UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2004

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 Corporation

(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**94-1499887** *(I.R.S. Employer Identification No.)*
901 Marquette Avenue, Suite 3200 **Minneapolis, Minnesota** *(Address of principal executive offices)*	**55402-3232** *(Zip Code)*

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☑ No o

The number of shares of common stock outstanding on January 31, 2005 was 67,306,320 (excluding 21,550,613 shares held by the Company as treasury stock).

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PART 1 — FINANCIAL INFORMATION

Item 1. *Condensed Consolidated Financial Statements*

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

	December 31, 2004	September 30, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 157,150	$ 159,870
Marketable securities available for sale, current portion	149,844	139,435
Receivables, net	141,976	140,845
Prepaid expenses and other current assets	16,222	15,029
Deferred income taxes	21,789	10,922
Total current assets	486,981	466,101
Marketable securities available for sale, less current portion	35,709	63,446
Other investments	1,561	1,561
Property and equipment, net	53,158	53,288
Goodwill	683,209	689,345
Intangible assets, net	135,255	135,797
Deferred income taxes	21,905	21,028
Other assets	13,023	14,213
	$ 1,430,801	$ 1,444,779
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 13,636	$ 13,055
Accrued compensation and employee benefits	31,738	33,670
Other accrued liabilities	47,270	32,541
Deferred revenue	59,223	41,050
Total current liabilities	151,867	120,316
Senior convertible notes	400,000	400,000
Other liabilities	11,306	7,992
Total liabilities	563,173	528,308
Stockholders' equity:		
Preferred stock ($0.01 par value; 1,000 shares authorized; none issued and outstanding)	—	—
Common stock ($0.01 par value; 200,000 shares authorized, 88,857 shares issued and 67,190 and 69,579 shares outstanding at December 31, 2004 and September 30, 2004, respectively)	672	697
Paid-in-capital	1,054,240	1,054,437
Treasury stock, at cost (21,667 and 19,278 shares at December 31, 2004 and September 30, 2004, respectively)	(636,796)	(551,977)
Unearned compensation	(2,588)	(1,814)
Retained earnings	443,708	417,218
Accumulated other comprehensive income (loss)	8,392	(2,090)
Total stockholders' equity	867,628	916,471
	$ 1,430,801	$ 1,444,779

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31, 2004	Quarter Ended December 31, 2003
Revenues	$ 195,546	$ 169,341
Operating expenses:		
Cost of revenues (1)	69,770	59,535
Research and development	20,998	16,401
Selling, general and administrative (1)	53,568	41,760
Amortization of intangible assets (1)	6,784	4,067
Total operating expenses	151,120	121,763
Operating income	44,426	47,578
Interest income	1,706	2,445
Interest expense	(2,033)	(4,378)
Other income, net	657	558
Income before income taxes	44,756	46,203
Provision for income taxes	16,895	17,442
Net income	$ 27,861	$ 28,761
Earnings per share:		
Basic	$ 0.41	$ 0.41
Diluted	$ 0.36	$ 0.36
Shares used in computing earnings per share:		
Basic	68,570	69,824
Diluted	80,056	82,838

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

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Par Value	Paid-In-Capital	Treasury Stock	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income
Balance at September 30, 2004	**69,579**	**$ 697**	**$ 1,054,437**	**$ (551,977)**	**$ (1,814)**	**$ 417,218**	**$ (2,090)**	**$ 916,471**	
Exercise of stock options	695	7	(6,506)	20,141	—	—	—	13,642	
Tax benefit from exercised stock options	—	—	3,753	—	—	—	—	3,753	
Amortization of unearned compensation	—	—	—	—	433	—	—	433	
Options exchanged in Braun acquisition	—	—	2,417	—	(394)	—	—	2,023	
Forfeitures of stock options exchanged in acquisition	—	—	(7)	—	7	—	—	—	
Forfeitures of restricted stock issued to employees	(11)	—	11	(239)	228	—	—	—	
Repurchases of common stock	(3,248)	(33)	—	(109,859)	—	—	—	(109,892)	
Issuance of ESPP shares from treasury	150	1	(178)	4,403	—	—	—	4,226	
Dividends paid	—	—	—	—	—	(1,371)	—	(1,371)	
Variable stock options to employees	—	—	250	—	(250)	—	—	—	
Issuance of restricted stock	25	—	63	735	(798)	—	—	—	
Net income	—	—	—	—	—	27,861	—	27,861	$ 27,861
Unrealized losses on investments	—	—	—	—	—	—	(108)	(108)	(108)
Cumulative translation adjustments	—	—	—	—	—	—	10,590	10,590	10,590
Balance at December 31, 2004	**67,190**	**$ 672**	**$ 1,054,240**	**$ (636,796)**	**$ (2,588)**	**$ 443,708**	**$ 8,392**	**$ 867,628**	**$ 38,343**

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31, 2004	Quarter Ended December 31, 2003
Cash flows from operating activities:		
Net income	$ 27,861	$ 28,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,472	11,307
Share of equity in earnings of investment	—	(17)
Loss (gain) on sales of marketable securities	2	(125)
Amortization of unearned compensation	433	568
Tax benefit from exercised stock options	3,753	2,487
Net amortization of premium on marketable securities	8	86
Provision for doubtful accounts	676	241
Amortization of discount on convertible subordinated notes	—	376
Net loss on sales of property and equipment	—	58
Changes in operating assets and liabilities, net of acquisition effects:		
Receivables	6,371	8,995
Prepaid expenses and other assets	114	570
Accounts payable	241	(2,551)
Accrued compensation and employee benefits	(1,994)	(3,766)
Other liabilities	7,381	14,736
Deferred revenue	21,592	6,001
Net cash provided by operating activities	79,910	67,727
Cash flows from investing activities:		
Purchases of property and equipment	(3,089)	(4,320)
Collections of notes receivable from sale of product lines	250	1,700
Cash paid for acquisitions, net of cash acquired	(33,800)	(5,000)
Cash proceeds from disposition of London Bridge Phoenix Software, Inc.	23,000	—
Purchases of marketable securities	(9,503)	(266,416)
Proceeds from sales of marketable securities	9,551	69,611
Proceeds from maturities of marketable securities	23,949	74,019
Net cash provided by (used in) investing activities	10,358	(130,406)
Cash flows from financing activities:		
Proceeds from issuances of common stock under employee stock option and purchase plans	17,868	11,682
Dividends paid	(1,371)	(935)
Repurchases of common stock	(109,892)	—
Net cash provided by (used in) financing activities	(93,395)	10,747
Effect of exchange rate changes on cash and cash equivalents	407	—
Decrease in cash and cash equivalents	(2,720)	(51,932)
Cash and cash equivalents, beginning of period	159,870	249,458
Cash and cash equivalents, end of period	$ 157,150	$ 197,526
Supplemental disclosures of cash flow information:		
Cash paid (received) for income taxes, net	$ (335)	$ 3,412

See accompanying notes to condensed consolidated financial statements.

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

1. Nature of Business

Fair Isaac Corporation

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

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

Principles of Consolidation and Basis of Presentation

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q, in conformity with the basis of presentation reflected in the audited consolidated financial statement included in our Annual Report on Form 10-K for the year ended September 30, 2004, and the standards of accounting measurement set forth in Accounting Principles Board Opinion No. 28 and any amendments thereto adopted by the Financial Accounting Standards Board (“FASB”). Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our 2004 Annual Report on Form 10-K. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

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

Use of Estimates

The preparation of financial statements in conformity with U.S 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. These estimates and assumptions include, but are not limited to, assessing the following: the recoverability of accounts receivable, goodwill, intangible assets, software development costs and deferred tax assets; the ability to estimate hours in connection with fixed-fee service contracts, the ability to estimate transactional-based revenues for which actual transaction volumes have not yet been received, and the determination of whether fees are fixed or determinable and collection is probable or reasonably assured.

Stock-Based Compensation

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

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

The following table compares net income and earnings per share as reported to the pro forma amounts that would be reported had compensation expense been recognized for our stock-based compensation plans on a fair value basis.

	Quarter Ended December 31,	
	2004	2003
	(In thousands, except per share data)	
Net income, as reported	$ 27,861	$ 28,761
Add: Stock-based employee compensation expense included in reported net income, net of tax	270	353
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(6,422)	(5,319)
Pro forma net income	$ 21,709	$ 23,795
Earnings per share, as reported:		
Basic	$ 0.41	$ 0.41
Diluted	$ 0.36	$ 0.36
Pro forma earnings per share:		
Basic	$ 0.32	$ 0.34
Diluted	$ 0.29	$ 0.30

Adoption of New Accounting Pronouncement

We adopted the Emerging Issues Task Force (“EITF”) consensus with respect to Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*. See further discussion regarding our adoption of this consensus in footnote 6, Earnings Per Share.

New Accounting Pronouncement Not Yet Adopted

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* (“SFAS 123(R)”). SFAS 123(R) addresses all forms of share-based payment awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS 123(R) will require us to expense share based-payment awards with compensation cost for share based-payment transactions measured at fair value. Prior to SFAS 123(R), only certain pro forma disclosures of fair value were required. The adoption of this standard will have a significant impact on our consolidated net income and net income per share. SFAS 123(R) requires us to record compensation expense for all awards granted after adopting the standard as well as record compensation expense for the unvested portion of previously granted awards outstanding at the date of adoption. In addition, we may elect to restate prior period financial statements, basing the amounts on the expense previously calculated and reported in pro forma footnote disclosures. The FASB originally stated a preference for a lattice model because it believed that a lattice model more fully captures the unique characteristics of employee stock options in the estimate of fair value, as compared to the Black-Scholes model that we currently use for our footnote disclosure. The FASB decided to remove its explicit preference for a lattice model and not require a single valuation methodology. SFAS 123(R) requires us to adopt the new accounting provisions no later than the beginning of our fourth quarter of fiscal 2005. We have not yet determined whether we will use the Black-Scholes model in our final adoption of SFAS 123(R).

2. Acquisition of Braun Consulting, Inc.

On November 10, 2004, we acquired all of the issued and outstanding stock of Braun Consulting, Inc. (“Braun”), a marketing strategy and technology consulting firm, in exchange for cash consideration of $37.1 million and contingent cash consideration of $3.3 million payable to a former Braun shareholder if certain revenue parameters are achieved during either the fiscal year ended September 30, 2005, the two fiscal years ended September 30, 2006, or the three fiscal years ended September 30, 2007. The acquisition of Braun was consummated principally to complement our marketing solutions and services related to marketing strategy and customer management technologies, as well as to expand our capabilities in markets targeted for growth, including healthcare, retail and pharmaceuticals. Braun in is included in the Professional Services business segment. The results of operations of Braun

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

have been included in the accompanying consolidated statements of income beginning on November 10, 2004.

The total purchase price, excluding contingent consideration, is summarized as follows (in thousands):

Total cash consideration	$ 37,093
Acquisition-related costs	521
Fair value of options to purchase Fair Isaac common stock, less $0.4 million representing the portion of the intrinsic value of unvested options allocated to unearned compensation	2,023
Total purchase price	$ 39,637

In connection with the acquisition, we issued 182,000 options to purchase Fair Isaac common stock in exchange for Braun options. The table above reflects the total fair value of these options based on application of the Black-Scholes option pricing model, less the portion of the intrinsic value related to unvested options, which was allocated to unearned compensation.

Our preliminary allocation of the purchase price was as follows (in thousands):

Assets:	
Cash, cash equivalents and marketable securities available for sale	$ 9,643
Receivables, net	7,042
Prepaid expenses and other current assets	645
Deferred income taxes	17,451
Property and equipment	3,405
Goodwill	7,665
Intangible assets:	
Customer contracts and relationships	3,580
Other assets	56
Total assets	49,487
Liabilities:	
Current liabilities	6,313
Non-current liabilities	3,537
Total liabilities	9,850
Total purchase price	$ 39,637

The preliminary allocation of the purchase price is pending completion of an analysis of the recoverability of certain deferred tax assets acquired and final resolution of exit costs related to certain obligations. The acquired customer contracts and relationships, which includes backlog, have a weighted average useful life of approximately 4.5 years and are being amortized over their estimated useful lives using the straight-line method. The goodwill was allocated to our Professional Services operating segment, and will not be deductible for tax purposes.

Unaudited Pro Forma Results of Operations

The following unaudited pro forma results of operations present the impact of our results of operations for the quarters ended December 31, 2004 and 2003, as if our Braun acquisition had occurred on October 1, 2004 and 2003, prospectively.

	Quarter Ended December 31, 2004		Quarter Ended December 31, 2003	
	Historical	Pro forma Combined	Historical	Pro forma Combined
	(In thousands, except per share data)			
Revenues	$ 195,546	$ 198,189	$ 169,341	$ 179,453
Net income	$ 27,861	$ 26,495	$ 28,761	$ 27,970
Basic earnings per share	$ 0.41	$ 0.39	$ 0.41	$ 0.40
Diluted earnings per share	$ 0.36	$ 0.35	$ 0.36	$ 0.35

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

3. Disposition of London Bridge Phoenix Software, Inc.

On November 12, 2004, we sold all of the issued and outstanding stock of London Bridge Phoenix Software, Inc. ("Phoenix") to Harland Financial Solutions, Inc. ("Harland"). In connection with this disposition, we sold all of the Phoenix related assets, including all Phoenix banking processing solutions, the associated customer base, intellectual property rights and other related assets to Harland in exchange for cash consideration of $23.0 million and the assumption of substantially all Phoenix liabilities by Harland. Phoenix was an indirectly wholly-owned subsidiary that we acquired in connection with our acquisition of London Bridge Software Holdings plc ("London Bridge") in May 2004. As this disposition occurred shortly after the London Bridge acquisition and the fair value of Phoenix did not change significantly from the date of the London Bridge acquisition, no gain or loss was recorded in connection with this transaction. The excess of the consideration received over the book value of the net assets sold in this disposition, amounting to $22.4 million, was recorded as a decrease to goodwill in the Strategy Machines segment during the quarter ended December 31, 2004.

4. Amortization of Intangible Assets

Amortization expense associated with our intangible assets, which has been reflected as a separate operating expense caption within the accompanying condensed consolidated statements of income, consisted of the following:

	Quarter Ended December 31,	
	2004	2003
	(In thousands)	
Cost of revenues	$ 3,732	$ 2,286
Selling, general and administrative expenses	3,052	1,781
	$ 6,784	$ 4,067

Cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflects our amortization of other intangible assets. Intangible assets were $135.3 million and $135.8 million, net of accumulated amortization of $42.1 million and $35.0 million, as of December 31, 2004 and September 30, 2004, respectively.

5. Restructuring and Acquisition-Related Expenses

In connection with our acquisition of Braun on November 10, 2004, we completed a plan to reduce Braun staff and accordingly recorded a $1.3 million employee separation accrual. This amount was recorded to goodwill in connection with our preliminary allocation of the Braun purchase price.

The following table summarizes our restructuring and acquisition-related accruals associated with our November 2004 Braun acquisition, fiscal 2004 London Bridge acquisition, fiscal 2003 NAREX Inc. acquisition, fiscal 2002 HNC Software Inc. acquisition and certain other Fair Isaac facility closures. The current portion and non-current portion is recorded in other accrued current liabilities and other long-term liabilities within the accompanying condensed consolidated balance sheets.

	Accrual at September 30, 2004	Goodwill Additions	Cash Payments	Accrual at December 31, 2004
		(In thousands)		
Facilities charges	$ 6,439	$ —	$ (1,756)	$ 4,683
Employee separation	1,171	1,308	(1,398)	1,081
	7,610	$ 1,308	$ (3,154)	5,764
Less: current portion	(3,994)			(3,331)
Non-current	$ 3,616			$ 2,433

6. Earnings Per Share

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

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

	Quarter Ended December 31, 2004	2003
	(In thousands, except	per share data)
Numerator for basic earnings per share — net income	$ 27,861	$ 28,761
Interest expense on Senior convertible notes, net of tax	1,267	1,265
Numerator for diluted earnings per share	$ 29,128	$ 30,026
Denominator — shares:		
Basic weighted-average shares	68,570	69,824
Effect of dilutive securities	11,486	13,014
Diluted weighted-average shares	80,056	82,838
Earnings per share:		
Basic	$ 0.41	$ 0.41
Diluted	$ 0.36	$ 0.36

The computation of diluted EPS for the quarters ended December 31, 2004 and 2003, excludes options to purchase approximately 4,275,000 and 608,000 shares of common stock, respectively, because the options' exercise prices exceeded the average market price of our common stock in these periods and their inclusion would be antidilutive. The computation for diluted EPS for the quarters ended December 31, 2004 and 2003 includes approximately 9,101,000 shares of common stock issuable upon conversion of our 1.5% Senior Convertible Notes (the "Senior Notes"). On October 13, 2004, the FASB ratified the consensus reached by the EITF with respect to Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*. This consensus requires us to consider all instruments with contingent conversion features that are based on the market price of our own stock in our diluted earnings per share calculation, regardless of whether the market price conversion triggers are then met. As a result of our adoption of this consensus, we have included approximately 9,101,000 shares in the diluted EPS calculation for the quarter ended December 31, 2004, and have retroactively adjusted our diluted EPS calculation for the quarter ended December 31, 2003 to also include these shares. These shares will continue to be included in our diluted EPS calculation until the Senior Notes are redeemed, retired, or amended in a manner that decreases the dilutive impact. Although we are currently considering alternatives for amending the Senior Notes, we cannot predict whether they will ultimately be amended.

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

7. Segment Information

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

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

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

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

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

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

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

The following tables summarize segment information for the quarters ended December 31, 2004 and 2003:

	Quarter Ended December 31, 2004				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$117,812	$ 39,424	$ 29,470	$ 8,840	$ 195,546
Operating expenses	(97,608)	(17,691)	(27,228)	(8,593)	(151,120)
Segment operating income	$ 20,204	$ 21,733	$ 2,242	$ 247	44,426
Unallocated interest expense					(2,033)
Unallocated interest and other income, net					2,363
Income before income taxes					$ 44,756
Depreciation and amortization.	$ 8,529	$ 2,650	$ 1,689	$ 604	$ 13,472

	Quarter Ended December 31, 2004				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$103,261	$ 35,307	$ 22,492	$ 8,281	$ 169,341
Operating expenses	(78,990)	(16,073)	(20,119)	(6,581)	(121,763)
Segment operating income	$ 24,271	$ 19,234	$ 2,373	$ 1,700	47,578
Unallocated interest expense					(4,378)
Unallocated interest and other income, net					3,003
Income before income taxes					$ 46,203
Depreciation and amortization.	$ 6,453	$ 2,880	$ 1,623	$ 351	$ 11,307

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

8. Contingencies

We are in disputes with certain customers regarding amounts owed in connection with the sale of several of our products and services. In addition, we have also had claims asserted against us in putative class actions involving the sale of certain of our consumer products. We also have had claims asserted by former employees relating to compensation and other employment matters. We are also involved in various other claims and legal actions arising in the ordinary course of business. We believe that none of these aforementioned claims or actions will result in a material adverse impact to our consolidated results of operations, liquidity or financial condition. However, the amount or range of any potential liabilities associated with these claims and actions, if any, cannot be determined with certainty.

Customer Claim

We received a demand for up to $20 million from a customer asserting that our performance under a professional services contract has caused it to incur damages. We believe that the claim is without merit and intend to contest it vigorously. We also believe that the resolution of this claim will not result in a material adverse impact to our consolidated financial condition.

Braun Consulting, Inc.

Braun (which we acquired in November 2004 and renamed Fair Isaac Consulting) is a defendant in a lawsuit filed on November 26, 2001, in the United States District Court for the Southern District of New York (Case No. 01 CV 10629) that alleges violations of federal securities laws in connection with Braun's initial public offering in August 1999. This lawsuit is among approximately 300 coordinated putative class actions against certain issuers, their officers and directors, and underwriters with respect to such issuers' initial public offerings. Braun has entered into a Stipulation and Agreement of Settlement, pursuant to a Memorandum of Understanding, along with most of the other defendant issuers in this coordinated litigation, whereby such issuers and their officers and directors will be dismissed with prejudice, subject to the satisfaction of certain conditions, including, among others, approval of the court. Under the terms of this agreement, Braun will not pay any amount of the settlement.

9. Subsequent Events

In February 2005, our Board of Directors canceled our stock repurchase program originally approved in July 2004 for the purchase of $200 million in common stock and approved a new common stock repurchase program. The new repurchase program allows us from time to time to purchase up to an aggregate of $250 million in shares of our common stock in the open market or through negotiated transactions.

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

FORWARD LOOKING STATEMENTS

Statements contained in this Report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). In addition, certain statements in our future filings with the Securities and Exchange Commission ("SEC"), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators; and (v) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as "believes," "anticipates," "expects," "intends," "targeted," "should," "potential," "goals," "strategy," and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations-Risk Factors, below. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-K, 10-Q, and 8-K to be filed by us in fiscal 2005.

RESULTS OF OPERATIONS

Overview

We are a leader in Enterprise Decision Management solutions that enable businesses to automate and improve their decisions. Our predictive modeling, decision analysis, intelligence management, decision management systems and consulting services power billions of customer decisions each year. We help companies acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do many insurers, retailers, telecommunications providers, healthcare organizations and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO scores, the standard measure of credit risk, to manage their financial health.

Most of our revenues are derived from the sale of products and services within the consumer credit, financial services and insurance industries, and during the quarter ended December 31, 2004, 75% of our revenues were derived from within these industries. A significant portion of our remaining revenues is derived from the telecommunications, healthcare and retail industries, as well as the government sector. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. A significant portion of our revenues is derived from transactional or unit-based software license fees, annual license fees under long-term software license arrangements, transactional fees derived under scoring, network service or internal hosted software arrangements, and annual software maintenance fees. The recurrence of these revenues is, to a significant degree, dependent upon our clients' continued usage of our products and services in their business activities. The more significant activities underlying the use of our products in these areas include: credit and debit card usage or active account levels; lending acquisition, origination and account management activity; workers' compensation and automobile medical injury insurance claims; and wireless and wireline calls and subscriber levels. Approximately 80% and 82% of our revenues during the quarters ended December 31, 2004 and 2003, respectively, were derived from arrangements with transactional or unit-based pricing. We also derive revenues from other sources which generally do not recur and include, but are not limited to, perpetual or time-based licenses with upfront payment terms, non-recurring professional service arrangements and gain-share arrangements where revenue is derived based on percentages of client revenue growth or cost reductions attributable to our products.

Within a number of our sectors there has recently been a sizable amount of industry consolidation and several of our customers have announced consolidation plans in recent periods. In addition, many of our sectors are experiencing increased levels of competition. As a result of these factors, we believe that future revenues in particular sectors may decline. However, due to the long-term customer arrangements we have with many of our customers, the near term impact of these declines may be more limited in certain sectors.

One measure used by management as an indicator of our business performance is the volume of new bookings achieved. We define a "new booking" as estimated future contractual revenues, including agreements with perpetual, multi-year and annual terms. New bookings values may include: (i) estimates of variable fee components such as hours to be incurred under new professional services arrangements and customer account or transaction activity for agreements with transactional-based fee arrangements, (ii) additional or expanded business from renewals of contracts, and (iii) to a lesser extent, previous customers that have attrited and been re-sold only as a result of a significant sales effort. During the quarter ended December 31, 2004, we achieved new bookings of $115.4 million, including seven deals with bookings values of $3.0 million or more. In comparison, new bookings in the prior year quarter ended December 31, 2003 were $135.1 million, including eight deals with bookings values of $3.0 million or more.

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

Our revenues derived from clients outside the United States continue to grow, and may in the future grow more rapidly than our revenues from domestic clients. International revenues totaled $49.4 million and $37.4 during the quarters ended December 31, 2004 and 2003, respectively, representing 25% and 22% of total consolidated revenues in each of these periods. In addition to clients acquired via our acquisitions, we believe that our international growth is a product of successful relationships with third parties that assist in international sales efforts and our own increased sales focus internationally, and we expect that the percentage of our revenues derived from international clients will increase in the future.

We acquired London Bridge Software Holdings plc ("London Bridge") in May 2004 and Braun Consulting, Inc. ("Braun") in November 2004. Results of operations from these acquisitions are included prospectively from the date of acquisition. As a result, our financial results during the quarter ended December 31, 2004 are not directly comparable to those during the quarter ended December 31, 2003 or other quarters prior to any of these acquisitions.

Our reportable segments are: Strategy Machine Solutions, Scoring Solutions, Professional Services and Analytic Software Tools. Although we sell solutions and services into a larger number of end user product and industry markets, our reportable business segments reflect the primary method by which management organizes and evaluates internal financial information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the quarters ended December 31, 2004 and 2003 are set forth in Note 7 to the accompanying condensed consolidated financial statements.

Revenues

The following table sets forth certain summary information on a segment basis related to our revenues for the fiscal periods indicated.

Segment	Quarter Ended December 31, 2004	Quarter Ended December 31, 2003	Percentage of Revenues 2004	Percentage of Revenues 2003	Period-to-Period Change	Period-to-Period Percentage Change
	(In thousands)				(In thousands)	
Strategy Machine Solutions	$ 117,812	$ 103,261	60%	61%	$ 14,551	14%
Scoring Solutions	39,424	35,307	20%	21%	4,117	12%
Professional Services	29,470	22,492	15%	13%	6,978	31%
Analytic Software Tools	8,840	8,281	5%	5%	559	7%
Total revenues	$ 195,546	$ 169,341	100%	100%	$ 26,205	15%

Quarter Ended December 31, 2004 Revenues Compared to Quarter Ended December 31, 2003 Revenues

The increase in total revenues from the quarter ended December 31, 2003 to the quarter ended December 31, 2004 included a $20.7 million increase in revenues that resulted from our London Bridge and Braun acquisitions in May 2004 and November 2004, respectively.

Strategy Machine Solutions segment revenues increased primarily due to a $6.7 million increase in revenues from our *fraud solutions*, a $4.7 million increase in revenues from our *collection and recovery solutions*, a $4.5 million increase in revenues from our *mortgage banking solutions*, a $1.8 million increase in revenues from our *consumer solutions* and a $1.7 million increase in revenues from our *originations solutions*, partially offset by a $4.5 million decrease in revenues form our *insurance and healthcare solutions* and a $0.3 million decrease in revenues from our other strategy machine solutions. The increase in *fraud solutions* revenues was attributable primarily to an increase in sales of perpetual licenses for our Falcon product, active accounts and merchant transaction volumes, principally due to growth in our customer base, and to the cross-selling of additional fraud products to our existing customer base. The increase in *collections and recovery solutions* revenues was attributable primarily to increases in license and maintenance revenues related to acquired London Bridge solutions. The increase in *mortgage banking solutions* revenues was attributable to volumes associated with acquired London Bridge transactional-based agreements. The increase in *consumer solutions* revenues was attributable primarily to increases in revenues derived from our myFICO.com and strategic alliance partners due to increased customer volumes and higher average selling prices. The increase in *originations solutions* revenues was attributable primarily to an increase in origination product perpetual license sales. The decrease in *insurance and healthcare solutions* revenues was attributable primarily to a decline in bill review volumes associated with our existing customer base, as well as lower claims volumes at some of our key customers.

Scoring Solutions segment revenues increased primarily due to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting from increased sales of scores for prescreening activities, and an increase in revenues derived from our own prescreening services.

During the quarters ended December 31, 2004 and 2003, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 19% of our total company revenues, including revenues from these customers that are recorded in our other segments.

Professional Services segment revenues increased primarily due to an increase in implementation and precision marketing service revenues resulting from our acquisitions of London Bridge and Braun, respectively, partially offset by a net decline in various other professional service activities.

Analytic Software Tools segment revenues increased due to an increase in sales of perpetual licenses for our Enterprise Decision Management products, primarily related to our acquisition of London Bridge.

Operating Expenses and Other Income (Expense)

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

	Quarter Ended December 31,		Percentage of Revenues		Period-to-Period Change	Period-to-Period Percentage Change
	2004	2003	2004	2003		
	(In thousands)				(In thousands)	
Revenues	$ 195,546	$ 169,341	100%	100%	$ 26,205	15%
Operating expenses:						
Cost of revenues	69,770	59,535	36%	35%	10,235	17%
Research and development	20,998	16,401	11%	10%	4,597	28%
Selling, general and administrative	53,568	41,760	27%	25%	11,808	28%
Amortization of intangible assets	6,784	4,067	3%	2%	2,717	67%
Total operating expenses	151,120	121,763	77%	72%	29,357	24%
Operating income	44,426	47,578	23%	28%	(3,152)	(7)%

	Quarter Ended December 31,		Percentage of Revenues		Period-to-Period Change	Period-to-Period Percentage Change
	2004	2003	2004	2003		
	(In thousands)				(In thousands)	
Interest income	1,706	2,445	1%	2%	(739)	(30)%
Interest expense	(2,033)	(4,378)	(1)%	(3)%	(2,345)	(54)%
Other income, net	657	558	—	—	99	18%
Income before income taxes	44,756	46,203	23%	27%	(1,447)	(3)%
Provision for income taxes	16,895	17,442	9%	10%	(547)	(3)%
Net income	$ 27,861	$ 28,761	14%	17%	(900)	(3)%
Number of employees at quarter end	2,929	2,371			558	24%

Cost of Revenues

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

The quarter over quarter increase in cost of revenues was attributable primarily to a $5.3 million increase in personnel and other labor-related costs, a $2.5 million increase in facilities and infrastructure, a $1.2 million increase in third-party software and data costs and a $1.2 million net increase in various other expenditures. The increase in personnel and other labor-related costs was attributable primarily to an increase in personnel resulting from our London Bridge and Braun acquisitions. The increase in facilities and infrastructure costs was also attributable primarily to our London Bridge and Braun acquisitions. The increase in third-party software and data costs was attributable primarily to an increase in consumer solutions revenues, partially offset by a decrease in insurance and healthcare solutions revenues, and the resulting variable cost impacts.

Over the next several quarters, we expect that cost of revenues as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2004.

Research and Development

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

The quarter over quarter increase in research and development expenditures was attributable primarily to an increase in research and development personnel and related costs, primarily associated with our acquisition of London Bridge.

Over the next several quarters, we expect that research and development expenditures as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2004.

Selling, General and Administrative

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

The quarter over quarter increase in selling, general and administrative expenses was attributably to a $9.4 million increase in personnel and other labor-related costs and a $2.4 million net increase in various other expenditures. The increase in personnel and labor-related costs resulted primarily from our London Bridge and Braun acquisitions.

Over the next several quarters, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2004.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense that we have recorded on intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Our definite-lived intangible assets are being amortized using the straight-line method or based on forecasted cash flows associated with the assets over the estimated useful life of the asset. The quarter over quarter increase in amortization expense is attributable to incremental amortization associated with our acquisitions of London Bridge and Braun in May 2004 and November 2004, respectively.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. The quarter over quarter decrease in interest income was attributable primarily to lower average cash and investment balances, partially offset by higher interest and investment income yields due to market conditions. The decrease in cash and investment balances resulted principally from cash used in investing and financing activities subsequent to the end of the prior year quarter, including cash used for the redemption of our former convertible subordinated notes, repurchases of common stock and acquisitions, partially offset by increases in net cash provided by operating activities.

Interest Expense

The quarter over quarter decrease in interest expense was attributable to the redemption of our former $150.0 million of 5.25% convertible subordinated notes in September 2004. Interest expense recorded during the quarter ended December 31, 2004 relates to our $400.0 million of 1.5% Senior Convertible Notes ("Senior Notes"), including the amortization of debt issuance costs, and is consistent with the interest expense related to the Senior Notes recorded by us in the prior year quarter ended December 31, 2003.

Other Income, Net

Other income, net consists primarily of realized investment gains/losses, exchange rate gains/losses resulting from re-measurement of foreign-denominated receivable and cash balances held by our U.S. reporting entities into the U.S. dollar functional currency at period-end market rates, net of the impact of offsetting forward foreign exchange contracts, and other non-operating items. No component of other income, net changed significantly quarter over quarter.

Provision for Income Taxes

Our effective tax rate was 37.7% and 37.8% during the quarters ended December 31, 2004 and 2003, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The effective tax rate for the quarter ended December 31, 2004 reflects an increase in the rate applicable to earnings from continuing operations to 38.5% that relates primarily to our inability to recognize a tax benefit on certain losses associated with our foreign subsidiaries. However, our tax rate in the current quarter was reduced by 0.8% as a result of the recognition of a prior year tax benefit for U.S. federal research and development tax credits. We were unable to recognize this tax credit last year as legislation was not enacted until the first quarter of our current fiscal year. This legislation allowed us to retroactively recognize these tax credits.

Operating Income

The following tables set forth certain summary information on a segment basis related to our operating income for the fiscal periods indicated.

	Quarter Ended December 31,			
Segment	**2004**	**2003**	**Period-to-Period Change**	**Period-to-Period Percentage Change**
Strategy Machine Solutions	$ 20,204	$ 24,271	$ (4,067)	(17)%
Scoring Solutions	21,733	19,234	2,499	13%
Professional Services	2,242	2,373	(131)	(6)%
Analytic Software Tools	247	1,700	(1,453)	(85)%
Segment operating income / operating income	$ 44,426	$ 47,578	(3,152)	(7)%

The quarter over quarter decrease in operating income was attributable primarily to an increase of $2.7 million in the amortization of intangible assets that resulted from our acquisitions in fiscal 2003 and 2004. At the segment level, the decrease in segment operating income was attributable primarily to decreases of $4.1 million, $1.5 million and $0.1 million in segment operating income within our Strategy Machines Solutions, Analytic Software Tools and Professional Services segments, respectively, partially offset by a $2.5 million increase in segment operating income within our Scoring Solutions segment. The decreases in Strategy Machine Solutions and Analytic Software Tools segment operating income were attributable primarily to the impact of negative operating margins associated with London Bridge product offerings, partially offset by the growth of revenues and operating margins associated with other higher margin product offerings. The negative operating margins associated with London Bridge product offerings in these segments were attributable in part to the write-down of deferred maintenance revenue to fair market value, resulting in purchase accounting adjustments. The increase in Scoring Solutions segment operating income was attributable primarily to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting from increased sales of scores for prescreening activities, and an increase in revenues derived from our own prescreening services.

Stock-based Compensation

We recorded stock-based compensation expense of $0.4 million and $0.6 million during the quarters ended December 31, 2004 and 2003, respectively. This expense is recorded in cost of revenues, research and development, and selling, general and administrative expense. The quarter over quarter decrease was primarily due to a decrease in amortization of deferred compensation related to the final vesting during fiscal 2004 of 1,417,500 stock options granted to an officer (in which the quoted market price of our common stock at the grant date exceeded the stock options' exercise price), a decrease in amortization of deferred compensation related to the intrinsic value of unvested options of HNC Software Inc.'s ("HNC") to purchase Fair Isaac common stock exchanged at the time of the fiscal 2002 HNC acquisition resulting from forfeitures and a decrease in amortization of various restricted stock grants due to forfeitures. These decreases were partially offset by increases in compensation charges for stock options subject to variable plan accounting, and amortization of deferred compensation related to the intrinsic value of unvested options exchanged in the Braun acquisition.

Liquidity and Capital Resources

Working Capital

Our working capital decreased from $345.8 million at September 30, 2004 to $335.1 million at December 31, 2004. The $10.7 million decrease was attributable to an $18.2 million increase in deferred revenue, a $14.7 million increase in other accrued liabilities partially offset by $7.7 million increase in cash and cash equivalents and short-term marketable securities, a $10.9 million increase in the current portion of deferred income taxes and a net $3.6 million increase in other working capital balances. The increase in deferred revenue was attributable primarily to a net increase in customer prepayments, including a $19.0 million prepayment from a single customer for future services. The increase in other accrued liabilities was attributable primarily to an increase in corporate taxes payable. The increase in cash and cash equivalents and short-term marketable securities was attributable primarily to the use of cash for the repurchase of our common stock, offset by net cash provided by operating, investing and other financing activities, as described below. The increase in the current portion of deferred income taxes was attributable primarily to deferred taxes recorded in connection with our acquisition of Braun, partially offset by cumulative translation adjustments.

Cash Flows from Operating Activities

Our primary method for funding operations and growth has been through cash flows generated from operations. Net cash provided by operating activities increased from $67.7 million during the quarter ended December 31, 2003 to $79.9 million during the quarter ended December 31, 2004, reflecting an increase in net earnings before non-cash charges, the $19.0 million prepayment from a single customer, as noted above, and the cash flow impact of other net working capital changes.

Cash Flows from Investing Activities

Net cash provided by investing activities totaled $10.4 million during the quarter ended December 31, 2004, compared to net cash used in investing activities of $130.4 million during the quarter ended December 31, 2003. The shift to net cash provided by investing activities during the quarter ended December 31, 2004, as compared net cash used in investing activities during the prior year quarter, was attributable primarily to a $146.8 million increase in proceeds from sales and maturities of marketable securities, net of purchases, and a $23.0 million increase in cash proceeds related to our disposition of London Bridge Phoenix Software, Inc., partially offset by a

$28.8 million increase in cash paid in acquisitions, net of cash acquired, primarily related to our acquisition of Braun, and a $0.2 million net increase in cash used in other investing activities.

Cash Flows from Financing Activities

Net cash used in financing activities totaled $93.4 million during the quarter ended December 31, 2004, compared to net cash provided by financing activities of $10.7 million during the quarter ended December 31, 2003. The shift to net cash used in financing activities during the quarter ended December 31, 2004, as compared to net cash provided by financing activities during the prior year quarter, was attributable primarily to our use of $109.9 million in cash to repurchase common stock in the current quarter along with a $0.4 million increase in dividends paid, partially offset by a $6.2 million increase in proceeds from issuances of common stock.

Repurchases of Common Stock

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. In July 2004, our Board of Directors approved a common stock repurchase program, which will expire in July 2005, that allows us to purchase shares of our common stock for an aggregate cost of up to $200.0 million. During the quarter ended December 31, 2004, we repurchased approximately 3,248,000 shares of our common stock under this program at an aggregate cost of $109.9 million. In February 2005, our Board of Directors canceled our July 2004 stock repurchase program and approved a new commons stock repurchase program. The new repurchase program allows us from time to time to purchase up to an aggregate of $250 million in shares of our common stock in the open market or through negotiated transactions.

Dividends

During the quarter ended December 31, 2004, we paid a quarterly dividend of two cents per common share, which is representative of the eight cents per year dividend we have paid in recent 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, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board’s business judgment with respect to these and other relevant factors.

1.5% Senior Convertible Notes

On August 6, 2003, we issued $400.0 million of Senior Convertible Notes (the “Senior Notes”) that mature on August 15, 2023. The Senior Notes become convertible into shares of Fair Isaac common stock, subject to the conditions described below, at an initial conversion price of $43.9525 per share, subject to adjustments for certain events. The initial conversion price is equivalent to a conversion rate of approximately 22.7518 shares of Fair Isaac common stock per $1,000 principal amount of the Senior Notes. Holders may surrender their Senior Notes for conversion, if any of the following conditions is satisfied: (i) prior to August 15, 2021, during any fiscal quarter, if the closing price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the last day of the immediately preceding fiscal quarter is more than 120% of the conversion price per share of our common stock on the corresponding trading day; (ii) at any time after the closing sale price of our common stock on any date after August 15, 2021 is more than 120% of the then current conversion price; (iii) during the five consecutive business day period following any 10 consecutive trading day period in which the average trading price of a Senior Note was less than 98% of the average sale price of our common stock during such 10 trading day period multiplied by the applicable conversion rate; provided, however, if, on the day before the conversion date, the closing price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, then holders converting their notes may receive, in lieu of our common stock based on the applicable conversion rate, at our option, cash or common stock with a value equal to 100% of the principal amount of the notes on the conversion date; (iv) if we have called the Senior Notes for redemption; or (v) if we make certain distributions to holders of our common stock or we enter into specified corporate transactions. The conversion price of the Senior Notes will be adjusted upon the occurrence of certain dilutive events as described in the indenture, which include but are not limited to: (i) dividends, distributions, subdivisions, or combinations of our common stock; (ii) issuance of rights or warrants for the purchase of our common stock; (iii) the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness, or other non-cash assets, or rights or warrants; (iv) the cash dividend or distribution to all or substantially all holders of our common stock in excess of certain levels; and (v) certain merger and acquisition activities.

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

We may redeem for cash all or part of the Senior Notes on and after August 15, 2008, at a price equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest. Holders may require us to repurchase for cash all or part of their Senior Notes on August 15, 2007, August 15, 2008, August 15, 2013 and August 15, 2018, or upon a change in control, at a price equal to 100% of the principal amount of the Senior Notes being repurchased, plus accrued and unpaid interest. In addition, we are currently assessing whether to amend the Senior Notes in such a manner that would decreases the dilutive impact on our calculation of diluted earnings per share. See footnote 6 for further discussion of the dilutive impact of the Senior Notes.

Credit Agreement

We are party to a credit agreement with a financial institution that provides for a $15.0 million revolving line of credit through February 2006. Under the agreement 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, and merger and acquisition requirements. At our option, borrowings under this agreement bear interest at the rate of LIBOR plus 1.25% or at the financial institution’s Prime Rate, payable monthly. The agreement also includes a letter of credit subfeature that allows us to issue commercial and standby letters of credit up to a maximum amount of $5.0 million and a foreign exchange facility that allows us to enter contracts with the financial institution to purchase and sell certain currencies, subject to a maximum aggregate amount of $25.0 million and other specified limits. As of December 31, 2004, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of December 31, 2004, this credit facility also served to collateralize certain letters of credit aggregating $0.7 million, issued by us in the normal course of business. Available borrowings under this credit agreement are reduced by the principal amount of letters of credit and by 20% of the aggregate amount of contracts to purchase and sell certain foreign currencies outstanding under the facility. We believe that the covenants of this credit facility will not materially restrict our future liquidity or operations.

Liquidity and Capital Resources Outlook

As of December 31, 2004, we had $342.7 million in cash, cash equivalents and marketable security investments. We believe that these balances, including interest to be earned thereon, and anticipated cash flows from operating activities will be sufficient to fund our working and other capital requirements over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with 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 resulting from business acquisitions, capitalized software development costs, internal-use software, income taxes and contingencies and litigation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable based on the specific circumstances, the results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

Allowance for Doubtful Accounts

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

Business Acquisitions; Valuation of Goodwill and Other Intangible Assets

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

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

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

We test goodwill for impairment at the reporting unit level at least annually as of July 1 of each fiscal year and more frequently if impairment indicators are identified. We have determined that our reporting units are the same as our reportable segments. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using discounted cash flow valuation models and by comparing our reporting units to guideline publicly-traded companies. These methods require estimates of our future revenues, profits, capital expenditures, working capital, and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. The estimated fair value of each of our reporting units exceeded its respective carrying value in fiscal 2004, indicating the underlying goodwill of each reporting unit was not impaired as of our most recent testing date. Accordingly, we were not required to complete the second step of the goodwill impairment test. The timing and frequency of our goodwill impairment test is based on an ongoing assessment of events and circumstances that would more than likely reduce the fair value of a reporting unit below its carrying value. We will continue to monitor our goodwill balance and conduct formal tests on at least an annual basis or earlier when impairment indicators are present. There are various assumptions and estimates underlying the determination of an impairment loss, and estimates using different, but each reasonable, assumptions could produce significantly different results. Therefore, the timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions. We believe that the assumptions and estimates utilized were appropriate based on the information available to management.

Capitalized Software Development Costs

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

Internal-use Software

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

Income Taxes

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

Contingencies and Litigation

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

New Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123(R)"). SFAS 123(R) addresses all forms of share-based payment awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS 123(R) will require us to expense share based-payment awards with compensation cost for share based-payment transactions measured at fair value. Prior to SFAS 123(R), only certain pro forma disclosures of fair value were required. The adoption of this standard will have a significant impact on our consolidated net income and net income per share. SFAS 123(R) requires us to record compensation expense for all awards granted after adopting the standard as well as record compensation expense for the unvested portion of previously granted awards outstanding at the date of adoption. In addition, we may elect to restate prior period financial statements, basing the amounts on the expense previously calculated and reported in pro forma footnote disclosures. The FASB originally stated a preference for a lattice model because it believed that a lattice model more fully captures the unique characteristics of employee stock options in the estimate of fair value, as compared to the Black-Scholes model that we currently use for our footnote disclosure. The FASB decided to remove its explicit preference for a lattice model and not require a single valuation methodology. SFAS 123(R) requires us to adopt the new accounting provisions no later than the beginning of our fourth quarter of fiscal 2005. We have not yet determined whether we will use the Black-Scholes model in our final adoption of SFAS 123(R).

RISK FACTORS

Risks Related to Our Business

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

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

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

Our ability to increase our revenues at historical growth rates will depend to some extent upon future acquisitions.

Our historical revenue growth has been influenced by numerous acquisitions, and we anticipate that acquisitions will continue to be an important part of our revenue growth. Our future revenue growth rate may decline if we do not make acquisitions of similar size and at a comparable rate as in the past.

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

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

- the financial and strategic goals for the acquired and combined business may not be achieved;
- 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;
- the impairment of relationships with employees and customers as a result of any integration of new management personnel; and
- The possibility that the acquired companies do not ultimately achieve the strategic purposes intended.

These factors could harm our business, financial condition or results of operations, particularly in the event of a significant acquisition. Acquisitions of businesses having a significant presence outside the U.S. will increase our relative exposure to the risks of conducting operations in international markets.

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

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

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

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

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

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

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

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

- variability in demand from our existing customers;
- failure to meet the expectations of market analysts;
- changes in recommendations by market analysts;
- the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increase the likelihood of short term fluctuation in revenues;
- consumer dissatisfaction with, or problems caused by, the performance of our products;
- the timing of new product announcements and introductions in comparison with our competitors;
- the level of our operating expenses;
- changes in competitive conditions in the consumer credit, financial services and insurance industries;
- fluctuations in domestic and international economic conditions;
- our ability to complete large installations on schedule and within budget;
- acquisition-related expenses and charges; and
- timing of orders for and deliveries of software systems.

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

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

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

We typically have back-end loaded quarters.

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

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

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

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

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

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

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

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

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

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

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

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

Our business requires the appropriate and secure utilization of consumer and other sensitive information. Internet-based, electronic commerce requires the secure transmission of confidential information over public networks and several of our products are accessed through the Internet, including our consumer services accessible through the www.myFICO.com Website. Security breaches in connection with the delivery of our products and services, including products and services utilizing the Internet, or well-publicized security breaches affecting the Internet in general, could significantly harm our business, financial condition or results of operations. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting the networks that access our netsourced products, consumer services and proprietary database information.

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

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

Risks Related to Our Industry

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

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

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

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

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

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

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

- in-house analytic and systems developers;
- scoring model builders;
- enterprise resource planning (ERP) and customer relationship management (CRM) packaged solutions providers;
- business intelligence solutions providers;
- 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;
- providers of account/workflow management software;

- managed care organizations; and
- software tools companies supplying modeling, rules, or analytic development tools.

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

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

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

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

- federal and state regulation of consumer report data and consumer reporting agencies, such as the Fair Credit Reporting Act, or FCRA, the Fair and Accurate Credit Transactions Act, or FACT, which amends FCRA, and certain proposed regulations under FACT, presently under consideration;
- regulations designed to combat identity theft such as those proposed under the FACT, California Security Breach Notification Act and additional state legislative enactments in this area;
- regulation designed to insure that lending practices are fair and non-discriminatory, such as the Equal Credit Opportunity Act, or ECOA;
- privacy law, including but not limited to the provisions of the Financial Services Modernization Act of 1999, or FSMA, the Gramm Leach Bliley Act, or GLBA, 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;
- a broad array of consumer protection laws, for example federal and state statutes governing the use of the Internet and telemarketing;
- regulations of foreign jurisdictions on our international operations, including the European Union's Privacy Directive; and

- Sarbanes-Oxley Act (SOX) regulations to verify internal process controls and require material event awareness and notification.

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

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

During fiscal 2004, 79% of our revenues were derived from sales of products and services to the consumer credit, financial services and insurance industries. A downturn in the consumer credit, the financial services or the insurance industry, including a downturn caused by increases in interest rates or a tightening of credit, among other factors, could harm our business, financial condition or results of operations. Since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of our large institutional customers have merged and consolidated, we have generated most of our revenue growth from our bankcard-related scoring and account management businesses by selling and cross-selling our products and services to large banks and other credit issuers. As this industry continues to consolidate, we may have fewer opportunities for revenue growth due to changing demand for our products and services that support customer acquisition programs of our customers. In addition, industry consolidation could affect the base of recurring revenues derived from contracts in which we are paid on a per-transaction basis if consolidated customers combine their operations under one contract. We cannot assure you that we will be able effectively to promote future revenue growth in our businesses.

Risk Related to External Conditions

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

During the economic slowdown in the United States and in Europe in recent years, companies in many industries delayed or reduced technology purchases and we experienced softened demand for our decisioning solutions and other products and services. If the current improvement in economic conditions in the U.S. and Europe slows or reverses or if there is an escalation in regional or continued global conflicts, we may experience reductions in capital expenditures by our customers, longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition, and we may fall short of our revenue expectations.

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

A growing portion of our revenues is derived from international sales. During fiscal 2004, 22% of our revenues were derived from business outside the United States. As part of our growth strategy, we plan to continue to pursue opportunities outside the United States. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

- the general economic and political conditions in countries where we sell our products and services;
- difficulty in staffing and efficiently managing our operations in multiple geographic locations and in various countries;
- the effects of a variety of foreign laws and regulations, including restrictions on access to personal information;
- import and export licensing requirements;

- longer payment cycles;
- potentially reduced protection for intellectual property rights;
- currency fluctuations;
- changes in tariffs and other trade barriers; and
- difficulties and delays in translating products and related documentation into foreign languages.

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

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

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

Due to changes in accounting rules, we will incur significant but presently unquantifiable stock-based compensation charges related to employee stock options in future periods.

On December 16, 2004, the Financial Accounting Standards Board published Statement of Financial Accounting Standards No. 123 (revised 2004), which is scheduled to make the expensing of stock options using the fair value method mandatory at the beginning of the first fiscal quarter after June 15, 2005. This change will first be reflected in the presentation of our consolidated financial statements for the fourth quarter of fiscal 2005. Prior thereto, we must select from among a number of methods to determine fair value, and apply the selected method to our outstanding options. Accordingly, the amount of compensation expense that we will incur is presently undeterminable, and, when determined, may be larger than the range presently anticipated by us. Large compensation expense would adversely affect our results of operations for the period in which it is recognized, and may inhibit our use of stock option-based compensation in the future. There is uncertainty as to the ability of other forms of compensation to attract and retain employees, as well as the financial and other consequences of such forms of compensation.

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

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

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

Market Risk Disclosures

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

Interest Rate Risk

We maintain an investment portfolio consisting mainly of income securities with an average maturity of three years or less. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our investments with interest rate risk at December 31, 2004 and September 30, 2004:

	December 31, 2004			September 30, 2004		
	Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield
	(In thousands)					
Cash and cash equivalents	$ 120,735	$ 120,738	2.19%	$ 115,215	$ 115,209	1.72%
Short-term investments	150,370	149,844	1.61%	139,868	139,435	1.49%
Long-term investments	31,806	31,446	2.06%	59,948	59,693	1.98%
	$ 302,911	$ 302,028	1.89%	$ 315,031	$ 314,337	1.67%

We are the issuer of 1.5% Senior Convertible Notes that mature in August 2023. The fair value of our Senior Notes, as determined based on quoted market prices, may increase or decrease due to various factors, including fluctuations in the market price of our common stock, fluctuations in market interest rates and fluctuations in general economic conditions. See Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity, above, for additional information on these notes. The following table presents the principal amounts, carrying amounts, and fair values for our Senior Notes at December 31, 2004 and September 30, 2004:

	December 31, 2004			September 30, 2004		
	Principal	Carrying Amount	Fair Value	Principal	Carrying Amount	Fair Value
	(In thousands)					
1.5% Senior Notes	$ 400,000	$ 400,000	$ 420,412	$ 400,000	$ 400,000	$ 397,500

Forward Foreign Currency Contracts

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

The following table summarizes our outstanding forward foreign currency contracts, by currency, with contract amounts representing the expected payments to be made under these instruments at December 31, 2004:

	Contract Amount			Fair Value
	Foreign Currency		US$	US$
			(In thousands)	
Sell foreign currency:				
British Pound (GBP)	GBP	4,500	$ 8,625	$ —
EURO (EUR)	EUR	1,200	1,636	—
Japanese Yen (YEN)	YEN	70,800	680	—
			$ 10,941	$ —

Item 4. ***Controls and Procedures***

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

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

PART II – OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Issuer Purchases of Equity Securities (1)

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Value of Share that May Yet Be Purchased Under the Plans or Programs
October 1, 2004 through October 31, 2004	—	—	—	167,610,068
November 1, 2004 through November 30, 2004	1,469,700	$ 32.75	1,469,700	119,474,818
December 1, 2004 through December 31, 2004	1,778,500	34.72	1,778,500	57,718,090
	3,248,200	$ 33.83	3,248,200	

(1) In February 2005, our Board of Directors canceled our stock repurchase program originally approved in July 2004 for the purchase of $200 million in common stock and approved a new common stock repurchase program. The new repurchase program allows us from time to time to purchase up to an aggregate of $250 million in shares of our common stock in the open market or through negotiated transactions.

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

Our annual meeting of stockholders was held on February 1, 2005 and the following actions were taken:

1. Election of Directors

Stockholders elected nine incumbent directors for one-year terms. The vote tabulation for individual directors was:

NOMINEE	FOR	WITHHELD
Mr. A. George Battle	62,070,773	399,862
Mr. Andrew Cecere	62,170,770	299,865
Mr. Tony J. Christianson	60,944,994	1,525,641
Mr. Thomas G. Grudnowski	62,157,254	313,381
Mr. Alex W. Hart	60,950,082	1,520,553
Mr. Philip G. Heasley	60,926,944	1,543,691
Mr. Guy R. Henshaw	62,075,946	394,689
Mr. David S. P. Hopkins	62,071,634	399,001
Ms. Margaret L. Taylor	61,007,453	1,463,182

2. Ratification of Independent Auditors

The stockholders ratified the appointment of Deloitte & Touche LLP as the Company’s independent auditors for the fiscal year ending September 30, 2005 (with 62,212,099 votes for, 204,057 votes against, 54,479 abstentions and 0 broker non-votes).

Item 6. *Exhibits*

Exhibit Number	Description
10.45	Amended Employment Agreement entered into as of November 10, 2004, by and between Fair Isaac Corporation and Steven J. Braun.
10.46	Management Incentive Plan for Fiscal Year 2005.
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.
32.1	Section 1350 Certification of CEO.
32.2	Section 1350 Certification of CFO.

SIGNATURES

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

FAIR ISAAC CORPORATION

DATE: February 8, 2005

By /s/ CHARLES M. OSBORNE

Charles M. Osborne
Vice President and Chief Financial Officer
(*for Registrant as duly authorized officer and*
as *Principal Financial Officer)*

DATE: February 8, 2005

By /s/ MICHAEL J. PUNG

Michael J. Pung
Vice President, Finance
(Principal Accounting Officer)

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EXHIBIT INDEX

To Fair Isaac Corporation Report On Form 10-Q
For The Quarterly Period Ended December 31, 2004

Exhibit Number	Description	
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10.46	Management Incentive Plan for Fiscal Year 2005.	Filed Electronically
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.	Filed Electronically
32.1	Section 1350 Certification of CEO.	Filed Electronically
32.2	Section 1350 Certification of CFO.	Filed Electronically

EXHIBIT 10.45

AMENDED EMPLOYMENT AGREEMENT

THIS AMENDED EMPLOYMENT AGREEMENT (this "Agreement") is entered into effective November 10, 2004 by and between Fair Isaac Corporation (the "Company"), a Delaware corporation having its headquarters at 901 Marquette Avenue, Suite 3200, Minneapolis, MN 55402, and Steven J. Braun, a resident of Indiana ("Executive").

A. The Company and HSR Acquisition, Inc. ("Acquisition"), a Delaware corporation and a wholly-owned subsidiary of the Company, have entered into an Agreement and Plan of Merger ("Merger Agreement") with Braun Consulting, Inc. ("Braun"), a Delaware corporation, pursuant to which Acquisition will merge with and into Braun, with Braun being the surviving entity (the "Merger") as a wholly-owned subsidiary of the Company.

B. Executive has served as Chief Executive Officer of Braun and as Chairman of Braun's Board of Directors, and is a shareholder of Braun. Executive owns, in his name or in trust for members of his family, 8,566,447 shares of Braun, such shares constituting approximately 50% of the outstanding shares of Braun.

C. Executive's commitment to use his best efforts to achieve certain performance objectives for the Company for a period of up to three years, as set out in this Agreement, is a condition of the Merger.

D. Pursuant to the Merger Agreement, Executive shall receive substantial benefit from the Merger, including without limitation cash payment of $2.34 for each of the shares held by Executive, subject to a cash hold-back of $3,250,000 from the purchase price to be paid to Executive, as set forth in this Agreement.

E. Executive desires to be employed with the Company following the Merger, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the respective agreements of the Company and Executive set forth below, the Company and Executive, intending to be legally bound, agree as follows:

1. Employment. Effective immediately following consummation of the Merger (the "Effective Date"), the Company shall initially employ Executive as a Vice President, and Executive shall accept such employment and perform services for the Company, upon the terms and conditions set forth in this Agreement.

2. Term. The Company agrees to employ Executive and Executive agrees to be employed by the Company on a full-time basis for the period commencing on the Effective Date and ending on September 30, 2007 (the "Initial Term"), unless Executive's

employment is sooner terminated pursuant to Section 8 hereof. Following the Initial Term, continuation of Executive's employment hereunder shall be continued on such terms as determined from time to time by the Company, subject to termination at any time by either Executive or the Company.

3. Position and Duties.

(a) Position. During Executive's employment with the Company during the Initial Term, Executive's title shall be Vice President. Executive shall perform such duties and responsibilities as the Company shall assign to him from time to time consistent with his position. Executive's primary work location during the Initial Term shall be the Company's office (formerly Braun's office) in Chicago, Illinois. In order to facilitate smooth integration and transition and to maximize personnel retention from Braun following the Merger, during the Initial Term Executive shall spend an average of at least 50% of his working time in the Chicago office and an average of 40% of his working time in the aggregate (i) working at the New York, Boston and Indianapolis offices (formerly Braun offices) or (ii) traveling for purposes of participating in client engagement meetings. During the first six (6) months following the Effective Date, Executive's primary focus will be integration and transition activities for the Chicago office and Executive will devote a substantial portion of his time working in the Chicago office as needed to ensure a successful transition, unless the Company otherwise directs Executive to perform other significant duties and responsibilities that would prevent Executive from complying with the provisions of this Section 3(a).

(b) Performance of Duties and Responsibilities. Executive shall serve the Company faithfully and to the best of his ability and shall devote his full working time, attention and efforts to the business of the Company during his employment with the Company. Executive hereby represents and confirms that he is under no contractual or legal commitments that would prevent him from fulfilling his duties and responsibilities as set forth in this Agreement. During his employment with the Company, Executive may participate in charitable activities and personal investment activities to a reasonable extent, so long as such activities do not unreasonably interfere with the performance of his duties and responsibilities hereunder.

4. Compensation.

(a) Base Salary. While Executive is employed by the Company hereunder during the Initial Term, the Company shall pay to Executive an annualized Base Salary of $300,000, less all legally required and authorized deductions and withholdings, which Base Salary shall be paid in accordance with the Company's normal payroll policies and procedures. During each year of Executive's employment hereunder, the Company shall conduct an annual performance review of Executive and thereafter establish Executive's Base Salary in an amount not less than the Base Salary in effect for the prior year.

Executive's Base Salary shall not be reduced unless such reduction is made as part of a general reduction in the base salaries for all senior management of the Company.

(b) Incentive Awards. For each full fiscal year during the Initial Term that Executive is employed by the Company hereunder, Executive shall be eligible to participate in the Company's Management Incentive Plan or any similar or successor bonus plan of the Company as in effect from time to time, in accordance with the terms of such incentive plan.

(c) Stock Options. Subject to approval of the Compensation Committee of the Board of Directors (the "Compensation Committee") and a written stock option agreement to be entered into by the Company and Executive, the Company shall grant Executive a nonstatutory option to purchase 75,000 shares of common stock of the Company pursuant to one of the Company's equity award plans. Such option shall vest 50% on the date that is two years after the Effective Date and shall vest the remaining 50% on the date that is four years after the Effective Date. Executive shall be eligible for annual option grants consistent with the Company's program for performance-based grants to employees at a comparable job level as Executive, as in effect from time to time.

(d) Restricted Stock. Subject to approval of the Company's Compensation Committee and a written restricted stock agreement to be entered into by the Company and Executive, the Company shall grant Executive 25,000 shares of restricted stock of the Company pursuant to one of the Company's equity award plans. Such restricted stock shall vest and the restrictions lapse with respect to 50% of the shares on the date that is two years after the Effective Date and with respect to the remaining 50% of the shares on the date that is four years after the Effective Date. Subsequent grants of restricted stock, if any, shall be in the sole discretion of the Board.

(e) Employee Benefits. While Executive is employed by the Company hereunder, Executive shall be entitled to participate in the employee benefit plans and programs of the Company, to the extent that Executive meets the eligibility requirements for each individual plan or program. Executive acknowledges that his participation in any such plan or program shall be subject to the provisions, rules and regulations applicable thereto, and that such plans and programs may be modified or terminated by the Company from time to time. Executive will participate in the Company's paid-time-off policies at such time as other Braun employees are transitioned and will accrue time off at a rate consistent with his years of service as credited by Braun.

(f) Expenses. While Executive is employed by the Company hereunder, the Company shall reimburse Executive for all reasonable and necessary out-of-pocket business, travel and entertainment expenses incurred by him in the performance of his duties and responsibilities hereunder, subject to the Company's normal policies and procedures for expense verification and documentation.

5. Purchase Price Hold-Back.

(a) Amount of Hold-Back. The Company shall hold back from the purchase price payable to Executive under the Merger Agreement the amount of $3,250,000 ("Hold-Back").

(b) Payment of Performance Hold-Back. The Hold-Back shall be payable to Executive upon achievement of the first to occur of the following revenue objectives (each a "Revenue Objective"):

(i) The revenues for the consulting business previously operated as Braun exceed $35 million for the fiscal year ending September 30, 2005;

(ii) The combined revenues for the Company's marketing consulting services business (including but not limited to the consulting business previously operated as Braun) exceed $165 million for the fiscal years ending September 30, 2005 and 2006; or

(iii) The combined revenues for the Company's marketing consulting services business (including but not limited to the consulting business previously operated as Braun) exceed $277 million for the fiscal years ending September 30, 2005, 2006 and 2007.

Determination of revenues and achievement of Revenue Objectives shall be made by the Company in accordance with generally accepted accounting principles as consistently applied by the Company. The Hold-Back shall be paid to Executive in full within ten (10) days following completion of the audited financial statements of the Company for the applicable fiscal year if it is determined that a Revenue Objective has been met.

(c) Failure of Company to Meet Revenue Objectives. Subject to Section 10(b) of this Agreement, if during the Initial Term the Company does not achieve any of the Revenue Objectives, then Executive shall forfeit the Hold-Back and the Company shall have no further obligation to pay the Hold-Back to Executive.

6. Proprietary Information Agreement. Simultaneous with his execution of this Agreement, Executive will sign the Company's Employee Information and Inventions Agreement attached hereto as Exhibit A (the "Proprietary Information Agreement"). Nothing in this Agreement is intended to modify, amend, cancel, or supersede the Proprietary Information Agreement in any manner.

7. Management Agreement. At the same time as Executive and the Company enter into this Agreement, the parties shall also enter into the Management Agreement attached hereto as Exhibit B (the "Management Agreement").

8. Noncompetition Covenant.

(a) Agreement Not to Compete. During the term of Executive's employment with the Company and for a period of 24 consecutive months from the date of the termination of such employment, whether such termination is with or without Cause (as defined below), whether such termination occurs during or after the Initial Term, or whether such termination is at the instance of Executive or the Company, Executive shall not, directly or indirectly, in any geographic location where the Company is then actively engaged in business, engage in any business that the Company is engaged in or actively contemplating entering into during the term of Executive's employment with the Company, or any part of such business, including without limitation the business of developing or providing services or products relating to creative analytics, predictive modeling, decision analysis, intelligence management, or decision management systems, or related consulting services, 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. Ownership by Executive, as a passive investment, of less than 2.5% of the outstanding shares of capital stock of any corporation listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of this Section 8(a).

(b) Acknowledgment. Executive hereby acknowledges that the provisions of this Section 8 are reasonable and necessary to protect the legitimate interests of the Company and that any violation of this Section 8 by Executive shall cause substantial and irreparable harm to the Company to such an extent that monetary damages alone would be an inadequate remedy therefor. Therefore, in the event that Executive violates any provision of this Section 8, the Company shall be entitled to an injunction, in addition to all the other remedies it may have, restraining Executive from violating or continuing to violate such provision.

(c) Blue Pencil Doctrine. If the duration of, the scope of or any business activity covered by any provision of this Section 8 is in excess of what is valid and enforceable under applicable law, such provision shall be construed to cover only that duration, scope or activity that is valid and enforceable. Executive hereby acknowledges that this Section 8 shall be given the construction which renders its provisions valid and enforceable to the maximum extent, not exceeding its express terms, possible under applicable law.

9. Termination of Employment.

(a) The Executive's employment with the Company shall terminate upon:

(i) Executive's receipt of written notice from the Company of the termination of his employment;

(ii) Executive's resignation during the Initial Term for Good Reason (as defined below);

(iii) Executive's abandonment of his employment or his resignation upon or following the expiration of the Initial Term; or

(iv) Executive's death or Disability (as defined below).

(b) The date upon which Executive's termination of employment with the Company occurs shall be the "Termination Date."

10. Payment upon Termination of Employment During Initial Term.

(a) If Executive's employment with the Company is terminated during the Initial Term

(i) by reason of Executive's abandonment of his employment or Executive's resignation (other than for Good Reason), or

(ii) by the Company for Cause (as defined below),

the Executive will continue to be eligible to receive the Hold-Back if a Revenue Objective has been achieved as of the Termination Date or subsequently a Revenue Objective is achieved after the Termination Date, in both cases the Hold-Back will be payable in accordance with the terms and conditions of Section 5(b) of this Agreement.

(b) If Executive's employment with the Company is terminated during the Initial Term

(i) by reason of Executive's resignation for Good Reason,

(ii) by the Company for any reason other than Cause,

(iii) due to Executive's death or Disability, or

(iv) under circumstances making Executive eligible for payments or other benefits pursuant to the terms and conditions of the Management Agreement,

then the Company shall pay Executive the Hold-Back within thirty (30) days of the Termination Date, whether or not a Revenue Objective has been achieved by the Company as of the Termination Date.

(c) "Cause" hereunder shall mean:

(i) an act or acts of personal dishonesty taken by Executive and intended to result in substantial personal enrichment of Executive at the expense of the Company;

(ii) material breach by Executive of any of his obligations under this Agreement or the Proprietary Information Agreement, or violation of the Company's written policies with respect to conflicts of interest, code of conduct, or insider trading;

(iii) Executive's failure or refusal to perform or observe Executive's duties, responsibilities and obligations as an employee or officer of the Company for reasons other than Disability;

(iv) Executive's failure to achieve each of the Revenue Objectives for the fiscal years ending September 30, 2005, 2006 or 2007;

(v) the existence of any court or administrative order prohibiting Executive's continued employment with the Company;

(vi) if Executive has signed 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 Executive from working for the Company or from performing Executive's duties at the Company; or

(vii) commission by Executive of illegal conduct or other significant misconduct that is injurious to the Company,

provided, however, that "Cause" shall not exist under Section 10(c)(iii) above unless and until (A) the Company has given written notice to Executive that his failure or refusal constitutes Cause and (B) Executive has continued to fail or refuse to perform or observe Executive's duties, responsibilities and obligations as an employee or officer of the Company for 60 days following Executive's receipt of such notice.

(d) "Disability" hereunder shall mean the inability of Executive to perform on a full-time basis the duties and responsibilities of his position with the Company by reason of his illness or other physical or mental impairment or condition, if such inability continues for an uninterrupted period of 180 days or more during any 360-day period. A period of inability shall be "uninterrupted" unless and until Executive returns to full-time work for a continuous period of at least 30 days.

(e) Resignation for "Good Reason" shall mean Executive's resignation because of the occurrence of any of the following without Executive's consent:

(i) reassignment by the Company of Executive's primary work location more than 40 miles outside the Chicago, Illinois metropolitan area (other than for normal business travel consistent with Executive's position);

(ii) reassignment of Executive to a position with the Company below the level of Vice President;

(iii) reassignment of Executive to a position with the Company in which Executive's duties and responsibilities no longer include participation in the senior management of the marketing consulting services business;

(iv) material reduction in Executive's Base Salary as in effect from time to time, unless such reduction is made as part of a general reduction in the base salaries for all senior management of the Company; or

(v) failure of the Company to grant and deliver either the initial stock option or restricted stock to Executive as provided in Sections 4(c) and 4(d) of this Agreement;

provided, however, that "Good Reason" shall not exist unless and until Executive has given written notice to the Company of the detailed basis for Good Reason and such basis is not cured by the Company within 15 days following the Company's receipt of such notice.

(f) In the event of termination of Executive's employment, the sole obligation of the Company shall be its obligation to make the payments to Executive under this Agreement and for Base Salary and benefits earned by Executive through the Termination Date, in accordance with the Company's regular practices and procedures. The Company shall have no other obligation to Executive or to his beneficiary or his estate, except as otherwise provided by law, under the terms of any other applicable written agreement between Executive and the Company or under the terms of any employee benefit plans or programs then maintained by the Company in which Executive participates.

11. Return of Records and Property. Upon termination of his employment with the Company, Executive shall promptly 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 or calculations and all copies thereof, documents that in whole or in part contain any trade

secrets or confidential, proprietary or other secret information of the Company and all copies thereof, and keys, access cards, access codes, passwords, credit cards, personal computers, telephones and other electronic equipment belonging to the Company.

12. Disputes. In the event of any dispute, controversy, or claim for damages arising under or in connection with this Agreement, including, but not limited to, claims for wages or compensation due; claims for breach of any contract or covenant (expressed or implied); tort claims; claims for discrimination; claims for benefits (except where an employee benefit or profit sharing plan specifies that its claims procedures shall culminate in an arbitration procedure) and claims for violation of any Federal, State or other governmental law, statute, regulation, or ordinance, except claims for workers' compensation or unemployment compensation benefits, Executive and the Company mutually agree to in good faith consider the use of forms of alternative dispute resolution, including, but not limited to, arbitration and/or mediation. Notwithstanding the foregoing, nothing in this Agreement shall restrict either party's ability to immediately seek injunctive relief from a court of competent jurisdiction prior to consideration of alternative dispute resolution hereunder.

13. Miscellaneous.

(a) Governing Law. All matters relating to the interpretation, construction, application, validity and enforcement of this Agreement shall be governed by the laws of the State of Minnesota without giving effect to any choice or conflict of law provision or rule, whether of the State of Minnesota or any other jurisdiction, that would cause the application of laws of any jurisdiction other than the State of Minnesota.

(b) Entire Agreement. This Agreement contains the entire agreement of the parties relating to the subject matter of this Agreement and supersedes all prior agreements and understandings with respect to such subject matter, except for the Proprietary Information Agreement and the Management Agreement. The parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement that are not set forth herein or in the Proprietary Information Agreement or the Management Agreement.

(c) Amendments. No amendment or modification of this Agreement shall be deemed effective unless made in writing and signed by the parties hereto.

(d) 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.

(e) Assignment. This Agreement shall not be assignable, in whole or in part, by either party without the written consent of the other party, except that the Company may, without the consent of Executive, assign its rights and obligations under this Agreement to any affiliate of the Company or to any corporation or other business entity (i) with which the Company may merge or consolidate, or (ii) to which the Company may sell or transfer all or substantially all of its assets or capital stock. Upon such assignment by the Company, the entity to which the assignment has been made will be "the Company" for all purposes hereunder including this Section 13.

(f) Counterparts. This Agreement may be executed in any number of counterparts, and such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

(g) Captions and Headings. The captions and paragraph headings used in this Agreement are for convenience of reference only and shall not affect the construction or interpretation of this Agreement or any of the provisions hereof.

[signature page follows]

IN WITNESS WHEREOF, Executive and the Company have executed this Amended Employment Agreement effective as of the date set forth in the first paragraph.

/s/ Steven J. Braun

Steven J. Braun

FAIR ISAAC CORPORATION

By Andrea M. Fike

Its VP, General Counsel and Secretary

MANAGEMENT INCENTIVE PLAN (MIP) EXHIBIT 10.46
FISCAL YEAR 2005

INTRODUCTION

The Management Incentive Plan ("MIP") is a discretionary bonus plan designed to effectively link a portion of cash compensation to both Company and individual performance results. It specifically applies to those employees assigned to the Vice President job level or those in the Director job level who are specifically approved for participation in the MIP. Participants have an opportunity to earn semi-annual awards based on both the company's performance and their personal performance during a given semi-annual period (the "Performance Period"). This document describes the administrative rules governing MIP awards.

INCENTIVE FREQUENCY

Awards under the MIP are calculated and distributed on a semi-annual basis following conclusion of the Company's second and fourth fiscal quarters. To permit administrative calculations, payments will generally be distributed to Participants within 60 calendar days following the end of each Performance Period.

ELIGIBILITY

You are considered an eligible "Participant" for a particular Performance Period provided you meet all of the following criteria:

1. You must be assigned to "regular" employment status with the Company (e.g., non-temporary; non-contractor) and be assigned a "standard hours" value in the Company's HRMS/Payroll system of 20 or more hours per week; and

2. You must be employed on or before the first business day of a semi-annual performance period in order to fully participate for that period. If your employment start date occurs after the first business day of a semi-annual period but on or before the first business day of the second fiscal quarter within the current semi-annual period, you will be eligible to participate on a pro-rated basis such that only your earnings for the second half of the semi-annual period will be used for incentive calculation purposes; and

3. You must be employed on the date of incentive award payment or, if involuntarily terminated due to job elimination before this date, be employed through the last business day of the relevant Performance Period; and

4. You must have actively performed work duties during some portion of the Performance Period; and

5. You must not be eligible to participate in any other Company-sponsored incentive or commission plan, except as approved by the CEO; and

6. You must be assigned a Summary Performance Rating of "Achieved Expectations," "Exceeds Expectations" or "Exceptional" for the relevant Performance Period. This rating must be documented as part of a completed evaluation form submitted to Human Resources.

DEFINITIONS

The "Plan Year" is the company's fiscal year. The first two fiscal quarters combined represent the first semi-annual Performance Period, while the third and fourth fiscal quarters combined represent the second semi-annual Performance Period.

"Company Performance" is defined as the extent to which the Company attains established "Incentive Plan Goals" which include sequential period net revenue growth and net income goals established by the Administrative Committee at the beginning of the fiscal year. Revenues and expenses associated with business acquisitions and divestitures that occur during the Plan Year may be excluded from the results used to calculate incentive awards. The Administrative Committee will determine, in its sole discretion, what constitutes a business acquisition or divestiture for these purposes.

The "Incentive Pool" is the amount of money available for payout in conjunction with a given Performance Period and is determined by the Administrative Committee based upon the extent to which semi-annual and year-to-date Incentive Plan Goals are achieved. In general, if semi-annual net revenue growth fails to equal at least 80% of the net revenue growth goal or if funding the MIP pool will cause the Company to fail to achieve its net income goal, no payout will occur.

Each Participant is assigned an "Incentive Payout Range" which represents his/her minimum and maximum incentive payout potential as a percentage of "Incentive Compensation" for each Performance Period and is determined by his/her assigned Job Level at the end of the relevant Performance Period as follows:

CORPORATE TITLE GROUPING	INCENTIVE PAYOUT RANGE
Vice President	Zero to 100%

"Incentive Compensation" for exempt (salaried) Participants will be equal to each Participant's annual base salary at the time of incentive computation divided by two with a prorata adjustment based upon standard hours as recorded on the HR/Payroll system applying to part-time exempt Participants and those not employed on the first business day of the Performance Period who are employed on or before the first business day of the second fiscal quarter contained within the Performance Period.

Participants who experience a leave of absence during the performance period will generally be based on aggregate wages including regular, paid-time-off and holiday pay for the relevant Performance Period. Wages related to relocation, bonuses, incentives, commissions, or disability payments are not included. Under all circumstances, a Participant must actually work at least one day of a Performance Period in order to be eligible for an award.

A "Performance Factor" is a value tied to a Participant's Summary Performance Rating intended to link Award Percentages with individual performance.

An "Award Percentage" is the specific incentive payout percentage granted to a Participant. Award Percentages must fall within a Participant's assigned Incentive Payout Range. The CEO must approve any exception.

An "Initial Payout Award" is the initial incentive bonus award determined mathematically through a specified calculation. A Participant's Initial Payout Award may vary significantly from his/her "Final Payout Award" which represents the actual amount paid.

An "Adjustment Factor" is a value, generally less than 1.0, applied to adjust all Initial Payout Awards similarly so that in total they do not exceed the Incentive Pool. It is calculated as follows:

Adjustment Factor = Incentive Pool divided by total Initial Payout Awards

FINAL MIP AWARD DETERMINATION

MIP awards are determined by each Participant's supervisor by evaluating a number of contributing factors, including subjective discretion, as follows:

1. The Incentive Pool is determined based upon the extent to which the Company achieves established net revenue and net income performance goals for the relevant Performance Period and on a year-to-date basis.

2. The performance of each Participant is assessed through the assignment of a Summary Performance Rating as part of the semi-annual performance review process. No bonus will be paid to Participants assigned an "Improvement Needed" or "Unsatisfactory" summary rating. Summary Performance Ratings drive the assignment of specific Performance Factors as follows:

Summary Performance Rating	Performance Factor
Exceptional	2.0
Exceeds Expectations	1.25
Achieved Expectations	1.0
Improvement Needed	Zero
Unacceptable	Zero

3. An Initial Payout Award is calculated for each Participant as follows:

   Initial Award Percentage = A x B x C x D x E; where

   A = Performance Factor (tied to Summary Performance Rating)
   B = Midpoint of a Participant's Incentive Payout Range (tied to job level)
   C = Incentive Compensation (for the relevant period)
   D = Adjustment Factor (if applicable)
   E = Prorata value to reflect part-time exempt status or partial period participation

4. A Participant's Final Payout Award is the actual incentive bonus amount paid. Final Payout Awards are determined by each Participant's supervisor by considering the Initial Payout Award (and contributing factors) as well as other discretionary factors designed to ensure Final Payout Awards optimally reflect employee contribution.

ADMINISTRATION

The Plan will be administered by the VP, Human Resources of the Company or his/her assignee. The VP, Human Resources has the authority to interpret the provisions of the Plan and to make any rules and regulations necessary to administer the Plan. His/her decision is final in all matters of judgment pertaining to the Plan, and he/she may, without notice, amend, suspend or revoke the Plan.

All awards under the Plan are at the sole discretion of management which reserves the right to modify or eliminate any award, based on a review of pertinent factors, with or without notice to a Participant.

EXHIBIT 31.1

CERTIFICATIONS

I, Thomas G. Grudnowski, certify that:

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

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

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

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

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

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

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

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

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

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

Date: February 8, 2005

/s/ THOMAS G. GRUDNOWSKI

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Thomas G. Grudnowski
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Charles M. Osborne, certify that:

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

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

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

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

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

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

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

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

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

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

Date: February 8, 2005

/s/ CHARLES M. OSBORNE

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Charles M. Osborne
Chief Financial Officer

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EXHIBIT 32.1

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

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

Date: February 8, 2005

/s/ THOMAS G. GRUDNOWSKI

Thomas G. Grudnowski
Chief Executive Officer

EXHIBIT 32.2

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

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

Date: February 8, 2005

/s/ CHARLES M. OSBORNE

Charles M. Osborne
Chief Financial Officer