3,971	(2,370)
Cash and cash equivalents, beginning of period	13,209	11,487
	-----	-----
Cash and cash equivalents, end of period	\$ 17,180	\$ 9,117
	=====	=====

See accompanying notes to the consolidated financial statements.

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

Note 1 Earnings Per Share

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

(dollars in thousands, except per share data)	Six months ended March 31,		Three months ended March 31,	
	1998	1997	1998	1997
Numerator - Net income	\$ 9,455	\$ 10,068	\$ 5,488	\$ 5,370
Denominator - Shares:				
Diluted weighted-average shares and assumed conversions of stock options	14,310	14,189	14,304	14,228
Effect of dilutive securities - employee stock options	(714)	(863)	(597)	(867)
Basic weighted-average shares	13,596	13,326	13,707	13,361
Earnings per share:				
Diluted	\$ .66	\$ .71	\$ .38	\$ .38
Basic	\$ .70	\$ .76	\$ .40	\$ .40

Total options outstanding included 483,000 and 96,000 options to purchase shares of common stock at prices ranging from \$38.25 to \$45.63 and \$38.25 to \$41.88 at March 31, 1998 and 1997, respectively. These options were not included in the computation of diluted EPS because the option's exercise price was greater than the average market price of the common shares for the six and three months ended March 31, 1998 and 1997.

Note 2 Cash Flow Statement

Supplemental disclosure of cash flow information:

(dollars in thousands)	Six months ended March 31,	
	1998	1997
Income tax payments	\$7,282	\$8,051
Interest paid	\$ 64	\$ 173
Non-cash investing and financing activities:		
Issuance of common stock to ESOP	\$1,323	\$ 969
Tax benefit of stock options	\$ 474	\$ ---
Purchase of CRMA with common stock	\$ 111	\$ ---
Vesting of restricted stock	\$ 84	\$ ---
Capital lease obligations	\$ 40	\$ ---
Contributions of treasury stock to ESOP	\$ ---	\$ 499

Note 3 Merger

In July 1997, the Company issued 1,252,665 shares of its common stock (including 544,218 shares underlying options assumed by the Company) in connection with the merger with Risk Management Technologies (RMT). The acquisition has been accounted for under the pooling-of-interests method. Accordingly, the consolidated financial statements have been restated for all prior periods to include RMT. Further, all common share and per share data have been restated for prior periods.

RMT previously used the fiscal year ended December 31 for its financial reporting. RMT's operating results for the year ended December 31, 1996 are included in the accompanying consolidated balance sheet at September 30, 1997 in the line item retained earnings. The statement of income's comparative 1997 results reflect the operations of the Company and RMT for the six-month period ended March 31, 1997. Accordingly, the duplication of RMT's net income for the three months ended December 31, 1996, has been adjusted by a \$214,000 charge to retained earnings in fiscal 1997.

#### Note 4 Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 130, "Reporting Comprehensive Income." SFAS No. 130 established standards for reporting comprehensive income and its components in financial statements. This statement requires that all items which are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is equal to net income plus the change in "other comprehensive income." SFAS No. 130 requires that an entity: (a) classify items of other comprehensive income by their nature in a financial statement, and (b) report the accumulated balance of other comprehensive income separately from common stock and retained earnings in the equity section of the statement of financial position. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. Beginning with fiscal year 1999, management intends to conform its consolidated financial statements to this pronouncement.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for publicly held entities to follow in reporting information about operating segments in annual financial statements and requires that those entities report selected information about operating segments in interim financial statements. This statement also establishes standards for related disclosures about products and services, geographic areas and major customers. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. Beginning with fiscal year 1999, management intends to conform its consolidated financial statements to this pronouncement.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position No. 97-2, "Software Revenue Recognition." This statement establishes standards for when to recognize revenue on software transactions and in what amounts for licensing, selling, leasing or otherwise marketing computer software. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company is currently evaluating the impact of the statement in the accompanying consolidated financial statements. Beginning with fiscal year 1999, management intends to conform its consolidated financial statements to this pronouncement.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits." The statement standardizes the disclosure requirements for pension and other postretirement benefits. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company is currently evaluating the impact of the statement in the accompanying consolidated financial statements. Beginning with fiscal year 1999, management intends to conform its consolidated financial statements to this pronouncement.

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

General

Fair, Isaac and Company, Incorporated, provides products and services designed to help a variety of businesses use data to make better decisions on their customers, prospective customers and existing portfolios. The Company's products include statistically derived, rule-based analytical tools, software designed to implement those analytical tools and consulting services to help clients use and track the performance of those tools. The Company also provides a range of credit scoring and credit account management services in conjunction with credit bureaus and credit card processing agencies. Its DynaMark subsidiary provides data processing and database management services to businesses engaged in direct marketing activities, many of which are in the credit and insurance industries.

On July 21, 1997, the Company acquired Risk Management Technologies (RMT), a privately held company, which provides enterprise-wide risk management and performance measurement solutions to major financial institutions. The Company's historical statements for prior periods have been restated to account for the Company's merger with RMT on a pooling-of-interests basis.

The Company is organized into business units that correspond to its principal markets: consumer credit, insurance, direct marketing (DynaMark), enterprise-wide financial risk management (RMT) and a new unit, healthcare information. Sales to the consumer credit industry have traditionally accounted for the bulk of the Company's revenues. Products developed specifically for a single user in this market are generally sold on a fixed-price basis. Such products include application and behavior scoring algorithms (also known as "analytic products" or "scorecards"), credit application processing systems (ASAP(TM) and CreditDesk(R)) and custom credit account management systems, including those marketed under the name TRIAD(TM). Software systems usually also have a component of ongoing maintenance revenue, and CreditDesk systems have also been sold under time- or volume-based price arrangements. Credit scoring and credit account management services sold through credit bureaus and third-party credit card processors are generally priced based on usage. Products sold to the insurance industry are generally priced based on the number of policies in force, subject to contract minimums. DynaMark and RMT employ a combination of fixed-fee and usage-based pricing, and the Healthcare Information unit intends to employ a combination of fixed-fee and usage-based pricing for its products.

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

Results of Operations  
Revenues

The following table sets forth for the fiscal periods indicated (a) the percentage of revenues represented by fixed-price and usage-priced revenues from the Credit business unit, and the percentage of revenues contributed by the DynaMark, RMT, Insurance and Healthcare Information business units; and (b) the percentage change in revenues within each category from the corresponding period in the prior fiscal year. Credit fixed-price revenues include all revenues from custom scorecard, software and consulting projects. Most credit usage revenues are generated through third-party alliances such as those with credit bureaus and third-party credit card processors. In addition, some credit scorecards and software products are licensed under volume-based fee arrangements and these are included in credit usage-priced revenues.

	Percentage of Revenue		Percentage Change	Percentage of Revenue		Percentage Change
	Three Months Ended			Six Months Ended		
	March 31,	March 31,		March 31,	March 31,	
	1998	1997		1998	1997	
Credit						
Fixed-price	27%	29%	13%	25%	29%	6%
Usage-priced	45%	49%	14%	49%	50%	21%
DynaMark	20%	14%	77%	19%	14%	68%
RMT	4%	4%	13%	3%	4%	(4%)
Insurance	3%	4%	22%	4%	3%	44%
Healthcare Information	1%	---	NM	less than 1%	---	NM
	-----	-----		-----	-----	
Total revenues	100%	100%	23%	100%	100%	23%
	=====	=====		=====	=====	

NM = Not meaningful

The increase in fixed-price credit revenues in the quarter ended March 31, 1998 was due primarily to increased revenues from CRMA, which was acquired in September 1996 as part of the Credit business unit; sales of credit application scorecards and credit application processing software; and its end-user credit account management systems ("TRIAD") and behavior scoring projects. The increase in fixed-price credit revenues in the six-months ended March 31, 1998 was due primarily to increased revenues from CRMA and the Company's end-user credit account management systems ("TRIAD") and behavior scoring projects. CRMA's revenues were up 97 percent in the quarter and 117 percent in the six months ended March 31, 1998, compared with the same periods of the prior fiscal year. Compared with the same periods of fiscal 1997, revenues from sales of credit application scorecards and credit application processing software increased by approximately 9 percent in the quarter, and declined by 3 percent in the six-months ended March 31, 1998 due principally to a decline in revenues outside the United States. Revenues from end-user credit account management systems ("TRIAD") and behavior scoring projects in the three- and six-month periods ended March 31, 1998, were up 20 percent and 22 percent, respectively, from the same periods of fiscal 1997 due primarily to the release of the next version of TRIAD software.

The increase in usage revenues from the Credit business unit in the quarter and six-months ended March 31, 1998, compared with the same periods the prior year, was due to continuing growth in (a) usage of the Company's scoring services distributed through the three major credit bureaus in the United States and (b) the number of bankcard accounts being managed by the Company's account management services delivered through third-party processors. Revenues for the credit bureau scoring services in the six-months ended March 31, 1998, were approximately 20 percent higher than in the first six months of fiscal 1997; approximately one-sixth of this increase was due to the recognition of usage revenue pertaining to prior fiscal years from audits of clients. Revenues from credit account management services delivered through third-party processors in the most recent three months were 18 percent higher than in the corresponding period of fiscal 1997.

Revenues from credit bureau-related services have increased rapidly in each of the last three fiscal years and accounted for approximately 35 percent of revenues in fiscal 1997. Revenues from services provided through

bankcard processors also increased in each of these years, due primarily to increases in the number of accounts at each of the major processors.

Revenues derived from alliances with credit bureaus and credit card processors have accounted for much of the Company's revenue growth and improvement in operating margins over the last three fiscal years. While the Company has been very successful in extending or renewing such agreements in the past, and believes it will generally be able to do so in the future, the loss of one or more such alliances could have a significant impact on revenues and operating margin. Revenues generated through the Company's alliances with Equifax, Inc., Experian Information Solutions, Inc. (formerly TRW Information Systems & Services), and Trans Union Corporation each accounted for approximately eight to ten percent of the Company's total revenues in fiscal 1996 and 1997.

On November 14, 1996, it was announced that Experian had been acquired by CCN Group Ltd., a subsidiary of Great Universal Stores, PLC. CCN is the Company's largest competitor, worldwide, in the area of credit scoring. TRW/Experian has offered scoring products developed by CCN in competition with those of the Company for several years. The acquisition has had no apparent impact on the Company's revenues from Experian.

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

Since its acquisition, DynaMark has taken on an increasing share of the mainframe batch processing requirements of the Company's other business units. During fiscal 1997, such intercompany revenue represented more than fourteen percent of DynaMark's total revenues. Accordingly, DynaMark's externally reported revenues tend to understate DynaMark's growth and contribution to the Company as a whole. The increase in DynaMark's revenues shown in the foregoing table, which excludes such intercompany revenues, was due primarily to increased revenues from customers in the financial services industry. RMT's revenues slightly decreased in the six-month period ended March 31, 1998 compared to the same period in fiscal 1997 due to the impact of bank consolidations, but increased by 13 percent in the quarter ended March 31, 1998 over the corresponding period in fiscal 1997.

The increases in Insurance revenues for the three- and six-months ended March 31, 1998, compared with the same periods in fiscal 1997, were due primarily to continuing strong growth in insurance scoring services offered through consumer reporting agencies. In the quarter and six-months ended March 31, 1998, the Company's newest business unit, Healthcare Information, derived revenues from providing analytical marketing services to a large pharmaceuticals manufacturer to help improve customer relationships and management of prescription compliance (i.e., patient's fulfillment of prescriptions and taking them to completion). This unit had no recorded revenues in the corresponding periods in fiscal 1997.

Revenues derived from outside of the United States represented approximately 18 percent of total revenues in the quarter and six-months ended March 31, 1998, compared with 15 percent and 16 percent, respectively, of total revenues in the quarter and six-months ended March 31, 1997.

Revenues from software maintenance and consulting services each accounted for less than 10 percent of revenues in each of the three years in the period ended September 30, 1997, and in the six-months ended March 31, 1998. The Company does not expect revenues from either of these sources to exceed 10 percent of revenues in the foreseeable future.

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

products and services, such as direct marketing, insurance, small business lending and healthcare information management.

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

#### Expenses

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

	Six Months Ended March 31,		Percentage Change	Three Months Ended March 31,		Percentage Change
	1998	1997		1998	1997	
Revenues	100%	100%	23%	100%	100%	23%
Costs and expenses:						
Cost of revenues	37	37	22%	36	36	21%
Sales and marketing	15	14	31%	15	15	21%
Research and development	12	8	81%	12	9	76%
General and administrative	21	22	27%	21	20	34%
Amortization of intangibles	1	1	(12)%	1	1	(20)%
Total costs and expenses	86	82	31%	85	81	30%
Income from operations	14	18	(8)%	15	19	(4)%
Other income and expense	--	--	NM	1	(1)	NM
Income before income taxes	14	18	(3)%	16	18	7%
Provision for income taxes	6	7	2%	7	7	13%
Net income	8%	11%	(6)%	9%	11%	2%

NM = Not meaningful

#### Cost of Revenues

Cost of revenues consists primarily of personnel, travel, and related overhead costs; costs of computer service bureaus; and the amounts paid by the Company to credit bureaus for scores and related information in connection with the ScoreNet(R) service. The cost of revenues, as a percentage of revenues, was essentially unchanged in the three- and six-months ended March 31, 1998, as compared with the same periods a year earlier.

#### Sales and Marketing

Sales and marketing expenses consist principally of personnel, travel, overhead, advertising and other promotional expenses. As a percentage of revenues, these expenses increased in the six-month period ended March 31, 1998, compared with the same period in fiscal 1997, primarily due to increases in media advertising for introduction of new products and increased visibility of the Company's brand, and the costs of researching market opportunities outside the United States. These expenses, as a percentage of revenues, were essentially unchanged, for the quarter ended March 31, 1998, as compared with the same period a year earlier.

## Research and Development

Research and development expenses include the personnel and related overhead costs incurred in developing products, researching mathematical and statistical algorithms, and developing software tools that are aimed at improving productivity and management control. Research and development expenses for fiscal 1998 increased significantly over the corresponding three- and six-month periods of fiscal 1997. After several years of concentrating on developing new markets--either geographical or by industry--for its existing technologies, the Company has increased emphasis on developing new technologies, especially in the area of software development. Research and development expenditures in the three- and six-months ended March 31, 1998 were primarily related to new bankruptcy scoring products for Visa (Integrated Solutions Concept) and Trans Union, new fraud detection software products, joint product development projects with Deluxe Financial Services, Inc. and Year 2000 conversion work.

## General and Administrative

General and administrative expenses consist mainly of compensation expenses for certain senior management, corporate facilities expenses, the costs of administering certain benefit plans, legal expenses, expenses associated with the exploration of new business opportunities and the costs of operating administrative functions such as finance and computer information systems. As a percentage of revenues, these expenses decreased in the six-month period ended March 31, 1998, compared with the same period in fiscal 1997, principally because stock-based performance incentives were lower this period than in the corresponding six-month period of the prior fiscal year. These expenses, as a percentage of revenues, were slightly higher in the quarter ended March 31, 1998, as compared with the same quarter a year earlier, due primarily to expenses related to office expansions that occurred after the quarter ended March 31, 1997.

## Amortization of intangibles

The Company is amortizing the intangible assets arising from various acquisitions over periods ranging from two to fifteen years. The level of amortization expense in future years will depend, in part, on the amount of additional payments (earnouts) to the former shareholders of Credit & Risk Management Associates, Inc., a privately held company acquired in 1996.

## Other Income and expense

Interest income, derived from the investment of funds surplus to the Company's immediate operating requirements, was essentially the same as in the three- and six-month periods a year earlier. During this quarter, the Company sold its equity interest in one early stage development company which had experienced losses in prior fiscal periods and whose sale resulted in a capital gain for the Company. The Company expects that any operating losses from its remaining equity investments will not be material in the foreseeable future.

## Provision for income taxes

The Company's effective tax rate increased to 42% and 41%, respectively, in the three- and six-month periods ended March 31, 1998, from 39% in the corresponding periods of fiscal 1997, primarily because net operating losses carryforward deductions were exhausted in fiscal 1997.

## Financial Condition

Working capital increased from \$47,727,000 at September 30, 1997 to \$52,089,000 at March 31, 1998. Cash and marketable investments increased from \$27,941,000 at September 30, 1997, to \$30,911,000 at March 31, 1998. The Company's long-term obligations are mainly due to lease and employee incentive and benefit obligations.

On December 1, 1997, the Company exercised an option to purchase undeveloped land in San Rafael, California, with the intention of constructing an office complex to accommodate future growth. Development is expected to commence in fiscal 1998 and the Company intends to fund the acquisition and development of this land through a synthetic lease arrangement, which will materially increase the Company's future operating lease expenses. Excepting external financing of this capital commitment, the Company believes that the cash and

marketable securities on hand, along with cash expected to be generated by operations, will be adequate to meet its capital and liquidity needs for both the current year and the foreseeable future.

#### Interim Periods

The Company believes that all the necessary adjustments have been included in the amounts shown in the consolidated financial statements contained in Item 1 above for the three- and six-month periods ended March 31, 1998 and 1997, to state fairly the results for such interim periods. This includes all normal recurring adjustments that the Company considers necessary for a fair statement thereof, in accordance with generally accepted accounting principles. This report should be read in conjunction with the Company's 1997 Form 10-K.

Quarterly results may be affected by fluctuations in revenues associated with credit card solicitations, by the timing of orders for and deliveries of certain ASAP and TRIAD systems, and by the seasonality of ScoreNet purchases. With the exception of the cost of ScoreNet data purchased by the Company, most of its operating expenses are not affected by short-term fluctuations in revenues; thus short-term fluctuations in revenues may have a significant impact on operating results. However, in recent years, these fluctuations were generally offset by the strong growth in revenues from services delivered through credit bureaus and third-party bankcard processors. Management believes that neither the quarterly variation in revenues and net income, nor the results of operations for any particular quarter, are necessarily indicative of results of operations for full fiscal years. Accordingly, management believes that the Company's results should be evaluated on an annual basis.

#### YEAR 2000

The Company is performing Year 2000 conversion work on its software products marketed to customers. The updated versions of its software products currently being shipped to customers are Year 2000 compliant. The Year 2000 conversion work for earlier versions of the Company's software installed at customer sites will be performed as part of the Company's normal upgrade and maintenance process. Additionally, the Company has completed its Year 2000 audit of internal systems applications and determined that approximately 95 percent of its internally developed systems are Year 2000 compliant. Applications supplied by third parties are either Year 2000 compliant or have patches currently available to bring them into compliance. The Company plans to be fully compliant by the end of fiscal 1998. The Company has completed its assessments of Year 2000 conversion work and estimates that anticipated costs of Year 2000 compliance will not have a material effect on the Company's business, results of operations or financial condition. The Company has also initiated communications with third parties with whom it has major computer interfaces to determine how they are addressing Year 2000 issues and to evaluate any impact on the Company's systems. Although the Company intends to work with these third parties to resolve Year 2000 issues, the lack of resolution of Year 2000 issues by these parties may negatively impact the Company's future business operations, financial condition and results of operations. At this time the Company cannot quantify the potential impact of the third-party Year 2000 issues.

PART II - OTHER INFORMATION

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

(a) Exhibits:

- 24.1 Power of Attorney (see page 15 of this Form 10-Q).
- 27.1 Financial Data Schedule

Revised Exhibits 27 (i) to restate financial statements covering the periods from September 30, 1995 through June 30, 1997 to account for the Company's merger with RMT on a pooling-of-interests basis and (ii) to restate EPS under FAS No. 128 for the periods from September 30, 1995 through September 30, 1997 are attached as indicated below.

- 27.2 Revised Financial Data Schedule
- 27.3 Revised Financial Data Schedule
- 27.4 Revised Financial Data Schedule
- 27.5 Revised Financial Data Schedule
- 27.6 Revised Financial Data Schedule
- 27.7 Revised Financial Data Schedule
- 27.8 Revised Financial Data Schedule
- 27.9 Revised Financial Data Schedule
- 27.10 Revised Financial Data Schedule

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended March 31, 1998.

SIGNATURES

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

FAIR, ISAAC AND COMPANY, INCORPORATED

DATE: May 12, 1998

By PETER L. MCCORKELL

-----  
Peter L. McCorkell  
Senior Vice President and Secretary

POWER OF ATTORNEY

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

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

DATE: May 12, 1998

By PATRICIA COLE

-----  
Patricia Cole  
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX  
TO FAIR, ISAAC AND COMPANY, INCORPORATED  
REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1998

Exhibit No.	Exhibit	Sequentially Numbered Page
24.1	Power of Attorney	15
27.1	Financial Data Schedule	17
27.2	Revised Financial Data Schedule	18
27.3	Revised Financial Data Schedule	19
27.4	Revised Financial Data Schedule	20
27.5	Revised Financial Data Schedule	21
27.6	Revised Financial Data Schedule	22
27.7	Revised Financial Data Schedule	23
27.8	Revised Financial Data Schedule	24
27.9	Revised Financial Data Schedule	25
27.10	Revised Financial Data Schedule	26

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND INCOME STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

1,000

6-MOS

	SEP-30-1998	
	OCT-01-1997	
	MAR-31-1998	
		17,180
		4,607
		36,285
		889
		0
	87,413	
		75,488
	35,125	
	158,689	
	35,324	
		999
		139
	0	
		0
		115,395
158,689		
		0
	113,166	
		0
		41,632
		17,329
		220
		364
		16,073
		6,618
	9,455	
		0
		0
		0
		9,455
		.70
		.66

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1,000

YEAR

	SEP-30-1995	
	OCT-01-1994	
	SEP-30-1995	9,167
		5,874
		19,806
		332
		0
	50,185	30,145
		13,083
		91,009
	26,737	
		1,930
		130
	0	0
		56,045
91,009		0
	117,089	0
		43,652
		23,236
		16
		243
		21,390
		8,637
	12,753	
		0
		0
		0
		12,753
		.99
		.93

The financial data for the fiscal year ended September 30, 1995 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS IN THE COMPANY'S 1997 ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR

	SEP-30-1996	
	OCT-01-1995	
	DEC-31-1995	
		13,207
		4,496
		19,803
		386
		0
	49,568	32,295
		13,809
		91,392
	22,204	
		1,799
		132
	0	0
		60,791
91,392		0
	34,218	0
		13,531
		5,683
		0
		56
		6,287
		2,502
	3,785	
		0
		0
		0
		3,785
		.29
		.27

The financial data for the fiscal year ended September 30, 1996 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

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1,000

YEAR

	SEP-30-1996	
	OCT-01-1995	
	MAR-31-1996	14,177
		4,018
		23,055
		376
		0
	53,057	35,669
		15,303
		98,008
	26,321	1,724
		132
	0	0
		65,222
98,008		0
	71,169	0
		27,370
	11,863	110
		115
		13,939
		5,581
	8,358	0
		0
		0
		8,358
		.65
		.60

The financial data for the fiscal year ended September 30, 1996 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

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1,000

YEAR

	SEP-30-1996	
	OCT-01-1995	
	JUN-30-1996	10,084
		6,000
		24,100
		374
		0
	57,408	40,430
	18,271	
	104,974	
28,261		1,663
		133
0		0
		70,104
104,974		0
	110,382	0
	41,991	
	18,577	
	120	
	159	
	21,758	
	8,532	
13,226		
	0	
	0	
		0
	13,226	
	1.02	
	.96	

The financial data for the fiscal year ended September 30, 1996 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

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1,000

YEAR

	SEP-30-1996	
	OCT-01-1995	
	SEP-30-1996	
		11,487
		7,487
		28,691
		485
		0
	65,427	44,397
	20,745	
	118,023	
	30,728	
		1,552
		133
	0	
		0
		79,521
118,023		
		0
	155,913	
		0
		57,732
		25,722
		600
		223
		28,704
		11,281
	17,423	
		0
		0
		0
		17,423
		1.32
		1.25

The financial data for the fiscal year ended September 30, 1996 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

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1,000

YEAR

	SEP-30-1997	OCT-01-1996	DEC-31-1996
			15,170
		6,019	
		27,175	
		485	
		0	
	66,748		46,983
		22,056	
		119,091	
	25,914		1,462
			133
	0		0
			85,402
119,091			0
	43,337		0
			0
		16,372	
		6,005	
		0	
		94	
		7,706	
		3,008	
	4,698		
		0	
		0	
			0
		4,698	
		.35	
		.33	

The financial data for the fiscal year ended September 30, 1997 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

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1,000

YEAR

	SEP-30-1997	
	OCT-01-1996	
	MAR-31-1997	9,117
		5,506
		32,365
		595
		0
		68,303
		53,896
		27,120
		125,481
	26,742	
		1,371
		134
	0	
		0
		90,612
125,481		
		0
	91,703	
		0
		34,197
		13,204
		0
		181
		16,579
		6,511
	10,068	
		0
		0
		0
		10,068
		.76
		.71

The financial data for the fiscal year ended September 30, 1997 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

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1,000

YEAR

	SEP-30-1997	
	OCT-01-1996	
	JUN-30-1997	10,813
		5,006
		32,146
		605
		0
	73,134	61,526
		29,636
		134,734
	29,809	1,306
		134
	0	0
		95,084
134,734		0
	142,777	0
		52,912
		21,265
		0
		255
		23,923
		9,561
	14,362	0
		0
		0
		14,362
		1.08
		1.01

The financial data for the fiscal year ended September 30, 1997 has been restated to reflect the merger, effective July 1997, between Fair, Isaac and Company, Incorporated and Risk Management Technologies which has been accounted for under the pooling-of-interests method. Also the financial data schedule has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.

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1,000

YEAR		
	SEP-30-1997	
	OCT-01-1996	
	SEP-30-1997	13,209
		6,108
		36,905
		758
		0
	81,830	
		63,475
	28,989	
	145,228	
34,103		1,183
135		0
		0
	103,054	
145,228		0
	199,009	
		0
	72,566	
	29,162	
	438	
	336	
	35,546	
	14,860	
20,686		0
		0
		0
	20,686	
	1.55	
	1.46	

The financial data for fiscal year ended September 30, 1997 has been restated for the effects of Financial Accounting Standard No. 128 Earnings per Share.