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, 2003

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.)*
200 Smith Ranch Road **San Rafael, California** *(Address of principal executive offices)*	**94903** *(Zip Code)*

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

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 December 31, 2003 was 47,003,604 (excluding 11,590,525 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, 2003	September 30, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 197,526	$ 249,458
Marketable securities available for sale, current portion	318,363	255,893
Receivables, net	132,158	138,712
Prepaid expenses and other current assets	16,263	16,981
Deferred income taxes, current portion	5,255	6,828
Total current assets	669,565	667,872
Marketable securities available for sale, less current portion	227,983	155,312
Other investments	1,528	8,942
Property and equipment, net	49,676	50,706
Goodwill	458,141	457,842
Intangible assets, net	91,243	93,930
Deferred income taxes, less current portion	40,738	40,738
Other assets	17,841	19,831
	$1,556,715	$1,495,173
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 13,078	$ 15,267
Accrued compensation and employee benefits	22,045	25,839
Other accrued liabilities	40,933	25,672
Deferred revenue	37,642	31,584
Total current liabilities	113,698	98,362
Senior convertible notes	400,000	400,000
Convertible subordinated notes, net of discount	141,740	141,364
Other liabilities	5,982	5,905
Total liabilities	661,420	645,631
Stockholders' equity:		
Preferred stock ($0.01 par value; 1,000 shares authorized; none issued and outstanding)	—	—
Common stock ($0.01 par value; 200,000 shares authorized, 58,594 and 58,251 shares issued and 47,004 and 46,578 shares outstanding at December 31, 2003 and September 30, 2003, respectively)	470	466
Paid-in-capital	1,030,529	1,019,847
Treasury stock, at cost (11,590 and 11,673 shares at December 31, 2003 and September 30, 2003, respectively)	(483,016)	(486,477)
Unearned compensation	(3,120)	(3,710)
Retained earnings	347,167	319,341
Accumulated other comprehensive income	3,265	75
Total stockholders' equity	895,295	849,542
	$1,556,715	$1,495,173

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31,	
	2003	2002
Revenues	$169,341	$146,732
Operating expenses:		
Cost of revenues (1)	59,535	60,654
Research and development	16,401	17,247
Selling, general and administrative (1)	41,760	32,183
Amortization of intangible assets (1)	4,067	3,262
Restructuring and merger-related	—	2,010
Total operating expenses	121,763	115,356
Operating income	47,578	31,376
Interest income	2,445	2,596
Interest expense	(4,378)	(2,322)
Other income, net	558	528
Income before income taxes	46,203	32,178
Provision for income taxes	17,442	12,389
Net income	$ 28,761	$ 19,789
Earnings per share:		
Basic	$ 0.62	$ 0.39
Diluted	$ 0.59	$ 0.38
Shares used in computing earnings per share:		
Basic	46,549	50,162
Diluted	49,158	52,173

(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						Accumulated		
	Shares	Par Value	Paid-In-Capital	Treasury Stock	Unearned Compensation	Retained Earnings	Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
Balance at September 30, 2003	**46,578**	**$466**	**$1,019,847**	**$(486,477)**	**$(3,710)**	**$319,341**	**$ 75**	**$849,542**	
Exercise of stock options	343	3	8,206	—	—	—	—	8,209	
Tax benefit from exercised stock options	—	—	2,487	—	—	—	—	2,487	
Amortization of unearned compensation	—	—	—	—	568	—	—	568	
Forfeitures of stock options assumed in HNC acquisition	—	—	(22)	—	22	—	—	—	
Issuance of ESPP shares from treasury	83	1	11	3,461	—	—	—	3,473	
Dividends paid	—	—	—	—	—	(935)	—	(935)	
Net income	—	—	—	—	—	28,761	—	28,761	$28,761
Unrealized gains on investments	—	—	—	—	—	—	2,789	2,789	2,789
Cumulative translation adjustments	—	—	—	—	—	—	401	401	401
Balance at December 31, 2003	**47,004**	**$470**	**$1,030,529**	**$(483,016)**	**$(3,120)**	**$347,167**	**$3,265**	**$895,295**	**$31,951**

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31,	
	2003	2002
Cash flows from operating activities:		
Net income	$ 28,761	$ 19,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,307	11,645
Share of equity in earnings of investment	(17)	(32)
Gain on sales of marketable securities	(125)	(626)
Amortization of unearned compensation	568	810
Tax benefit from exercised stock options	2,487	4,399
Net amortization of premium (discount) on marketable securities	86	(149)
Provision for doubtful accounts	241	975
Amortization of discount on convertible subordinated notes	376	352
Net loss on sales of property and equipment	58	—
Changes in operating assets and liabilities, net of acquisition effects:		
Receivables	8,995	9,379
Prepaid expenses and other assets	570	361
Accounts payable	(2,551)	2,583
Accrued compensation and employee benefits	(3,766)	(3,180)
Accrued and other liabilities	14,736	3,238
Deferred revenue	6,001	3,106
Net cash provided by operating activities	67,727	52,650
Cash flows from investing activities:		
Purchases of property and equipment	(4,320)	(2,691)
Cash proceeds from sale of product line	—	3,000
Collections of notes receivable from sale of product lines	1,700	—
Cash paid in acquisitions	(5,000)	(2,250)
Purchases of marketable securities	(266,416)	(108,995)
Proceeds from sales of marketable securities	69,611	64,566
Proceeds from maturities of marketable securities	74,019	18,545
Net cash used in investing activities	(130,406)	(27,825)
Cash flows from financing activities:		
Proceeds from issuances of common stock under employee stock option and purchase plans	11,682	15,197
Dividends paid	(935)	(1,011)
Repurchases of common stock	—	(76,036)
Net cash provided by (used in) financing activities	10,747	(61,850)
Decrease in cash and cash equivalents	(51,932)	(37,025)
Cash and cash equivalents, beginning of period	249,458	96,834
Cash and cash equivalents, end of period	$ 197,526	$ 59,809
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds	$ 3,412	$ 364

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.” HNC Software Inc., which we acquired in August 2002, is referred to as “HNC.”

Principles of Consolidation and Basis of Presentation

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include, but are not limited to, assessing the following: the recoverability of accounts receivable, goodwill, 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 fair value 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 fair value 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 the straight-line method. 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.

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FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(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 for the quarters ended December 31, 2003 and 2002:

	Quarter Ended December 31,	
	2003	2002
	(In thousands, except per share data)	
Net income, as reported	$28,761	$19,789
Add: Stock-based employee compensation expense included in reported net income, net of tax	353	498
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(5,319)	(4,154)
Pro forma net income	$23,795	$16,133
Earnings per share, as reported:		
Basic	$ 0.62	$ 0.39
Diluted	$ 0.59	$ 0.38
Pro forma earnings per share:		
Basic	$ 0.51	$ 0.32
Diluted	$ 0.49	$ 0.31

2. Acquisition

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

3. Marketable Securities Available for Sale

As of September 30, 2003, we held an approximate 6.0% ownership interest in Open Solutions, Inc. (“OSI”), a developer of client/server core data processing solutions for community banks and credit unions, that was accounted for using the cost method. The OSI investment was recorded by us at its estimated fair value of $7.5 million in connection with the HNC acquisition, and was included in other investments as of September 30, 2003. In November 2003, OSI completed an initial public offering of its stock. In connection therewith, we reclassified our investment in OSI to marketable securities available for sale, current portion, based on our holding intent. As of December 31, 2003, our investment in OSI was recorded at its fair value of $12.2 million, which includes an unrealized gain of $4.7 million ($2.9 million net of tax) that is included in accumulated other comprehensive income within stockholders’ equity.

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

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 during the quarters ended December 31, 2003 and 2002:

	Quarter Ended December 31,	
	2003	2002
	(In thousands)	
Cost of revenues	$2,286	$2,100
Selling, general and administrative expenses	1,781	1,162
	$4,067	$3,262

Cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflect our amortization of other intangible assets. Intangible assets were $91.2 million and $93.9 million, net of accumulated amortization of $20.1 million and $16.1 million, as of December 31, 2003 and September 30, 2003, respectively.

5. Restructuring and Merger-Related Expenses

The following table summarizes activity for the quarter ended December 31, 2003, related to restructuring accruals previously recorded in connection with the HNC acquisition, of which $0.9 million and $0.9 million is recorded in other accrued current liabilities as of December 31, 2003 and September 30, 2003, respectively, and $1.1 million and $1.3 million is recorded in other long-term liabilities as of December 31, 2003 and September 30, 2003, respectively, within the accompanying condensed consolidated balance sheets:

	Accrual at September 30, 2003	Cash Payments	Accrual at December 31, 2003
		(In thousands)	
Facilities charges	$2,208	$(219)	$1,989
Employee separation	5	(5)	—
	$2,213	$(224)	$1,989

During the quarter ended December 31, 2002, we incurred merger-related expenses totaling $2.0 million, consisting primarily of retention bonuses.

6. Earnings Per Share

The following reconciles the numerators and denominators of basic and diluted earnings per share (“EPS”) for the quarters ended December 31, 2003 and 2002:

	Quarter Ended December 31,	
	2003	2002
	(In thousands, except per share data)	
Numerator — net income	$28,761	$19,789
Denominator — shares:		
Basic weighted-average shares	46,549	50,162
Effect of dilutive securities	2,609	2,011
Diluted weighted-average shares	49,158	52,173
Earnings per share:		
Basic	$ 0.62	$ 0.39
Diluted	$ 0.59	$ 0.38

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

The computation of diluted EPS for the quarters ended December 31, 2003 and 2002 excludes options to purchase approximately 405,000 and 2,733,000 shares of common stock, respectively, because the options’ exercise prices exceeded the average market price of our common stock in these periods and their inclusion would be antidilutive. The computation of diluted EPS for the quarters ended December 31, 2003 and 2002 also exclude approximately 2,703,000 shares of common stock issuable upon conversion of our 5.25% Convertible Subordinated Notes (the “Subordinated Notes”), as the inclusion of such shares would have been antidilutive for this period. The computation of diluted EPS for the quarter ended December 31, 2003 also excludes approximately 6,067,000 shares of common stock issuable upon conversion of our 1.5% Senior Convertible Notes (the “Senior Notes”), as the conditions for conversion had not been satisfied as of December 31, 2003. The Senior Notes become convertible into shares of Fair Isaac common stock, subject to the conditions described below, at an initial conversion price of $65.9288 per share, subject to adjustments for certain events. The initial conversion price is equivalent to a conversion rate of approximately 15.1679 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, subject to certain limitations; (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.

7. Stock Option Plan

In November 2003, our Board of Directors approved the adoption of the 2003 Employment Inducement Award Plan (the “Plan”). The Plan reserves 1,500,000 shares of common stock solely for the granting of inducement stock options and other awards, as defined, and meets the “employment inducement award” provisions of the New York Stock Exchange’s recently adopted listing standards regarding shareholder approval of equity-based inducement incentive plans. Except for the employment inducement award criteria, awards under this plan will be generally consistent with those made under our other existing stock option plan.

In connection with our acquisition of Seurat during the quarter ended December 31, 2003, variable awards for 169,500 shares with a modified exercise price of $53.25 (original exercise price of $59.20) were granted to Seurat employees under the Plan. No compensation cost was recognized during the quarter as the quarter end stock price did not exceed this exercise price.

8. Segment Information

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

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

Our Chief Executive Officer evaluates segment financial performance based on segment revenues and operating income. Segment operating expenses consist of direct and indirect costs principally related to personnel, facilities, consulting, travel, depreciation and amortization. Indirect costs are allocated to the segments generally based on relative segment revenues, fixed rates established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. Our

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

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, 2003 and 2002:

	Quarter Ended December 31, 2003				
	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

	Quarter Ended December 31, 2002				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$ 85,367	$ 34,168	$ 20,265	$ 6,932	$ 146,732
Operating expenses	(71,910)	(15,440)	(19,785)	(6,211)	(113,346)
Segment operating income	$ 13,457	$ 18,728	$ 480	$ 721	33,386
Unallocated restructuring and merger-related					(2,010)
Operating income					31,376
Unallocated interest expense					(2,322)
Unallocated interest and other income, net					3,124
Income before income taxes					$ 32,178
Depreciation and amortization	$ 6,640	$ 3,102	$ 1,522	$ 381	$ 11,645

9. Related Party Transactions

During the quarters ended December 31, 2003 and 2002, we recorded revenues in the amount of $1.1 million and $0.2 million, respectively, related to sales of products through Informa GmbH (“Informa”), an equity method investee in which we own a 33.3% interest, and had receivables from Informa in the amount of $1.1 million and $0.1 million as of December 31, 2003 and September 30, 2003, respectively.

10. Contingencies

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

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

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

11. Subsequent Events

On February 2, 2004, our Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend on our common stock, payable on March 10, 2004 to shareholders of record on February 18, 2004. We will pay cash in lieu of fractional shares. The share and per share amounts within the accompanying condensed consolidated financial statements and notes have not been adjusted to reflect this pending stock split.

On February 2, 2004, our Board of Directors declared a two cents per share quarterly cash dividend, payable on March 10, 2004 to shareholders of record on a pre-split basis on February 18, 2004.

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

During the period January 1, 2004 through February 12, 2004, we repurchased 375,000 shares of our common stock for an aggregate cost of $23.1 million. The shares were repurchased pursuant to a program approved by our Board of Directors in the prior fiscal year that allowed us to repurchase up to 1,500,000 shares of our common stock.

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

RESULTS OF OPERATIONS

Overview

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

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, 2003, 79% 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 are 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 82% and 83% of our revenues during the quarters ended December 31, 2003 and 2002, 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 the consumer credit and financial services sectors there has recently been a sizable amount of industry consolidation, some of which remains pending. Several of our customers have announced consolidation plans in recent months. Consolidation among our customers can create opportunities for us to broaden our existing relationships with these customers. In addition, due to the long-term obligations we typically have with our customers, we do not expect significant near term effects on our revenues from consolidation. While consolidation events could cause future revenues to decline, on balance we view current consolidation in our customer base as unlikely to have a material effect on our near term future results.

One measure used by management as an indicator of our business performance is the volume of new bookings achieved. We define a "new booking" as estimated future contractual revenues, including agreements with perpetual, multi-year and annual terms. New bookings values may include: (i) estimates of variable fee components such as hours to be incurred under new professional services arrangements and customer account or transaction activity for agreements with transactional-based fee arrangements, (ii) additional or expanded business from renewals of contracts, and (iii) to a lesser extent, previous customers that have attrited and been re-sold only as a result of a significant sales effort. In the quarter ended December 31, 2003 we achieved new bookings of $135.1 million, including 25 deals with bookings values over $1.0 million and eight deals with bookings values over $3.0 million, compared to new bookings in the quarter ended December 31, 2002 of $102.8 million, including 15 deals with bookings values over $1.0 million and nine deals with bookings values over $3.0 million.

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

Our revenues derived from clients outside the United States have been growing more rapidly than our revenues from domestic clients. International revenues totaled $37.4 million and $24.9 million during the quarters ended December 31, 2003 and 2002, respectively, representing 22% and 17% of total consolidated revenues in each of these periods. We believe this 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 from international clients will continue to increase.

We acquired Spectrum Managed Care, Inc. ("Spectrum") in December 2002, NAREX Inc. ("NAREX") in July 2003, Diversified HealthCare Services, Inc. ("Diversified HealthCare Services") in September 2003, and Seurat Company ("Seurat") in October 2003. Results of operations from these acquisitions are included prospectively from the date of acquisition. As a result of these acquisitions, our financial results during the quarter ended December 31, 2003, are not directly comparable to those during the quarter ended December 31, 2002 or other quarters prior to any of these acquisitions.

Our reportable segments are: Strategy Machine Solutions, Scoring Solutions, Professional Services and Analytic Software Tools. Although we sell solutions and services into a larger number of end user product and industry markets, our reportable business segments reflect the primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the quarters ended December 31, 2003 and 2002 are set forth in Note 8 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.

	Quarter Ended December 31,		Percentage of Revenues Quarter Ended December 31,			
Segment	**2003**	**2002**	**2003**	**2002**	**Period-to-Period Change**	**Period-to-Period Percentage Change**
Strategy Machine Solutions	$103,261	$ 85,367	61%	58%	$17,894	21%
Scoring Solutions	35,307	34,168	21%	23%	1,139	3%
Professional Services	22,492	20,265	13%	14%	2,227	11%
Analytic Software Tools	8,281	6,932	5%	5%	1,349	19%
Total revenues	$169,341	$146,732	100%	100%	22,609	15%

The increase in total revenues from the quarter ended December 31, 2002 to the quarter ended December 31, 2003 included a $10.2 million increase in revenues that resulted from our four acquisitions in fiscal 2003 and 2004.

Strategy Machine Solutions segment revenues increased primarily due to a $6.3 million increase in revenues from our *account management solutions*, a $4.1 million increase in revenues from our *insurance and healthcare solutions*, a $2.4 million increase in

revenues from our *fraud solutions*, a $1.9 million increase in revenues from our *marketing solutions*, a $1.4 million increase in revenues from our *strategy science solutions* and a $1.8 million increase in revenues from our other strategy machine solutions. The increase in *account management solutions* revenues was attributable primarily to increases in both international perpetual license sales and transactional volumes under transactional-based agreements, including transactional-based revenues derived from our Narex acquisition in July 2003. The increase in *insurance and healthcare solutions* revenues was attributable primarily to an increase in customer medical bill review volumes resulting from our Diversified and Spectrum acquisitions in September 2003 and December 2002, respectively, partially offset by a decline in bill review volumes associated with our existing customer base, including that related to the loss of a significant customer, as well as lower claims volumes at some of our key customers. The increase in *fraud solutions* revenues was attributable primarily to an increase in active accounts and merchant transaction volumes, principally due to growth in our customer base, and to the cross-selling of additional fraud products to our existing customer base. The increase in *marketing solutions* revenues was attributable primarily to an increase in customer transaction volumes resulting from our Seurat acquisition in October 2003, partially offset by a decrease in service revenues from our existing customer base. The increase in *strategy science solutions* revenues was attributable primarily to increases in transactional-based revenues resulting from the growth of our strategy science customer base as well as increases in gain-share revenues from this customer base**.**

Scoring Solutions segment revenues increased primarily due to an increase in revenues derived from risk scoring services at the credit reporting agencies, resulting principally from increased sales of scores for account review and prescreening activities. During the quarters ended December 31, 2003 and 2002, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 19% and 20%, respectively, of our total company revenues, including revenues from these customers that are recorded in our other segments.

Professional Services segment revenues increased primarily due to an increase in model development and business consulting revenues, including revenues derived from our Seurat acquisition in October 2003, partially offset by a decline in software implementation revenues due to a lower number of implementation projects in the current quarter.

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

Operating Expenses and Other Income (Expense)

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

	Quarter Ended December 31,		Percentage of Revenues Quarter Ended December 31,		Period-to-Period Change	Period-to-Period Percentage Change
	2003	2002	2003	2002		
Revenues	$169,341	$146,732	100%	100%	$22,609	15%
Operating expenses:						
Cost of revenues	59,535	60,654	35%	41%	(1,119)	(2)%
Research and development	16,401	17,247	10%	12%	(846)	(5)%
Selling, general and administrative	41,760	32,183	25%	22%	9,577	30%
Amortization of intangible assets	4,067	3,262	2%	2%	805	25%
Restructuring and merger-related	—	2,010	—	2%	(2,010)	(100)%
Total operating expenses	121,763	115,356	72%	79%	6,407	6%
Operating income	47,578	31,376	28%	21%	16,202	52%
Interest income	2,445	2,596	2%	2%	(151)	(6)%
Interest expense	(4,378)	(2,322)	(3)%	(1)%	2,056	89%
Other income, net	558	528	—	—	—	—
Income before income taxes	46,203	32,178	27%	22%	14,025	44%
Provision for income taxes	17,442	12,389	10%	8%	5,053	41%
Net income	$ 28,761	$ 19,789	17%	14%	8,972	45%
Number of employees	2,371	2,288			83	4%

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 decrease in cost of revenues was attributable primarily to a $2.6 million reduction in personnel costs, partially offset by a $1.4 million increase in third-party software and data costs and a $0.1 million net increase in various other expenditures. The reduction in personnel costs resulted primarily from our transfer of key management personnel into sales strategy and execution roles from their previous operational roles at the beginning of the first quarter of fiscal 2004, partially offset by an increase in personnel costs resulting from our fiscal 2003 and 2004 acquisitions. The increase in third-party software and data costs was attributable primarily to an increase in revenues, including those resulting from our fiscal 2003 and 2004 acquisitions. In future periods, we expect that cost of revenues as a percentage of revenues will be consistent with the first quarter of fiscal 2004 to slightly lower.

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 decrease in research and development expenses was attributable primarily to a reduction in research and development personnel and related costs, primarily related to Strategy Machine Solutions development projects. We anticipate that research and development expenditures in future periods, as a percentage of revenue, will be consistent with the first quarter of fiscal 2004 to slightly lower.

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 increase in selling, general and administrative expenses was attributably primarily to a $6.6 million increase in personnel costs, a $2.2 million increase in legal and accounting professional fees and a $1.3 million increase in advertising expenditures, partially offset by a $0.5 million net decrease in various other expenditures. The increase in personnel costs resulted primarily from our transfer of key management personnel into sales strategy and execution roles from their previous operational roles at the beginning of the first fiscal quarter of 2004, and to a lesser degree an increase in personnel resulting from our fiscal 2003 and 2004 acquisitions. In future periods, we expect that selling, general and administrative expenses as a percentage of revenues will decrease slightly from the first quarter of fiscal 2004.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense that we have recorded on intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. The increase in amortization expense is attributable primarily to the full quarter of amortization of intangible assets recorded in connection with our acquisition of Spectrum in December 2002, NAREX in July 2003, Diversified HealthCare Services in September 2003, and Seurat in October 2003.

Our definite-lived intangible assets are being amortized using the straight-line method or based on forecasted cash flows associated with the assets over periods ranging from two to fifteen years.

Restructuring and Merger-related

Related to our acquisition of HNC Software Inc. (“HNC”) in fiscal 2002, we incurred merger-related expenses totaling $2.0 million during the quarter ended December 31, 2002, consisting primarily of retention bonuses.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. The decrease in interest income was attributable primarily to lower interest and investment income yields due to market conditions.

Interest Expense

In August 2003, we issued $400.0 million of 1.5% Senior Notes that mature in August 2023. Interest expense on the Senior Notes recorded by us, including amortization of debt issuance costs, totaled $2.0 million during the quarter ended December 31, 2003.

As a result of the HNC acquisition and subsequent merger of the HNC entity into Fair Isaac, we became the issuer of $150.0 million in 5.25% Subordinated Notes due in September 2008. The Subordinated Notes were recorded at their fair value of $139.7 million on the acquisition date, as determined based on their quoted market price, which resulted in our recognition of a $10.3 million note discount. The carrying amount of the Subordinated Notes is being accreted to $150.0 million over their remaining term using the effective interest method, resulting in an effective interest rate of approximately 6.64% per annum. Interest expense on the Subordinated Notes recorded by us totaled $2.4 million and $2.3 million during the quarters ended December 31, 2003 and 2002, respectively.

Other Income, Net

Other income, net consists primarily of realized investment gains/losses, exchange rate gains/losses resulting from re-measurement of foreign-denominated receivable and cash balances held by our U.S. reporting entities into the U.S. dollar functional currency at period-end market rates, net of the impact of offsetting forward exchange contracts, and other non-operating items.

Provision for Income Taxes

Our effective tax rate was 37.75% and 38.5% during the quarters ended December 31, 2003 and 2002, respectively. The current

quarter decrease was principally due to the increased availability of research and development tax credits. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year.

Operating Income

The following table sets forth certain summary information related to our operating income for the fiscal periods indicated.

Segment	Quarter Ended December 31, 2003	Quarter Ended December 31, 2002	Period-to-Period Change	Period-to-Period Percentage Change
Strategy Machine Solutions	$24,271	$13,457	$10,814	80%
Scoring Solutions	19,234	18,728	506	3%
Professional Services	2,373	480	1,893	394%
Analytic Software Tools	1,700	721	979	136%
Segment operating income	47,578	33,386	14,192	43%
Unallocated restructuring and merger-related	—	(2,010)	(2,010)	(100)%
Operating income	$47,578	$31,376	16,202	52%

The increase in operating income was attributable primarily to an increase in segment revenues, which included a $10.2 million increase in revenues that resulted from our four acquisitions in fiscal 2003 and 2004, and a $2.0 million decrease in merger-related expenses that did not recur in the current year. At the segment level, the increase in operating income was attributable primarily to $10.8 million, $1.9 million and $1.0 million increases in segment operating income within our Strategy Machine Solutions, Professional Services and Analytic Software Tools segments, respectively. The increase in Strategy Machine Solutions segment operating income was driven primarily by the growth of segment revenues and operating margins, principally as a result of management's cost control efforts, acquisition-related efficiencies resulting from the integration of the four acquisitions consummated in fiscal 2003 and the first quarter of fiscal 2004 and a mix of relatively higher margin product revenues. The increase in Professional Services segment operating income was primarily due to an increase in higher margin model development and business consulting revenues, including revenues derived from our Seurat acquisition in October 2003, partially offset by a decline in software implementation revenues due to a lower number of implementation projects in the first quarter of fiscal 2004. The increase in Analytic Software Tools segment operating income was driven primarily by an increase in the sale of higher margin perpetual licenses related to our analytic model development software products.

Stock-based Compensation

We recorded stock-based compensation expense of $0.6 million and $0.8 million during the quarters ended December 31, 2003 and 2002, respectively. This expense is recorded in cost of revenues, research and development, and selling, general and administrative expense. The quarter over quarter decrease is primarily due to a decrease in amortization of deferred compensation related to the intrinsic value of HNC's unvested options to purchase Fair Isaac common stock assumed at the time of the HNC acquisition resulting from forfeitures. This deferred compensation is being amortized on a straight-line basis over the vesting period of the options.

Capital Resources and Liquidity

Our working capital at December 31, 2003 and September 30, 2003 totaled $555.9 million and $569.5 million, respectively. The decrease in working capital during the quarter ended December 31, 2003 is attributable to a $15.3 million increase in other accrued liabilities, a $6.1 million increase in deferred revenue, a $6.6 million decrease in net receivables, a $1.6 million decrease in deferred income taxes, and a $0.7 million decrease in prepaid expenses and other current assets, offset by a $10.5 million increase in cash and cash equivalents and short-term marketable securities, a $3.8 million decrease in accrued compensation and employee benefits, and a $2.2 million decrease in accounts payable.

The increase in other accrued liabilities was attributable primarily to an increase in income taxes payable and an increase in accrued interest payable on our Senior and Subordinated Notes due to timing of interest payments, partially offset by a reduction in HNC merger-related accruals. The increase in deferred revenue was attributable primarily to an increase in customer prepayments. The decrease in net receivables was attributable primarily to increased customer collections, partially offset by an increase resulting

from the increase in revenues during the quarter ended December 31, 2003 as compared to the preceding quarter ended September 30, 2003. The increase in cash and cash equivalents and short-term marketable securities was attributable primarily to net cash provided by operations and other financing activities, partially offset by the use of cash for investing activities, as described below. The decrease in accrued compensation and employee benefits was attributable primarily to a decrease in accrued salaries due to the timing of payroll disbursements and a decrease in accrued employee stock purchase plan withholdings, partially offset by an increase in accrued incentive compensation. The decrease in accounts payable was attributable primarily to the timing of vendor disbursements.

Our primary method for funding operations and growth has been through cash flows generated from operations. Net cash provided by operating activities increased from $52.7 million during the quarter ended December 31, 2002 to $67.7 million during the quarter ended December 31, 2003, reflecting an increase in net earnings before non-cash charges and the effect of other net working capital changes, as discussed herein.

Net cash used in investing activities totaled $130.4 million for the quarter ended December 31, 2003, compared to net cash used in investing activities of $27.8 million for the quarter ended December 31, 2002. The increase in net cash used in investing activities during the quarter ended December 31, 2003 as compared to the quarter ended December 31, 2002 is attributable primarily to a $96.9 million increase in purchases of marketable securities, net of sales and maturities, a $2.8 million increase in cash and cash equivalents paid in acquisitions due to the current quarter acquisition of Seurat, a $3.0 million decrease in cash proceeds from the sale of a product line as no product line sales occurred during the quarter ended December 31, 2003 as compared to the quarter ended December 31, 2002, a $1.6 million increase in property and equipment purchases, partially offset by repayments of $1.7 million on notes receivable resulting from fiscal 2003 product line sales.

Net cash provided by financing activities totaled $10.7 million during the quarter ended December 31, 2003, compared to net cash used in financing activities of $61.9 million during the quarter ended December 31, 2002. The increase in net cash provided by financing activities during the quarter ended December 31, 2003 as compared to the quarter ended December 31, 2002 is attributable primarily to Fair Isaac not repurchasing any of its common stock during the quarter ended December 31, 2003 as compared to $76.0 million expended for repurchases of common stock during the quarter ended December 31, 2002, a $0.1 million decrease in dividends paid due to a lower amount of common shares outstanding quarter over quarter, partially offset by a $3.5 million decrease in proceeds from issuances of common stock quarter over quarter.

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During the quarter ended December 31, 2002, we expended $76.0 million in connection with our repurchase of common stock under such programs. In November 2003, our Board of Directors approved a new common stock repurchase program allowing us to purchase up to 1.5 million shares of our common stock from time to time in the open market and in negotiated transactions. During the period January 1, 2004 through February 12, 2004, we repurchased 375,000 shares of our common stock for an aggregate cost of $23.1 million under this program.

We paid quarterly dividends of two cents per share during the quarters ended December 31, 2003 and 2002. 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.

We are the issuer of $400.0 million of the Senior Notes that mature on August 15, 2023. The Senior Notes become convertible into shares of Fair Isaac common stock, subject to the conditions described below, at an initial conversion price of $65.9288 per share, subject to adjustments for certain events. The initial conversion price is equivalent to a conversion rate of approximately 15.1679 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, subject to certain limitations; (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 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, beginning February 15, 2004 through 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.

We are the issuer of $150.0 million of the Subordinated Notes that mature on September 1, 2008. The Subordinated Notes are convertible into shares of Fair Isaac common stock at a conversion price of $55.49 per share, subject to anti-dilution adjustment. The conversion price is equivalent to a conversion rate of approximately 18.02 shares of Fair Isaac common stock per $1,000 principal amount of the Subordinated Notes. The Subordinated Notes are general unsecured obligations of Fair Isaac and are subordinated in right of payment to all existing and future senior indebtedness of Fair Isaac. Interest on the Subordinated Notes is payable on March 1 and September 1 of each year until maturity. Holders may require us to repurchase for cash all or part of their Subordinated Notes upon a change in control at a price equal to 100% of the principal amount of the Subordinated Notes being repurchased, plus accrued and unpaid interest up to the purchase date.

We may redeem for cash all or part of the Subordinated Notes at any time before September 5, 2004, at a redemption price equal to the principal amount of each Subordinated Note, only if: (i) the closing price of Fair Isaac common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of any 30 consecutive trading days ending on the trading day before we mail a provisional redemption notice, and (ii) the shelf registration statement covering resales of the Subordinated Notes and the Fair Isaac common stock issuable upon conversion of the Subordinated Notes is effective, available for use, and expected to remain so for 30 days, unless registration is no longer required. Upon such provisional redemption, we will pay, in cash or Fair Isaac common stock or both, the aggregate interest payable on the Subordinated Notes through September 1, 2004. We may redeem for cash all or part of the Subordinated Notes on or after September 5, 2004, at the following redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest up to the redemption date:

Period	Redemption Price
Beginning on September 5, 2004 through August 31, 2005	102.625%
Beginning on September 1, 2005 through August 31, 2006	101.750%
Beginning on September 1, 2006 through August 31, 2007	100.875%
Beginning on September 1, 2007 and thereafter	100.000%

We are party to a credit agreement with a financial institution that provides for a $15.0 million revolving line of credit through February 2004. Under the agreement we are required to comply with various financial covenants, which include but are not limited to, minimum levels of domestic liquidity, parameters for treasury stock repurchases, dividend payments, and merger and acquisition requirements. At our option, borrowings under this agreement bear interest at the rate of LIBOR plus 1.25% or at the financial institution’s Prime Rate, payable monthly. 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 $20.0 million and other specified limits. As of December 31, 2003, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of December 31, 2003, this credit facility also served to collateralize certain letters of credit aggregating $0.7 million, issued by us in the normal course of business. As of December 31, 2003, this credit facility also served to collateralize contracts to sell certain currencies aggregating $11.2 million, entered into by us pursuant to our hedging program to manage our foreign currency exchange rate risk on existing foreign currency receivable and bank balances. Available borrowings under this credit agreement are reduced by the principal amount of letters of credit and by 20% of the aggregate amount of contracts to purchase and

sell certain foreign currencies outstanding under the facility. We do not believe that the covenants of this credit facility materially restrict our future liquidity or operations.

As of December 31, 2003, we had $743.9 million in cash, cash equivalents and marketable security investments. We believe that these balances, including interest to be earned thereon, and anticipated cash flows from operating activities will be sufficient to fund our working and other capital requirements over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all, particularly in light of the current decline in the capital markets. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

We are a limited partner in Azure Venture Partners I, L.P. (“Azure”), a venture capital investment management fund, and are committed to invest an additional $1.4 million into this fund. The ultimate timing of this additional investment will be dependent on when the fund managers make additional capital calls. It is possible that additional capital calls may require us to invest some or all of our remaining commitment during fiscal 2004.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

When software licenses are sold together with implementation or consulting services, license fees are recognized upon delivery

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

If at the outset of an arrangement we determine that the arrangement fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes due. If at the outset of an arrangement we determine that collectibility is not probable, revenue is deferred until the earlier of when collectibility becomes probable or the receipt of payment. If an arrangement provides allows 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 reasonably assured. The determination of certain of our transactional or unit based license fee revenues requires the use of estimates, principally related to transaction usage or active account volumes in instances where this information is reported to us by our clients monthly or quarterly basis in arrears. In these instances, we estimate transaction volumes based on preliminary customer transaction information, if available, or based on average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported. We have not experienced significant variances between our estimates and actual reported volumes in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we were unable to reasonably estimate customer account or transaction volumes in the future, revenue would be deferred until actual customer data was received, and this could have a material impact on our 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 determined by 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.

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

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

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

We test goodwill for impairment at the reporting unit level at least annually during the fourth quarter of each fiscal year and more frequently if impairment indicators are identified. We have determined that our reporting units are the same as our reportable segments. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using discounted cash flow valuation models and by comparing our reporting units to guideline publicly-traded companies. These methods require estimates of our future revenues, profits, capital expenditures, working capital, and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. The

estimated fair value of each of our reporting units exceeded its respective carrying value in fiscal 2003, indicating the underlying goodwill of each reporting unit was not impaired as of our most recent testing date. Accordingly, we were not required to complete the second step of the goodwill impairment test. The timing and frequency of our goodwill impairment test is based on an ongoing assessment of events and circumstances that would more than likely reduce the fair value of a reporting unit below its carrying value. We will continue to monitor our goodwill balance and conduct formal tests on at least an annual basis or earlier when impairment indicators are present. There are various assumptions and estimates underlying the determination of an impairment loss, and estimates using different, but each reasonable, assumptions could produce significantly different results. Therefore, the timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions. We believe that the assumptions and estimates utilized were appropriate based on the information available to management.

Capitalized Software Development Costs

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

Internal-use Software

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at the lower of cost or fair value. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. We assess potential impairment 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 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. We then record a valuation allowance to reduce deferred tax assets to an amount that more likely than not will be realized. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, which requires the use of estimates. If we determine during any period that we could realize a larger net deferred tax asset than the recorded amount, we would adjust the deferred tax asset to increase income for the period. Conversely, if we determine that we would be unable to realize a portion of our recorded deferred tax asset, we would adjust the deferred tax asset to record a charge to income for the period. Although we believe that our estimates are reasonable, there is no assurance that our the valuation allowance will not need to be increased to cover additional deferred tax assets that may not be realizable, and such an increase could have a material adverse impact on our income tax provision and results of operations in the period in which such determination is made. In addition, the calculation of tax liabilities also involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could also have a material impact on our income tax provision and results of operations in the period in which such determination is made.

Contingencies and Litigation

We are subject to various proceedings, lawsuits and claims relating to product, technology, labor, shareholder and other matters. We are required to assess the likelihood of any adverse outcomes and the potential range of probable losses in these matters. If the potential loss is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. If the potential loss is considered less than probable or the amount cannot be reasonably estimated, disclosure of the matter is considered.

The amount of loss accrual or disclosure, if any, is determined after analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies. Due to uncertainties related to these matters, accruals or disclosures are based on the best information available at the time. Significant judgment is required in both the assessment of likelihood and in the determination of a range of potential losses. Revisions in the estimates of the potential liabilities could have a material impact on our financial position or results of operations.

RISK FACTORS

Risks Related to Our Business

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

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

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

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

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

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

Significant undetected errors or delays in new products or new versions of products may affect market acceptance of our products and could harm our business, financial condition or results of operations. In the past, we have experienced delays while developing and introducing new products and product enhancements, primarily due to difficulties developing models, acquiring data and adapting to particular operating environments. We have also experienced errors or “bugs” in our software products, despite testing prior to release of the products. Software errors in our products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. Errors or defects in our products that are significant, or are perceived to be significant, could

result in the rejection of our products, damage to our reputation, lost revenues, diverted development resources, potential product liability claims and increased service and support costs and warranty claims.

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

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

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

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

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

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

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

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

We typically have back-ended quarters.

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

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

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

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

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

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

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

- the possibility that we will pay more than the acquired companies or assets are worth;
- the difficulty of assimilating the operations and personnel of the acquired businesses;

- the potential product liability associated with the sale of the acquired companies' products;
- the potential disruption of our ongoing business;
- the potential dilution of our existing stockholders and earnings per share;
- unanticipated liabilities, legal risks and costs;
- the distraction of management from our ongoing business; and
- the impairment of relationships with employees and customers as a result of any integration of new management personnel.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Industry

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

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

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

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

- internally develop new and competitive technologies;
- use leading third-party technologies effectively;
- continue to develop our technical expertise;
- anticipate and effectively respond to changing customer needs;

- initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and
- influence and respond to emerging industry standards and other technological changes.

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

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

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

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, 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, 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;
- regulation designed to insure that lending practices are fair and non-discriminatory, such as the Equal Credit Opportunity Act, or ECOA;
- privacy law, including but not limited to the provisions of the Financial Services Modernization Act of 1999, or FSMA, the Health Insurance Portability and Accountability Act of 1996;
- regulations governing the extension of credit to consumers and by Regulation E under the Electronic Fund Transfers Act, as well as non-governmental VISA and MasterCard electronic payment standards;
- Fannie Mae and Freddie Mac regulations, among others, for our mortgage services products;
- insurance regulations related to our insurance products;
- consumer protection laws, such as federal and state statutes governing the use of the Internet and telemarketing; and
- regulations of foreign jurisdictions on our international operations, including the European Union's Privacy Directive.

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

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

During the quarter ended December 31, 2003, 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 the quarter ended December 31, 2003, 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 our operations in various countries;
- the effects of a variety of foreign laws and regulations, including restrictions on access to personal information;
- import and export licensing requirements;
- longer payment cycles;
- potentially reduced protection for intellectual property rights;
- currency fluctuations;
- changes in tariffs and other trade barriers; and
- difficulties and delays in translating products and related documentation into foreign languages.

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

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

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

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

We have certain employee stock options that are subject to variable accounting treatment that require us to remeasure

compensation costs for the options each reporting period based on changes in the market value of our stock. Depending on the movements in the market value of our stock, the variable accounting of those stock options may result in additional non-cash compensation costs in future periods.

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

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

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

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

Market Risk Disclosures

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

Interest Rate 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, 2003 and September 30, 2003:

	December 31, 2003			September 30, 2003		
	Cost Basis	Carrying Amounts	Average Yield	Cost Basis	Carrying Amounts	Average Yield
			(In thousands)			
Cash and cash equivalents	$194,246	$194,245	1.15%	$243,368	$243,358	1.05%
Short-term investments	305,930	306,200	1.24%	255,423	255,893	1.50%
Long-term investments	223,617	223,955	1.81%	151,201	151,610	1.94%
	$723,793	$724,400	1.39%	$649,992	$650,861	1.43%

We are also subject to interest rate risk related to our 1.5% Senior Notes and our 5.25% Subordinated Notes. To the extent that general market interest rates fluctuate, the fair value of the notes may increase or decrease.

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Forward Foreign Currency Contracts

We maintain a hedging program to manage our foreign currency exchange rate risk on existing foreign currency receivable and bank balances by entering into forward contracts to sell or buy foreign currency. At period end, foreign-denominated receivables and cash balances held by our U.S. reporting entities are remeasured into the U.S. dollar functional currency at current market rates. The change in value from this remeasurement is then reported as a foreign exchange gain or loss for that period 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, 2003:

	Contract Amount		
	Foreign Currency	US$	Fair Value US$
		(In thousands)	
Sell foreign currency:			
British Pound (GBP)	GBP 4,250	$ 7,511	$ 7,576
EURO (EUR)	EUR 1,500	1,872	1,885
Japanese Yen (YEN)	YEN 195,000	1,819	1,812
		$11,202	$11,273

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

Set forth below is information concerning each matter submitted to a vote at the Annual Meeting of Stockholders held on February 2, 2004.

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1. Election of Directors

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

NOMINEE	FOR	WITHHELD
Mr. A. George Battle	**35,704,004**	**5,117,767**
Mr. Tony J. Christianson	**35,659,491**	**5,162,280**
Mr. Thomas G. Grudnowski	**36,200,244**	**4,621,527**
Mr. Alex W. Hart	**24,241,680**	**16,580,091**
Mr. Philip G. Heasley	**24,228,899**	**16,592,872**
Mr. Guy R. Henshaw	**35,779,628**	**5,042,143**
Mr. David S. P. Hopkins	**35,763,481**	**5,058,290**
Ms. Margaret L. Taylor	**24,242,958**	**16,578,813**

2. Amendment of Restated Certificate of Incorporation

The stockholders approved the amendment of the Company’s Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 100 million to 200 million (with 34,929,694 votes for, 5,867,159 votes against and 24,918 abstentions). The amendment became effective upon its filing with the state of Delaware, which was accomplished February 4, 2004.

3. Ratification of Independent Auditors

The stockholders ratified the appointment of KPMG LLP as the Company’s independent auditors for the fiscal year ending September 30, 2004 (with 40,056,924 votes for, 746,596 votes against and 18,251 abstentions).

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

(a) Exhibits:

Exhibit Number	Description
10.1	The Company’s 2003 Employment Inducement Award Plan as adopted on November 16, 2003.
10.2	Employment Agreement entered into effective January 30, 2004, by and between Fair Isaac Corporation and Thomas G. Grudnowski.
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.
32.1	Section 1350 Certification of CEO.
32.2	Section 1350 Certification of CFO.

(b) Reports on Form 8-K:

i. On November 3, 2003, we furnished a Current Report on Form 8-K to the SEC, including the Company’s press release announcing financial results for the quarter and year ended September 30, 2003.

ii. On January 26, 2004, we furnished a Current Report on Form 8-K to the SEC, including the Company’s press release announcing financial results for the quarter ended December 31, 2003.

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SIGNATURES

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

FAIR ISAAC CORPORATION

DATE: February 6, 2004

By /s/ KENNETH J. SAUNDERS

Kenneth J. Saunders
Vice President and Chief Financial Officer
(for Registrant as duly authorized officer and as Principal Financial Officer)

DATE: February 6, 2004

By /s/ RUSSELL C. CLARK

Russell C. Clark
Vice President, Finance and Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

To Fair Isaac Corporation Report On Form 10-Q
For The Quarterly Period Ended December 31, 2003

Exhibit Number	Description	
10.1	The Company's 2003 Employment Inducement Award Plan as adopted on November 16, 2003.	Filed Electronically
10.2	Employment Agreement entered into effective January 30, 2004, by and between Fair Isaac Corporation and Thomas G. Grudnowski.	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 10.1

FAIR ISAAC CORPORATION

2003 EMPLOYMENT INDUCEMENT AWARD PLAN

As adopted on November 16, 2003

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FAIR ISAAC CORPORATION
2003 EMPLOYMENT INDUCEMENT AWARD PLAN
AS ADOPTED ON NOVEMBER 16, 2003

ARTICLE 1. INTRODUCTION.

The Plan was adopted by the Board on November 16, 2003 and is effective as of such date. The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by providing new Key Employees (including Key Employees who join the Company as a result of a corporate transaction) with an appropriate and material inducement to accept employment. The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Shares, Stock Units, Options (which may constitute incentive stock options or nonstatutory stock options) or stock appreciation rights. All Awards under the Plan are intended to qualify as "employment inducement awards" within the meaning of Section 303A.08 of the New York Stock Exchange's Listed Company Manual or any successor provision.

The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware.

ARTICLE 2. ADMINISTRATION.

2.1 COMMITTEE COMPOSITION. The Plan shall be administered by the Committee. The Committee shall consist of three or more members who are not common-law employees of the Company or any Subsidiary and who shall be appointed by the Board. The Committee shall meet all of the applicable independence requirements promulgated by the New York Stock Exchange.

2.2 COMMITTEE RESPONSIBILITIES. The Committee shall (a) select the Key Employees who are to receive Awards under the Plan and determine the type, number, vesting requirements and other conditions of such Awards, (b) interpret the Plan and (c) make all other decisions relating to the operation of the Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

ARTICLE 3. SHARES AVAILABLE FOR GRANTS.

3.1 BASIC LIMITATION. Any Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of Restricted Shares, Stock Units and Options awarded under the Plan shall not exceed 1,500,000. The aggregate number of Common Shares which may be issued under the Plan shall at all times be subject to adjustment pursuant to Article 10.

3.2 ADDITIONAL SHARES. If any Stock Units or Options are forfeited or if any Options terminate for any other reason before being exercised, then such Stock Units or Options shall again become available for Awards under the Plan. However, if Options are surrendered upon the exercise of related SARs, then such Options shall not be restored to the pool available for Awards.

3.3 DIVIDEND EQUIVALENTS. Any dividend equivalents distributed under the Plan shall not be applied against the number of Restricted Shares, Stock Units or Options available for Awards, whether or not such dividend equivalents are converted into Stock Units.

ARTICLE 4. ELIGIBILITY. Only Key Employees shall be eligible for designation as Participants by the Committee. Awards may only be granted to a Key Employee as a material inducement to such Key Employee being hired (including in connection with a corporate transaction) by the Company or one of its Subsidiaries or being rehired following a bona fide interruption of employment. Any grant of an Award shall not become effective unless and until the Key Employees actually commences employment with the Company or one of its Subsidiaries.

ARTICLE 5. OPTIONS.

5.1 STOCK OPTION AGREEMENT. Each grant of an Option under the Plan shall be an NSO and shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

5.2 AWARDS NONTRANSFERABLE. Except as provided in Article 14(ii), no Option granted under the Plan shall be transferable by the Optionee other than by will, by a beneficiary designation executed by the Optionee and delivered to the Company or by the laws of descent and distribution. An Option may be exercised during the lifetime of the Optionee only by him or her or by his or her guardian or legal representative. No Option or interest therein may be transferred, assigned, pledged or hypothecated by the Optionee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

5.3 NUMBER OF SHARES. Each Stock Option Agreement shall specify the number of Shares subject to the Option and shall provide for the adjustment of such number in accordance with Article 10.

5.4 EXERCISE PRICE. Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price shall not be less than 100% of the Fair Market Value of a Common Share on the date of grant.

5.5 EXERCISABILITY AND TERM. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. Options under the Plan may also be awarded in combination with Restricted Shares or Stock Units, and such an Award may provide that the Options will not be exercisable unless the related Restricted Shares or Stock Units are forfeited.

5.6 EFFECT OF CHANGE IN CONTROL. The Committee may determine, at the time of granting an Option or thereafter, that such Option (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Option in the event that a Change in Control occurs with respect to the Company. If the Committee finds that there is a reasonable possibility that, within the succeeding six months, a Change in Control will occur with respect to the Company, then the Committee may determine that any or all outstanding Options (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Options.

5.7 MODIFICATION OR ASSUMPTION OF OPTIONS. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new options for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

ARTICLE 6. PAYMENT FOR OPTION SHARES.

6.1 GENERAL RULE. The entire Exercise Price of Common Shares issued upon exercise of Options shall be payable in cash at the time when such Common Shares are purchased, except that the Committee may at any time accept payment in any form(s) described in this Article 6. Notwithstanding any provision in this Article 6 or in an Optionee's Stock Option Agreement, an Optionee, shall not be permitted to exercise an Option in any manner which would violate applicable state and federal laws, including, without limitation, the Sarbanes-Oxley Act of 2002.

6.2 SURRENDER OF STOCK. To the extent that this Section 6.2 is applicable, payment for all or any part of the Exercise Price may be made with Common Shares which have already been owned by the Optionee for more than twelve months. Such Common Shares shall be valued at their Fair Market Value on the date when the new Common Shares are purchased under the Plan.

6.3 EXERCISE/SALE. To the extent that this Section 6.3 is applicable, payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable

direction to a securities broker or other party approved by the Company to sell Common Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

6.4 EXERCISE/PLEDGE. To the extent that this Section 6.4 is applicable, payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable direction to pledge Common Shares to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

6.5 PROMISSORY NOTE. To the extent that this Section 6.5 is applicable, payment for all or any part of the Exercise Price may be made with a full-recourse promissory note; provided that the par value of newly issued Common Shares must be paid in lawful money of the U.S. at the time when such Common Shares are purchased.

6.6 OTHER FORMS OF PAYMENT. To the extent that this Section 6.6 is applicable, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

ARTICLE 7. STOCK APPRECIATION RIGHTS.

7.1 GRANT OF SARs. At the discretion of the Committee, an SAR may be included in each Option granted under the Plan. Such SAR shall entitle the Optionee (or any person having the right to exercise the Option after his or her death) to surrender to the Company, unexercised, all or any part of that portion of the Option which then is exercisable and to receive from the Company Common Shares or cash, or a combination of Common Shares and cash, as the Committee shall determine. If an SAR is exercised, the number of Common Shares remaining subject to the related Option shall be reduced accordingly, and vice versa. The amount of cash and/or the Fair Market Value of Common Shares received upon exercise of an SAR shall, in the aggregate, be equal to the amount by which the Fair Market value (on the date of surrender) of the Common Shares subject to the surrendered portion of the Option exceeds the Exercise Price. In no event shall any SAR be exercised if such Fair Market Value does not exceed the Exercise Price. An SAR may be included in an Option at the time of grant or at any subsequent time, but not later than six months before the expiration of such Option.

7.2 EXERCISE OF SARs. An SAR may be exercised to the extent that the Option in which it is included is exercisable, subject to the restrictions imposed by Rule 16b-3 (or its successor) under the Exchange Act, if applicable. If, on the date when an Option expires, the Exercise Price under such Option is less than the Fair Market Value on such date but any portion of such Option has not been exercised or surrendered, then any SAR included in such Option shall automatically be deemed to be exercised as of such date with respect to such portion. An Option granted under the Plan may provide that it will be exercisable as an SAR only in the event of a Change in Control.

ARTICLE 8. RESTRICTED SHARES AND STOCK UNITS.

8.1 TIME, AMOUNT AND FORM OF AWARDS. Restricted Shares or Stock Units with respect to an Award Year may be granted during such Award Year or at any time

thereafter. Awards under the Plan may be granted in the form of Restricted Shares, in the form of Stock Units, or in any combination of both. Restricted Shares or Stock Units may also be awarded in combination with Options, and such an Award may provide that the Restricted Shares or Stock Units will be forfeited in the event that the related Options are exercised.

8.2 PAYMENT FOR AWARDS. To the extent that an Award is granted in the form of newly issued Restricted Shares, the Award recipient shall be required to pay the Company in lawful money of the U.S. an amount equal to the par value of such Restricted Shares. To the extent that an Award is granted in the form of Stock Units or treasury shares, no cash consideration shall be required of Award recipients.

8.3 VESTING CONDITIONS. Each Award of Restricted Shares or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Stock Award Agreement. A Stock Award Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of making an Award or thereafter, that such Award shall become fully vested in the event that a Change in Control occurs with respect to the Company.

8.4 FORM AND TIME OF SETTLEMENT OF STOCK UNITS. Settlement of vested Stock Units may be made in the form of cash, in the form of Common Shares, or in any combination of both. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Common Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Article 10.

8.5 DEATH OF RECIPIENT. Any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

8.6 CREDITORS' RIGHTS. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Award Agreement.

ARTICLE 9. VOTING AND DIVIDEND RIGHTS.

9.1 RESTRICTED SHARES. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Stock Award Agreement, however, may require that the holders of Restricted

Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid. Such additional Restricted Shares shall not reduce the number of Common Shares available under Article 3.

9.2 STOCK UNITS. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan shall carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Common Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Common Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

ARTICLE 10. PROTECTION AGAINST DILUTION.

10.1 ADJUSTMENTS. In the event of a subdivision of the outstanding Common Shares, a declaration of a dividend payable in Common Shares, a declaration of a dividend payable in a form other than Common Shares in an amount that has a material effect on the price of Common Shares, a combination or consolidation of the outstanding Common Shares (by reclassification or otherwise) into a lesser number of Common Shares, a recapitalization, a spinoff or a similar occurrence, the Committee shall make appropriate adjustments in one or more of (a) the number of Options, Restricted Shares and Stock Units available for future Awards under Article 3, (b) the number of Stock Units included in any prior Award which has not yet been settled, (c) the number of Common Shares covered by each outstanding Option or (d) the Exercise Price under each outstanding Option. Except as provided in this Article 10, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

10.2 REORGANIZATIONS. In the event that the Company is a party to a merger or other reorganization, outstanding Options, Restricted Shares and Stock Units shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting or for settlement in cash.

ARTICLE 11. LIMITATION ON RIGHTS.

11.1 RETENTION RIGHTS. Neither the Plan nor any award granted under the Plan shall be deemed to give any individual a right to remain an employee or director of the Company or a Subsidiary. The Company and its Subsidiaries reserve the right to terminate the service of any employee or director at any time, with or without cause, subject to applicable laws, the Company's certificate of incorporation and by-laws and a written employment agreement (if any).

11.2 STOCKHOLDERS' RIGHTS. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or

her Award prior to the issuance of a stock certificate for such Common Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Articles 8, 9 and 10.

11.3 REGULATORY REQUIREMENTS. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Common Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Common Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

ARTICLE 12. LIMITATION ON PAYMENTS.

12.1 BASIC RULE. Any provision of the Plan to the contrary notwithstanding, in the event that the independent auditors most recently selected by the Audit Committee of the Board (the "Auditors") determine that any payment or transfer by the Company to or for the benefit of a Key Employee, whether paid or payable (or transferred or transferable) pursuant to the terms of this Plan or otherwise (a "Payment"), would be non-deductible by the Company for federal income tax purposes because of the provisions concerning "excess parachute payments" in section 280G of the Code, then the aggregate present value of all Payments shall be reduced (but not below zero) to the Reduced Amount; provided that the Committee, at the time of making an Award under this Plan or at any time thereafter, may specify in writing that such Award shall not be so reduced and shall not be subject to this Article 12. For purposes of this Article 12, the "Reduced Amount" shall be the amount, expressed as a present value, which maximizes the aggregate present value of the Payments without causing any Payment to be nondeductible by the Company because of section 280G of the Code.

12.2 REDUCTION OF PAYMENTS. If the Auditors determine that any Payment would be nondeductible by the Company because of section 280G of the Code, then the Company shall promptly give the Key Employee notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Key Employee may then elect, in his or her sole discretion, which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall advise the Company in writing of his or her election within 10 days of receipt of notice. If no such election is made by the Key Employee within such 10-day period, then the Company may elect which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall notify the Key Employee promptly of such election. For purposes of this Article 12, present value shall be determined in accordance with section 280G(d)(4) of the Code. All determinations made by the Auditors under this Article 12 shall be binding upon the Company and the Key Employee and shall be made within 60 days of the date when a payment becomes payable or transferable. As promptly as practicable following such determination and the elections hereunder, the Company shall pay or transfer to or for the benefit of the Key Employee such amounts as are then due to him or her under the Plan and shall promptly pay or transfer to or for the benefit of the Key Employee in the future such amounts as become due to him or her under the Plan.

12.3 OVERPAYMENTS AND UNDERPAYMENTS. As a result of uncertainty in the application of section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that Payments will have been made by the Company which should not have been made (an "Overpayment") or that additional Payments which will not have been made by the Company could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Key Employee which the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Key Employee which he or she shall repay to the Company, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Key Employee to the Company if and to the extent that such payment would not reduce the amount which is subject to taxation under section 4999 of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Key Employee, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code.

12.4 RELATED CORPORATIONS. For purposes of this Article 12, the term "Company" shall include affiliated corporations to the extent determined by the Auditors in accordance with section 280G(d)(5) of the Code.

ARTICLE 13. WITHHOLDING TAXES.

13.1 GENERAL. To the extent required by applicable federal, state, local or foreign law, the recipient of any payment or distribution under the Plan shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of the receipt or vesting of such payment or distribution. The Company shall not be required to issue any Common Shares or make any cash payment under the Plan until such obligations are satisfied.

13.2 SHARE WITHHOLDING. The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold a portion of any Common Shares that otherwise would be issued to him or her or by surrendering a portion of any Common Shares that previously were issued to him or her. Such Common Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Common Shares to the Company may be subject to restrictions, including any restrictions required by rules of the Securities and Exchange Commission.

ARTICLE 14. ASSIGNMENT OR TRANSFER OF AWARDS.

(i) Except as provided in Article 13, any Award granted under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Article 14 shall be void. However, this Article 14 shall not preclude a Participant from designating a beneficiary who will receive any undistributed Awards in the event of the Participant's death, nor shall it preclude a transfer by will or by the laws of descent and distribution. In addition, neither this Article 14 nor any other provision of the

Plan shall preclude a Participant from transferring or assigning Restricted Shares or Stock Units to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of Restricted Shares or Stock Units from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Restricted Shares or Stock Units held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable Stock Award Agreement, as if such trustee were a party to such Agreement.

(ii) Notwithstanding paragraph (i) above, an Option or portion thereof may be transferred by the Optionee by gift to (a) the Optionee's immediate family, (b) a partnership or limited liability company consisting solely of the Optionee and/or immediate family, or (c) to a trust established for the benefit of the Optionee and/or one or more members of the immediate family of the Optionee (including a charitable remainder trust whose income beneficiaries consist solely of such persons), or (d) as provided in the Optionee's Stock Option Agreement or with consent of the Board or Committee to any other person or entity to which a transfer of compensatory securities is permitted under the applicable rules for a Form S-8 registration statement, provided that such transfer will not be effective until notice of such transfer is delivered to the Corporation. For purposes of this paragraph (ii) "immediate family" means spouse, children and grandchildren. An Option or portion thereof may also be transferred pursuant to a domestic relations order of a court of competent jurisdiction.

ARTICLE 15. FUTURE OF THE PLAN.

15.1 TERM OF THE PLAN. The Plan, as set forth herein, is effective as of November 16, 2003. The Plan shall remain in effect until terminated pursuant to Section 15.2.

15.2 AMENDMENT OR TERMINATION. The Board or the Committee may, at any time and for any reason, amend or terminate the Plan. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Option previously granted under the Plan.

ARTICLE 16. DEFINITIONS.

16.1 "Award" means any award of an Option (with or without a related SAR), a Restricted Share or a Stock Unit under the Plan.

16.2 "Award Year" means a fiscal year with respect to which an Award may be granted.

16.3 "Board" means the Company's Board of Directors, as constituted from time to time.

16.4 "Change in Control" means the occurrence of either of the following events:

(a) A change in the composition of the Board, as a result of which fewer than one-half of the incumbent directors are directors who either:

(i) Had been directors of the Company 24 months prior to such change; or

(ii) Were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination; or

(b) Any "person" (as such term is used in sections 13(d) and 14(d) of the Exchange Act) by the acquisition or aggregation of securities is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company.

16.5 "Code" means the Internal Revenue Code of 1986, as amended.

16.6 "Committee" means the Compensation Committee of the Board, as described in Article 2.

16.7 "Common Share" means one share of the Common Stock of the Company.

16.8 "Company" means Fair Isaac Corporation, a Delaware corporation.

16.9 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

16.10 "Exercise Price" means the amount for which one Common Share may be purchased upon exercise of an Option, as specified in the applicable Stock Option Agreement.

16.11 "Fair Market Value" means the market price of Common Shares, determined by the Committee as follows:

(a) If the Common Shares were traded over-the-counter on the date in question, whether or not classified as a national market issue, then the Fair Market Value shall be equal to the mean between the last reported bid and asked prices quoted by the NASDAQ system for such date;

(b) If the Common Shares were traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite transactions report for such date; and

(c) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported by the Research Section of the National Association of Securities Dealers or in the Western Edition of The Wall Street Journal. Such determination shall be conclusive and binding on all persons.

16.12 "Key Employee" means a key common-law employee of the Company or of a Subsidiary, as determined by the Committee.

16.13 "NSO" means an employee stock option not described in sections 422 or 423 of the Code.

16.14 "Option" means an NSO granted under the Plan and entitling the holder to purchase one Common Share.

16.15 "Optionee" means an individual or estate who holds an Option.

16.16 "Participant" means an individual or estate who holds an Award.

16.17 "Plan" means this Fair Isaac Corporation 2003 Employment Inducement Award Plan, as it may be amended from time to time.

16.18 "Restricted Share" means a Common Share awarded under the Plan.

16.19 "SAR" means a stock appreciation right granted under the Plan.

16.20 "Stock Award Agreement" means the agreement between the Company and the recipient of a Restricted Share or Stock Unit which contains the terms, conditions and restrictions pertaining to such Restricted Share or Stock Unit.

16.21 "Stock Option Agreement" means the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her Option.

16.22 "Stock Unit" means a bookkeeping entry representing the equivalent of one Common Share and awarded under the Plan.

16.23 "Subsidiary" means any corporation, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

ARTICLE 17. EXECUTION.

To verify that this is the Plan, the Company has caused its duly authorized officer to affix the corporate name and seal hereto.

FAIR ISAAC CORPORATION

By /s/ ANDREA M. FIKE

Andrea M. Fike
Vice President, General Counsel and Secretary

FAIR ISAAC CORPORATION

TERMS AND CONDITIONS OF NONSTATUTORY STOCK OPTION AGREEMENT

These are the terms and conditions applicable to the NONSTATUTORY STOCK OPTION granted by Fair Isaac Corporation, a Delaware corporation ("Fair Isaac"), to you, the optionee listed on the Notice of Grant of Stock Option attached hereto as the cover page (the "Cover Page"), effective as of the date of grant. The Cover Page together with these Terms and Conditions of Nonstatutory Stock Option Agreement constitute the Nonstatutory Stock Option Agreement (the "Option Agreement"). This Option is granted pursuant to the terms of Fair Isaac's 2003 Employment Inducement Award Plan (the "Plan").

NONSTATUTORY This Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code.

VESTING Your Option vests and will be exercisable on the Vesting Dates, as shown on the Cover Page. In addition, your entire Option vests and will be exercisable in full in the event that:

- your service as an employee of Fair Isaac (or any subsidiary) terminates because of your Disability or death, or

- any written employment agreement (other than a stock option agreement) between you and Fair Isaac provides for acceleration of this Option upon a change in control of Fair Isaac or upon any other specified event or combination of events.

No additional shares become exercisable after your employment or service with Fair Isaac has terminated for any reason.

EXERCISE PERIOD The right to purchase shares under this Option Agreement terminates at 3:00 p.m. Pacific Time on the earliest of

- the Expiration Date shown on the Cover Page; or

- the 90th day after the termination date of your service as an employee of Fair Isaac (or any subsidiary), except if your termination results from Retirement, Disability or death; or

- the anniversary date of your Retirement as an employee of Fair Isaac (or any subsidiary); or

- the anniversary date of the commencement of your Disability, if you become disabled while an employee of Fair Isaac (or any subsidiary) or

- the anniversary date of your death, if you die while an employee of Fair Isaac (or any subsidiary).

LEAVES OF ABSENCE For purposes of this Option, your service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by Fair Isaac in writing. Unless you return to active work upon termination of your approved leave, your service will be treated as terminating on the later of 90 days after you went on leave or the date that your right to return to active work is guaranteed by law or by a contract. Fair Isaac will determine which leaves count for this purpose.

RESTRICTIONS ON EXERCISE You may not exercise this Option if the issuance of shares at that time would violate any law or regulation, as determined by Fair Isaac. Moreover, you cannot exercise this Option unless you have returned a signed copy of the Option Agreement to Fair Isaac.

NOTICE OF EXERCISE If you do not exercise this Option through an automated electronic exercise system approved by Fair Isaac, then you must notify Fair Isaac in writing of your intent to exercise this Option.

The notice must specify how many shares you wish to purchase and must specify how your shares should be registered (i.e., in your name only, in your and your spouse's names as community property, or as joint tenants with right of survivorship).

If someone else wants to exercise this Option after your death, that person must prove to Fair Isaac's satisfaction that he or she is entitled to do so.

FORM OF PAYMENT When you submit your notice, you must include payment of the exercise price shown on the Cover Page for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms, as approved by Fair Isaac in its sole discretion:

- Your personal check, a cashier's check or a money order;

- Irrevocable directions to a securities broker approved by Fair Isaac to sell shares underlying this Option and to deliver all or a portion of the sale proceeds to Fair Isaac in payment of the exercise price and the balance of the sale proceeds to you; or

- Certificates for shares of Fair Isaac common stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of those shares to Fair Isaac with the value of the shares, determined as of the effective date of the exercise of this Option, applied to the exercise price.

WITHHOLDING TAXES

You will not be allowed to exercise this Option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the exercise of this Option. These arrangements must be satisfactory to Fair Isaac (in its sole discretion), including whether you will be permitted to direct Fair Isaac to withhold shares with a market value equal to the withholding taxes due from the shares to be issued as a result of your exercise of this Option.

RESTRICTIONS ON RESALE TRANSFER OF OPTION

By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair Isaac policies prohibit a sale. Prior to your death, only you or a permitted assignee as defined herein may exercise this Option (unless this Option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this Option or a portion of this Option by gift to members of your immediate family, a partnership consisting solely of you and/or members of your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons). For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children or step-grandchildren. Any of these persons is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair Isaac notice of such transfer. You cannot transfer, pledge, hypothecate, assign or otherwise dispose of this Option, including using this Option as security for a loan. Any attempts to do any of these things contrary to the provisions of this Option, and the levy of any attachment or similar process upon this Option, shall be null and void. You may, however, dispose of this Option in your will or by a written beneficiary designation. Such a designation must be filed with Fair Isaac on the proper form.

RETENTION RIGHTS

Neither your Option nor the terms of this Option Agreement give you the right to continue as an employee of Fair Isaac (or any subsidiaries) in any capacity. Fair Isaac (and any subsidiaries) reserve the right to terminate your service at any time, with or without cause, subject to the terms of any written employment agreement signed by you and Fair Isaac.

STOCKHOLDER RIGHTS	You, or your assignees, estate, beneficiaries or heirs, have no rights as a stockholder of Fair Isaac until a certificate for any portion of shares underlying this Option has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.
ADJUSTMENTS	In the event of any adjustments to the capital stock of Fair Isaac as described in Article 10 of the Plan, the number of shares covered by this Option and the exercise price per share may be adjusted as Fair Isaac may determine pursuant to the Plan.
APPLICABLE LAW	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law).
OTHER AGREEMENTS	This Option Agreement, the Plan and any written agreement between you and Fair Isaac (or any subsidiaries) providing for acceleration of options granted to you by Fair Isaac upon a change in control of Fair Isaac constitute the entire understanding between you and Fair Isaac regarding this Option. Any other prior agreements, commitments or negotiations concerning this Option are superseded. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern. This Agreement may be amended only in writing.
DEFINITIONS	"Retirement" means the date that you are eligible for normal retirement or early retirement, as defined as follows: - "Normal Retirement Age" means age 65 - "Early Retirement" means age 55 and completed 10 Years of Service. One Year of Service is the completion of at least 1,000 hours of service during the year. "Disability" means that you are unable to engage in any substantial gainful activity by reason of a medically determinable, physical or mental impairment which can be expected to result in death or which has lasted (or can be expected to last) for a continuous period of not less than 12 months.

BY SIGNING THE COVER PAGE, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

EXHIBIT 10.2

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into effective January 30, 2004 (the "Effective Date") by and between Fair Isaac Corporation (the "Company"), a Delaware Corporation having its principal office at 200 Smith Ranch Road, San Rafael, California 94903, and Thomas G. Grudnowski, a resident of Minnesota ("Executive").

A. The Company provides customer and operational data management and modeling, information analysis, strategy design and software to a variety of industries worldwide.

B. Executive is the Chief Executive Officer of the Company and a member of the Company's Board of Directors (the "Board").

C. Executive is currently employed by the Company pursuant to the terms and conditions of an Employment Agreement dated August 23, 1999, as amended by a First Amendment to Employment Agreement dated December 3, 1999 and a Second Amendment to Employment Agreement dated December 2001 (hereinafter the "Prior Employment Agreement"), which Prior Employment Agreement expired December 1, 2003.

D. Pursuant to the Prior Employment Agreement, Executive and the Company are parties to stock option agreements (the "Prior Stock Option Agreements") that grant to Executive certain options to purchase shares of the Company's common stock, including but not limited to an option to purchase 420,000 shares of the Company's common stock (the "Initial Option") under conditions specified in the Prior Employment Agreement and in a Notice of Grant of Stock Options and Option Agreement dated effective August 23, 1999 (the "Initial Option Agreement").

E. The Company and Executive desire to consolidate the terms and conditions of the Initial Option, as set forth in the Initial Option Agreement and the Prior Employment Agreement, in a single Restated Nonstatutory Stock Option Agreement, which is attached to this Agreement as Exhibit A.

F. The Company desires to continue to employ Executive and Executive desires to continue his employment, and both desire to extend the anticipated term of Executive's employment with the Company, 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. The Company shall continue to employ Executive as its Chief Executive Officer, 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 January 30, 2009, provided that such period shall be automatically extended for one year and from year-to-year thereafter until notice of termination is given by the Company or Executive to the other party at least 60 days prior to January 30, 2009 or the one-year extension period then in effect, as the case may be, unless Executive's employment is sooner terminated pursuant to Section 7 hereof.

3. Position and Duties.

(a) Employment as Chief Executive Officer. During Executive's employment with the Company, Executive shall be an executive officer of the Company and Executive's title shall be Chief Executive Officer. Executive shall report to the Board and shall perform such duties and responsibilities as the Board shall assign to him from time to time consistent with his position.

(b) Board of Directors. Executive shall continue as a director of the Company and shall diligently perform the duties arising from such position. After expiration of Executive's current term as director, the Board shall thereafter, so long as Executive is the Chief Executive Officer of the Company, nominate Executive for re-election to a position on the Board.

(c) 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, and he may serve as a director of business and civic organizations as approved by the Board, so long as such activities and directorships do not interfere with the performance of his duties and responsibilities hereunder.

4. Compensation.

(a) Base Salary. While Executive is employed by the Company hereunder, the Company shall pay to Executive an annualized Base Salary of $625,000, 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 executive officers of the Company.

(b) Incentive Awards. For each full fiscal year that Executive is employed by the Company hereunder, Executive shall be eligible for an annual bonus ("Incentive Award") with a target amount equal to one times Executive's Base Salary if Executive's achievements are "at plan," as determined by the Board. The actual amount of such Incentive Award for any fiscal year may range from $0 to two times Executive's Base Salary, based on the achievement of certain strategic, business, and financial objectives determined by the Board in consultation with Executive. Such Incentive Awards shall be due and payable to Executive in full as soon as administratively practicable following the Board's assessment of Company and Executive performance but in no case later than 60 calendar days after the end of each fiscal year. Executive's eligibility for an Incentive Award hereunder shall be in lieu of Executive's participation in the Company's Management Incentive Plan or any similar or successor bonus plan of the Company. The parties acknowledge that Executive is eligible for an incentive award for the fiscal year ended September 30, 2003, in accordance with the terms of the Prior Employment Agreement and any applicable incentive plan.

(c) Stock Options.

(i) One-Time Stock Option Grant. Within five business days after execution of this Agreement, the Company shall grant Executive a nonstatutory option to purchase 375,000 shares of the common stock of the Company, vesting over three years, 33% on each anniversary date following the date of grant, subject to the terms of the Company's 1992 Long-Term Incentive Plan (the "Plan") and a stock option agreement to be entered into by the Company and Executive. The exercise price of the option shall be the Fair Market Value (as defined in the Plan) of the shares as of the date of the grant.

(ii) Annual Option Grants. During his employment with the Company hereunder, Executive shall be eligible for additional option grants after completion of each of the fiscal years ending in 2004, 2005, 2006, and 2007. Each grant will be based on the Company's performance relative to the average annual Total Shareholder Return for companies listed on the S&P 900 Index compounded over the three-year period ending on the last day of the applicable fiscal year ("Compounded TSR"), and will be subject to the terms and conditions of the Plan as then in effect and an option agreement substantially in the form attached as Exhibit B. For purposes of this Agreement, "Total Shareholder Return" or "TSR" shall be determined by the Company for each fiscal year as follows:

> ((Average Market Price for 30 calendar days ending on the last day of the fiscal year period + Dividends Per Share + Special Dividend-Quarter 1 + Special Dividend-Quarter 2 + Special Dividend-Quarter 3 + Special Dividend-Quarter 4) / Average Market Price for 30 calendar days ending on the last day of the previous fiscal year) - 1.

"Compounded TSR" for any three-year period shall be determined by the Company as follows:

(((1 + Year one TSR) * (1 + Year two TSR) * (1 + Year three TSR)) to the power of 1/3) - 1

The annual option grants to be made pursuant to this Section 4(c)(ii) shall be for the following amounts (in each case, appropriately adjusted to reflect any stock splits, stock dividends, or the like): If the Company's Compounded TSR is at least equal to the 25th percentile of Compounded TSR for all S&P 900 Index companies, but less than the median, the option grant to Executive for such fiscal year shall be for 100,000 shares. If the Company's Compounded TSR is at least equal to the median but less than the 75th percentile, the option grant to Executive for such fiscal year shall be for 125,000 shares. If the Company's Compounded TSR is equal to or greater than the 75th percentile, the option grant to Executive for such fiscal year shall be for 200,000 shares. If the Company's Compounded TSR is below the 25th percentile, no option grant will be made to Executive for such fiscal year.

The calculations and comparisons required by this Section 4(c)(ii) shall be determined by an executive compensation consultant retained by the Company. The Board shall grant any options earned hereunder as soon as practicable after completion of the fiscal year, but no later than five business days after receipt of the calculations and comparisons from the executive compensation consultant. The options provided for in this Section 4(c)(ii) shall be the minimum granted to Executive during his employment hereunder and nothing in this Agreement shall prohibit the Board from granting to Executive options for additional shares in its sole discretion. Notwithstanding the foregoing, the Company shall have no obligation to make grants hereunder if the Company in good faith believes that such grants are not permitted by applicable laws or stock exchange rules, as determined in the reasonable discretion of the Company.

(d) Employee Benefits. While Executive is employed by the Company hereunder and except as specifically provided in this Agreement, Executive shall be entitled to participate in all employee benefit plans and programs of the Company, including without limitation health and disability insurance coverage, 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 by the Company from time to time.

(e) 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.

(f) Term Life Insurance. While Executive is employed by the Company hereunder, the Company shall purchase group term life insurance for Executive with coverage of $500,000.

(g) Vacation. While Executive is employed by the Company hereunder, Executive shall receive four weeks paid vacation time off each year. Vacation time shall be taken at such times so as not to unduly disrupt the operations of the Company.

5. Confidentiality Agreements. Executive acknowledges entering into the Company's Customer Information Confidentiality Agreement and its Non-Disclosure Agreement (collectively "Confidentiality Agreements") and hereby reaffirms his commitments and obligations under the Confidentiality Agreements. Nothing in this Agreement is intended to modify, amend, cancel, or supersede the Confidentiality Agreements in any manner.

6. 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 C (the "Management Agreement").

7. Termination of Employment.

(a) The Executive's employment with the Company is at will and shall terminate immediately upon:

(i) Executive's receipt of written notice from the Company of the termination of his employment, other than notice that the Company elects not to extend the term of this Agreement;

(ii) Executive's abandonment of his employment or his resignation, other than notice to the Company that he elects not to extend the term of this Agreement;

(iii) Executive's Disability (as defined below);

(iv) Executive's death; or

(v) the expiration of the term of Executive's employment with the Company, after notice as specified in Section 2 hereof.

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

8. Payments upon Termination of Employment.

(a) If Executive's employment with the Company is terminated: (A) by the Company prior to the expiration of the term or any extension thereof for any reason other than for Cause (as defined below), (B) by Executive prior to expiration of the term or any extension thereof for Good Reason (as defined below), or (C) upon expiration of the term or extended term of Executive's employment with the Company upon Executive's retirement or other notice by either party not to renew the term or extended term, as specified in Section 2 hereof; then, subject to Section 8(g) below, the Company shall pay to Executive:

(i) a lump sum equal to two (2) times Executive's then-current Base Salary;

(ii) a lump sum equal to two (2) times the amount of the Incentive Award earned by Executive for the last full fiscal year of Executive's employment with the Company; and

(iii) any earned but unpaid Base Salary, incentive compensation, benefits, and vacation or other paid time off through the Termination Date, paid in accordance with the Company's normal payroll practices and procedures.

Any amount payable to Executive hereunder shall be subject to regular payroll deductions and withholdings. All payments required under Sections 8(a)(i) and 8(a)(ii) shall be paid to Executive within 60 days after expiration of all consideration and rescission periods applicable to the release described in Section 8(g).

(b) If Executive's employment with the Company is terminated by reason of:

(i) Executive's abandonment of his employment or Executive's resignation (other than for Good Reason or upon expiration of the term of employment or any extension thereof after notice pursuant to Section 2 hereof);

(ii) termination of Executive's employment by the Company for Cause (as defined below); or

(iii) Executive's Disability or death,

the Company shall pay to Executive or his beneficiary or his estate, as the case may be, any earned but unpaid Base Salary, incentive compensation, benefits, and vacation or other paid

time off through the Termination Date, paid in accordance with the Company's normal payroll practices and procedures.

(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 Confidentiality Agreements, or Executive's repeated failure or refusal to perform or observe Executive's material duties, responsibilities and obligations as an employee or officer of the Company for reasons other than Disability, if such breach, failure, or refusal continues ten days following written notice thereof by the Company to Executive identifying the same and specifying that Executive's employment may be terminated if the same continues;

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

(iv) 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

(v) the willful engaging by Executive in illegal conduct that is materially and demonstrably injurious to the Company.

For the purposes of this Section 8(c), no act or failure to act on Executive's part shall be considered "dishonest," "willful" or "deliberate" unless done or omitted to be done by Executive in bad faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company.

(d) "Disability" hereunder shall mean the inability of Executive to perform on a full-time basis the duties and responsibilities of his employment 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) "Good Reason" shall mean a material adverse change in Executive's title or reporting relationship, without Executive's consent, excluding any inadvertent change that is remedied by the Company promptly after receipt of a written notice thereof from Executive.

(f) In the event of termination of Executive's employment, the sole obligation of the Company shall be its obligation to make the payments called for by Section 8(a) or Section 8(b) hereof, as the case may be, and 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 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.

(g) Notwithstanding the foregoing provisions of this Section 8, the Company shall not be obligated to make any payments to Executive under Section 8(a)(i) or 8(a)(ii) hereof unless and until:

(i) Executive shall have signed and not rescinded a release of claims in favor of the Company in a reasonable form to be prescribed by the Board (other than claims Executive may have to receive benefits under this Agreement, under other then-applicable agreements between Executive and the Company or under any employee benefit plans of the Company in which Executive is then a participant, or for indemnification under applicable law, the charter documents of the Company, any related insurance policy maintained by the Company, or any written agreement between Executive and the Company related to indemnification), all applicable consideration periods and rescission periods provided by law shall have expired and Executive is in strict compliance with the terms of this Agreement and the Confidentiality Agreements as of the dates of the payments;

(ii) Executive shall have signed an agreement, in a reasonable form to be prescribed by the Board, prohibiting Executive for a period of one (1) year following the Termination Date from soliciting, recruiting or inducing, or attempting to solicit, recruit or induce, any employee of the Company to terminate such employee's employment; and

(iii) in the case of payments under Section 8(a) by reason of expiration of the term or extended term of Executive's employment with the Company upon Executive's retirement or other notice by either party not to renew the term or extended term, as specified in Section 2 hereof, Executive shall have signed an agreement, in a reasonable form to be prescribed by the Board, prohibiting Executive for a period of three (3) years following the Termination Date from, (A) in North America and any other location where the Company is doing business, directly or indirectly engaging in any activity or business that competes with the Company and (B) directly or indirectly soliciting, recruiting or inducing, or attempting to solicit, recruit or induce, any employee of the Company to terminate such employee's employment.

(h) Notwithstanding the foregoing provisions of this Section 8, if Executive is eligible for payments or other benefits pursuant to the terms and conditions of the Management Agreement, Executive shall not be entitled to receive any compensation or benefits under Section 8(a) above.

9. 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.

10. 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.

11. 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) Jurisdiction. Executive and the Company consent to jurisdiction of the courts of the State of Minnesota and/or the federal district courts, District of Minnesota, for the purpose of resolving all issues of law, equity, or fact arising out of or in connection with this Agreement. Unless otherwise agreed in accordance with Section 10 of this Agreement, any action involving claims of a breach of this Agreement shall be brought in such courts. Each party consents to personal jurisdiction over such party in the state and/or federal courts of Minnesota and hereby waives any defense of lack of personal jurisdiction.

(c) Entire Agreement. Except for any stock option agreements between the parties, 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, including but not limited to the Prior Employment Agreement and the Initial Option 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. This Agreement does not supersede, modify, or cancel the Prior Stock Option Agreements (other than the Initial Option Agreement), the Restated Nonstatutory Stock Option Agreement, the Management Agreement, the Confidentiality Agreements, or any indemnification agreement between Executive and the Company.

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

(e) 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.

(f) 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 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; provided, however, that no such assignment shall relieve the Company of its obligations hereunder in the event that the assignee shall fail to perform the same.

(g) 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.

(h) 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.

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

/s/ THOMAS G. GRUDNOWSKI

Thomas G. Grudnowski

Fair Isaac Corporation

By /s/ PHILIP G. HEASLEY

Its /s/ CHAIRMAN OF THE COMPENSATION COMMITTEE

RESTATED
NONSTATUTORY STOCK OPTION AGREEMENT

Fair Isaac Corporation
Id: 94:1499887
200 Smith Ranch Road
San Rafael, CA 94903

NOTICE OF GRANT OF STOCK OPTION

Thomas G. Grudnowski

OPTION NUMBER: 001798
PLAN: CEO
ID:

This Restated Nonstatutory Stock Option Agreement consolidates and restates the terms and conditions of the option granted to you by Fair Isaac Corporation (the "Company") on August 24, 1999, and which terms and conditions have previously been contained in a Notice of Grant of Stock Option and Option Agreement and an Employment Agreement between you and the Company dated effective August 23, 1999. Because the parties are entering into a new employment agreement which supercedes the prior employment agreement, it is desirable to enter into this Restated Nonstatutory Stock Option Agreement containing all of the terms and conditions of the Option.

You have been granted a Non-Qualified Stock Option to buy 420,000 shares of common stock of the Company at a price of $32.5000 per share (the "Option").1 The Option will expire on August 24, 2009 (the "Expiration Date").

The total option price of the shares granted (pre-split) is $13,650,000.00.

Subject to the Terms and Conditions of Nonstatutory Stock Option Agreement attached to this Notice of Grant, the Option shall become exercisable as to the number of shares of common stock on the dates specified below.

SHARES (PRE-SPLIT)	VESTING DATE
105,000	December 2, 2000
8,750	December 31, 2000
8,750	January 31, 2001
8,750	February 28, 2001
8,750	March 31, 2001
8,750	April 30, 2001
8,750	May 31, 2001

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(1) The 420,000 shares and $32.500 price per share reflect the option grant as of its date of grant. Since the date of grant, the Company's common stock has split and the share price for the Option has been adjusted accordingly. As of October 1, 2003, this Option is for 945,000 shares of the Company's common stock with an exercise price of $14.4445 per share.

EXHIBIT A

8,750	June 30, 2001
8,750	July 31, 2001
8,750	August 31, 2001
8,750	September, 30, 2001
8,750	October 31, 2001
8,750	November 30, 2001
8,750	December, 31, 2001
8,750	January 31, 2002
8,750	February 28, 2002
8,750	March 31, 2002
8,750	April 30, 2002
8,750	May 31, 2002
8,750	June 30, 2002
8,750	July 31, 2002
8,750	August 31, 2002
8,750	September, 30, 2002
8,750	October 31, 2002
8,750	November 30, 2002
8,750	December, 31, 2002
8,750	January 31, 2003
8,750	February 28, 2003
8,750	March 31, 2003
8,750	April 30, 2003
8,750	May 31, 2003
8,750	June 30, 2003
8,750	July 31, 2003
8,750	August 31, 2003
8,750	September 30, 2003
8,750	October 31, 2003
8,750	November 30, 2003

By your signature and the Company's signature below, you and the Company agree that this Restated Notice of Grant of Stock Option and the Terms and Conditions of Nonstatutory Stock Option Agreement, which is attached hereto, constitute the Nonstatutory Stock Option Agreement governing this Option.

- ------------------------------------ ------------------------------
Andrea M. Fike, Vice President Date:
Fair Isaac Corporation

- ------------------------------------ ------------------------------
Thomas G. Grudnowski Date:

FAIR ISAAC CORPORATION

TERMS AND CONDITIONS OF NONSTATUTORY STOCK OPTION AGREEMENT

FOR THOMAS G. GRUDNOWSKI

These are the terms and conditions applicable to the NONSTATUTORY STOCK OPTION granted by Fair Isaac Corporation, a Delaware corporation ("Fair Isaac"), to you, the optionee listed on the Notice of Grant of Stock Option attached hereto as the cover page (the "Notice"), effective as of the date of grant. The Notice together with these Terms and Conditions of Nonstatutory Stock Option Agreement constitute the Nonstatutory Stock Option Agreement (the "Option Agreement").

NONSTATUTORY

This Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code.

VESTING

Your Option vests and will be exercisable on the Vesting Dates, as shown on the Notice. In addition, your entire Option vests and will be exercisable in full in the event that:

- your service as an employee or director of Fair Isaac (or any subsidiary) terminates because of your Retirement, Disability or death; or
- upon the occurrence of an Event while you are still an employee, director, consultant or advisor of Fair Isaac (or any subsidiary); or
- any written employment agreement (other than an option agreement) between you and Fair Isaac provides for acceleration of this Option upon a change in control of Fair Isaac or upon any other specified event or combination of events.

In the event Fair Isaac terminates your employment without Cause (other than as a result of death or Disability), any unvested options scheduled to vest within 12 months from and after the date of such termination without Cause shall vest and become immediately exercisable.

No additional shares become exercisable after your employment or service with Fair Isaac has terminated for any reason.

EXERCISE PERIOD

The right to purchase shares under this Option Agreement terminates at 3:00 p.m. Pacific Time on the earliest of

- the Expiration Date shown on the Notice; or
- the 90th day after the termination date of your service as an employee, director, consultant or advisor of Fair Isaac (or any subsidiary), except if termination results from your Disability or death or if termination occurs following an Event; or

- the anniversary date of the termination of your service as an employee, director, consultant or advisor of Fair Isaac (or any subsidiary) because of Disability; or

- the anniversary date of your death, if you die while an employee, director, consultant or advisor of Fair Isaac (or any subsidiary).

LEAVES OF ABSENCE

For purposes of this Option, your service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by Fair Isaac in writing. Unless you return to active work upon termination of your approved leave, your service will be treated as terminating on the later of 90 days after you went on leave or the date that your right to return to active work is guaranteed by law or by a contract. Fair Isaac will determine which leaves count for this purpose.

RESTRICTIONS ON EXERCISE

You may not exercise this Option if the issuance of shares at that time would violate any law or regulation, as determined by Fair Isaac. Moreover, you cannot exercise this Option unless you have returned a signed copy of the Option Agreement to Fair Isaac.

NOTICE OF EXERCISE

When you wish to exercise this Option, you must notify Fair Isaac by filing the proper Notice of Exercise form and delivering it to the address provided on the Notice of Exercise before your right to purchase shares under this Option Agreement terminates. If you send your Notice of Exercise by facsimile transmission, it will be effective only if it is promptly confirmed by filing a form with an original signature.

The Notice of Exercise must specify how many shares you wish to purchase and must specify how your shares should be registered (in your name only or in your and your spouse's names as community property or as joint tenants with right of survivorship).

If someone else wants to exercise this Option after your death, that person must prove to Fair Isaac's satisfaction that he or she is entitled to do so.

FORM OF PAYMENT

When you submit your Notice of Exercise, you must include payment of the exercise price shown on the Notice for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms as approved by Fair Isaac in its sole discretion:

- your personal check, a cashier's check or a money order;

- irrevocable directions to a securities broker approved by Fair Isaac to sell shares underlying this Option and to deliver all or a portion of the sale proceeds to Fair Isaac in payment of the exercise price and the balance of the sale proceeds to you, all pursuant to a special "Notice of Exercise" form provided by Fair Isaac; or

- certificates for shares of Fair Isaac common stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of those shares to Fair Isaac with the value of the shares, determined as of the effective date of the exercise of this Option, applied to the exercise price.

WITHHOLDING TAXES

You will not be allowed to exercise this Option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the exercise of this Option. These arrangements must be satisfactory to Fair Isaac. You may direct Fair Isaac to withhold shares with a market value equal to the withholding taxes due from the shares to be issued as a result of your exercise of this Option.

RESTRICTIONS ON RESALE

By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair Isaac policies prohibit a sale.

TRANSFER OF OPTION

Prior to your death, only you or a permitted assignee as defined herein may exercise this Option (unless this Option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this Option or a portion of this Option by gift to members of your immediate family, a partnership consisting solely of you and/or members of your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons). For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children or step-grandchildren. Any of these persons is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair Isaac notice of such transfer. You cannot transfer, pledge, hypothecate, assign or otherwise dispose of this Option, including using this Option as security for a loan. Any attempts to do any of these things contrary to the provisions of this Option, and the levy of any attachment or similar process upon this Option, shall be null and void and this Option shall immediately become invalid. You may, however, dispose of this Option in your will or by a written beneficiary designation. Such a designation must be filed with Fair Isaac on the proper form.

RETENTION RIGHTS

Neither this Option nor the terms of this Option Agreement give you the right to continue as an employee or director of Fair Isaac (or any

subsidiaries) in any capacity. Fair Isaac (and any subsidiaries) reserve the right to terminate your service at any time, with or without cause, subject to the terms of any written employment agreement signed by you and Fair Isaac.

STOCKHOLDER RIGHTS	You, or your assignees, estate, beneficiaries or heirs, have no rights as a stockholder of Fair Isaac until a certificate for any portion of the shares underlying this Option has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued.
ADJUSTMENTS	In the event of a stock split, a stock dividend or a similar change in Fair Isaac stock, the number of shares covered by this Option and the exercise price per share may be adjusted as Fair Isaac may determine. In the event of a subdivision of the common stock of Fair Isaac ("Common Stock") outstanding, a declaration of a dividend payable in Common Stock, a declaration of a dividend payable in a form other than Common Stock in an amount that has a material effect on the price of the Common Stock, a combination or consolidation of the outstanding Common Stock (by reclassification or otherwise) into a lesser number of shares, a recapitalization, a spinoff or a similar occurrence, Fair Isaac shall make appropriate adjustments in one or more of (a) the number of shares underlying this Option, or (b) the exercise price of this Option.
APPLICABLE LAW	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law).
OTHER AGREEMENTS	This Option Agreement constitutes the entire understanding between you and Fair Isaac regarding this Option. Any other prior agreements, commitments or negotiations concerning this Option are superseded. This Agreement may be amended only in writing.
DEFINITIONS	"RETIREMENT" means that you have terminated your employment with Fair Isaac at or after (a) reaching age 65, or (b) reaching age 55 with at least 10 years of service with Fair Isaac. "DISABILITY" means that you are unable to engage in any substantial gainful activity by reason of a medically determinable, physical or mental impairment which can be expected to result in death or which has lasted (or can be expected to last) for a continuous period of not less than 12 months. "CAUSE" shall mean: (i) an act or acts of personal dishonesty taken by you and intended to result in substantial personal enrichment of you at the expense of Fair Isaac; (ii) your repeated failure or refusal to

perform or observe your duties, responsibilities and obligations as an employee of Fair Isaac for reasons other than disability or incapacity; (iii) the existence of any court order or settlement agreement prohibiting your continued employment with Fair Isaac; (iv) if you have signed and/or entered into a written or oral non-competition agreement, confidentiality agreement, proprietary information agreement, trade secret agreement or any other agreement which would prevent you from working for Fair Isaac and/or from performing your duties at Fair Isaac, or (v) the willful engaging by you in illegal conduct that is materially and demonstrably injurious to Fair Isaac. No act or failure to act on your part shall be considered "dishonest," "willful" or "deliberate" unless done or omitted to be done by you in bad faith and without reasonable belief that your action or omission was in, or not opposed, to the best interests of Fair Isaac. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors of Fair Isaac or based upon the advice of counsel for Fair Isaac shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of Fair Isaac.

"EVENT" shall be deemed to occur upon the occurrence of BOTH (A): (i) the sale, lease, conveyance or other disposition of all or substantially all of Fair Isaac's assets as an entirety or substantially as an entirety to any person, entity or group of persons acting in concert; (ii) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Act")) becoming the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of Fair Isaac representing 50% or more of the total voting power represented by Fair Isaac's then outstanding voting securities; or (iii) a merger or consolidation of Fair Isaac with any other corporation, other than a merger or consolidation which would result in the voting securities of Fair Isaac outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the total voting power represented by the voting securities of Fair Isaac or such surviving entity outstanding immediately after such merger or consolidation; AND (B): (i) a material adverse change in your position with Fair Isaac which materially reduces your responsibility, without Cause and without your written consent; (ii) a material reduction in your compensation without your written consent; or (iii) a relocation of your place of employment outside of the seven (7) San Francisco Bay Area counties, without your written consent.

BY SIGNING THE NOTICE, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE.

NOTICE OF GRANT OF STOCK OPTION

Fair Isaac Corporation
Id: 94:1499887
200 Smith Ranch Road
San Rafael, CA 94903

Optionee

Thomas G. Grudnowski

OPTION NUMBER: _________________
PLAN: 1992 LTIP
ID: _________________

Effective ______, 20__ (the "Grant Date"), you have been granted a Non-Qualified Stock Option to buy ______ shares of common stock of Fair Isaac Corporation ("Fair Isaac") at $______ per share (the "Option"). The Option will expire on April 30, 2011 (the "Expiration Date"). This Option is granted pursuant to the terms of an employment agreement between Optionee and Fair Isaac Corporation dated effective January 30, 2004 (the "Employment Agreement") and the Fair Isaac Corporation 1992 Long-Term Incentive Plan, as amended.

Subject to the Terms and Conditions of Nonstatutory Stock Option Agreement attached to this Notice, the Option shall become exercisable as to one third of the total number of shares subject to the Option on each of the first three anniversary dates of the Grant Date (such anniversary dates referred to as the "Vesting Dates").

By your signature and Fair Isaac's signature below, you and Fair Isaac agree that this Notice of Grant of Stock Option and the Terms and Conditions of Nonstatutory Stock Option Agreement, which is attached hereto constitute the Nonstatutory Stock Option Agreement governing this Option.

_____________________________________ ________________________________
Andrea M. Fike, Vice President Date:
Fair Isaac Corporation

_____________________________________ ________________________________
Thomas G. Grudnowski Date:

EXHIBIT B

FAIR ISAAC CORPORATION

TERMS AND CONDITIONS OF NONSTATUTORY STOCK OPTION AGREEMENT

These are the terms and conditions applicable to the NONSTATUTORY STOCK OPTION granted by Fair Isaac Corporation, a Delaware corporation ("Fair Isaac"), to you, the optionee listed on the Notice of Grant of Stock Option attached hereto as the cover page (the "Cover Page"), effective as of the date of grant. The Cover Page together with these Terms and Conditions of Nonstatutory Stock Option Agreement constitute the Nonstatutory Stock Option Agreement (the "Option Agreement"). This Option is granted pursuant to the terms of Fair Isaac's 1992 Long-Term Incentive Plan (the "Plan").

NONSTATUTORY

This Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code.

VESTING

Your Option vests and will be exercisable on the Vesting Dates, as described on the Cover Page. In addition, your entire Option vests and will be exercisable in full in the event that:

- your service as an employee or director of Fair Isaac (or any subsidiary) terminates because of your Disability or death,

- any written employment agreement (other than a stock option agreement) between you and Fair Isaac provides for acceleration of this Option upon a change in control of Fair Isaac or upon any other specified event or combination of events,

- Fair Isaac terminates your employment prior to January 30, 2009 for any reason other than Cause, or

- you retire or resign your employment with Fair Isaac prior to January 30, 2009 for Good Reason.

Additional shares will continue to vest and become exercisable after your employment with Fair Isaac has terminated, if and only if:

- your employment with Fair Isaac terminates as a result of the expiration of the term of your Employment Agreement, as described in Section 2 of your Employment Agreement,

- you retire or resign your employment with Fair Isaac after January 30, 2009,

- your employment with Fair Isaac terminates by mutual written agreement between you and Fair Isaac for reasons other than for Cause, or

- Fair Isaac terminates your employment after January 30, 2009 for any reason other than for Cause.

Except as specifically provided above, additional shares will not continue to vest and become exercisable after your employment with Fair Isaac has terminated.

EXERCISE PERIOD	The right to purchase shares under the Option Agreement terminates at 3:00 p.m. Pacific Time on the date that is two years and 90 days after the termination date of your service as an employee of Fair Isaac, except as follows: - If your employment with Fair Isaac is terminated by Fair Isaac for Cause, then the right to purchase shares under this Option Agreement shall terminate on the date of termination of your employment. - If you retire or resign your employment with Fair Isaac prior to January 30, 2009 for any reason other than Good Reason, then the right to purchase shares under this Option Agreement shall terminate on the 90th day after the date of termination of your employment with Fair Isaac. In no event will the right to purchase shares continue after the Expiration Date shown on the Cover Page.
LEAVES OF ABSENCE	For purposes of this Option, your service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by Fair Isaac in writing. Unless you return to active work upon termination of your approved leave, your service will be treated as terminating on the later of 90 days after you went on leave or the date that your right to return to active work is guaranteed by law or by a contract. Fair Isaac will determine which leaves count for this purpose.
RESTRICTIONS ON EXERCISE	You may not exercise this Option if the issuance of shares at that time would violate any law or regulation, as determined by Fair Isaac. Moreover, you cannot exercise this Option unless you have returned a signed copy of the Option Agreement to Fair Isaac.
NOTICE OF EXERCISE	If you do not exercise this Option through an automated electronic exercise system approved by Fair Isaac, then you must notify Fair Isaac in writing of your intent to exercise this Option. The notice must specify how many shares you wish to purchase and must specify how your shares should be registered (i.e., in your name only, in your and your spouse's names as community property, or as joint tenants with right of survivorship). If someone else wants to exercise this Option after your death, that person must prove to Fair Isaac's satisfaction that he or she is entitled to do so.
FORM OF PAYMENT	When you submit your notice, you must include payment of the exercise price shown on the Cover Page for the shares you are purchasing. Provided payment does not violate state and federal laws, including without limitation, the Sarbanes-Oxley Act of 2002, payment may be made in one (or a combination of two or more) of the following forms, as approved by Fair Isaac in its sole discretion:

- Your personal check, a cashier's check or a money order;

- Irrevocable directions to a securities broker approved by Fair Isaac to sell shares underlying this Option and to deliver all or a portion of the sale proceeds to Fair Isaac in payment of the exercise price and the balance of the sale proceeds to you; or

- Certificates for shares of Fair Isaac common stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of those shares to Fair Isaac with the value of the shares, determined as of the effective date of the exercise of this Option, applied to the exercise price.

WITHHOLDING TAXES

You will not be allowed to exercise this Option unless you make acceptable arrangements to pay any withholding taxes that may be due as a result of the exercise of this Option. These arrangements must be satisfactory to Fair Isaac. You may direct Fair Isaac to withhold shares with a market value equal to the withholding taxes due from the shares to be issued as a result of your exercise of this Option.

RESTRICTIONS ON RESALE TRANSFER OF OPTION

By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair Isaac policies prohibit a sale. Prior to your death, only you or a permitted assignee as defined herein may exercise this Option (unless this Option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this Option or a portion of this Option by gift to members of your immediate family, a partnership consisting solely of you and/or members of your immediate family, a limited liability company consisting solely of you and/or your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons). For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children.

You may also transfer this Option or a portion of this Option to any other person or entity to which a transfer of compensatory securities is permitted under the applicable rules for a Securities and Exchange Commission Form S-8 registration statement.

Any of these persons and entities to whom a transfer of this Option may be made is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair Isaac notice of such transfer. You cannot transfer, pledge, hypothecate, assign or otherwise dispose of this Option, including using this Option as security for a loan. Any attempts to do any of these things contrary to the provisions of this Option, and the levy of any attachment or

similar process upon this Option, shall be null and void. You may, however, dispose of this Option in your will or by a written beneficiary designation. Such a designation must be filed with Fair Isaac on the proper form.

RETENTION RIGHTS	Neither your Option nor the terms of this Option Agreement give you the right to continue as an employee or director of Fair Isaac (or any subsidiaries) in any capacity. Fair Isaac (and any subsidiaries) reserve the right to terminate your service at any time, with or without cause, subject to the terms of any written employment agreement signed by you and Fair Isaac.
STOCKHOLDER RIGHTS	You, or your assignees, estate, beneficiaries or heirs, have no rights as a stockholder of Fair Isaac until a certificate for any portion of shares underlying this Option has been issued. No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued, except as described in the Plan.
ADJUSTMENTS	In the event of any adjustments to the capital stock of Fair Isaac as described in Article 10 of the Plan, the number of shares covered by this Option and the exercise price per share may be adjusted as Fair Isaac may determine pursuant to the Plan.
APPLICABLE LAW	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law).
OTHER AGREEMENTS	This Option Agreement, the Plan and any written agreement between you and Fair Isaac (or any subsidiaries) providing for acceleration of options granted to you by Fair Isaac upon a change in control of Fair Isaac constitute the entire understanding between you and Fair Isaac regarding this Option. Any other prior agreements, commitments or negotiations concerning this Option are superseded. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern. This Agreement may be amended only in writing.
DEFINITIONS	"Cause" shall have the meaning ascribed to it in the Employment Agreement. "Disability" means that you are unable to engage in any substantial gainful activity by reason of a medically determinable, physical or mental impairment which can be expected to result in death or which has lasted (or can be expected to last) for a continuous period of not less than 12 months. "Good Reason" shall have the meaning ascribed to it in the Employment Agreement.

BY SIGNING THE COVER PAGE, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

MANAGEMENT AGREEMENT

This Management Agreement (this "Agreement") is entered into as of January 30, 2004, by and between Fair Isaac Corporation, a Delaware corporation (the "Company"), and Thomas G. Grudnowski ("Executive").

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

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

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

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

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

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

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

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

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

(i) Any "person" (as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, or any successor statute thereto (the "Exchange Act")) acquires or becomes a "beneficial owner" (as defined in Rule 13d-3 or any successor rule under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power

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

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

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

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

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

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

contest with respect to the threatened election or removal of directors (or other actual or threatened solicitation of proxies or consents) by or on behalf of any person other than the Board of Directors of the Company; or

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

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

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

case the Event shall be deemed to occur upon satisfaction of such specified conditions; or

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

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

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

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

2. PAYMENTS AND BENEFITS. If any Event shall occur during the Term of this Agreement, then the Executive shall be entitled to receive from the Company or its successor (which term as used herein shall include any person acquiring all or substantially all of the assets of the Company) a cash payment and other benefits on the following basis (unless the Executive's employment by the Company is terminated voluntarily or involuntarily prior to the occurrence of the earliest Event to occur (the "First Event"), in which case Executive shall be entitled to no payment or benefits under this Section 2):

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

(i) The Company shall pay Executive's full base salary at the rate then in effect, benefits, and vacation or other paid time off earned through the Termination Date.

(ii) The Company or its successor, within 90 days after the Termination Date, shall make a cash payment to Executive in an amount equal to two (2) times the sum of (A) the annual base salary of Executive in effect immediately prior to the First Event plus (B) the cash bonus or cash incentive compensation received by the Executive from the Company for the last full fiscal year preceding the First Event.

(iii) For a 24-month period after the Termination Date, the Company shall allow Executive to participate in any health, disability and life insurance plan or program in which the Executive was entitled to participate immediately prior to the First Event as if Executive were an employee of the Company during such 24-month period; provided, however, that in the event that Executive's participation in any such health, disability or life insurance plan or program of the Company is barred, the Company, at its sole cost and expense, shall arrange to provide Executive with benefits substantially similar to those which Executive would be entitled to receive under such plan or program if Executive were not barred from participation. Benefits otherwise receivable by Executive pursuant to this section 2(a)(iii) shall be reduced to the extent comparable benefits are received by Executive from another employer or other third party during such 24-month period, and Executive shall promptly report receipt of any such benefits to the Company.

(iv) Any outstanding and unvested stock options granted to Executive shall be accelerated and become immediately exercisable by Executive (and shall remain exercisable for the terms specified in the applicable stock option agreements) and any restricted stock awarded to Executive and subject to forfeiture shall be fully vested and shall no longer be subject to forfeiture.

(b) The Company shall also pay to Executive all legal fees and expenses incurred by the Executive as a result of such termination, including, but not limited to, all

such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement.

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

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

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

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

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

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

3. CERTAIN REDUCTION OF PAYMENTS BY THE COMPANY.

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

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

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

4. DEFINITION OF CERTAIN ADDITIONAL TERMS.

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

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

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

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

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

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

(iv) the Company requiring Executive to relocate to any place other than a location within forty miles of the location at which Executive

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

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

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

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

(f) "Transition Period" shall mean the one-year period commencing on the date of the earliest to occur of an Event described in Section 1(a)(i), 1(a)(ii) or 1(a)(iii) hereof (or, if an Event described in Section 1(a)(iv) occurs and there does not occur any Event described in Sections 1(a)(i), 1(a)(ii) or 1(a)(iii), upon the satisfaction of the condition that gives rise to the Event described in Section 1(a)(iv)) (the "Commencement Date") and ending on the first anniversary of the Commencement Date.

5. SUCCESSORS AND ASSIGNS.

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

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

succession becomes effective shall be deemed the Termination Date. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that is required to execute and deliver the agreement as provided for in this Section 5(b) or that otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

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

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

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

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

10. INTEGRATION. The benefits provided to Executive under this Agreement shall be in lieu of any other severance pay or benefits available to Executive under any other agreement, plan or program of the Company. In the event that any payments or benefits become payable to Executive pursuant to Section 2 of this Agreement, then this Agreement will supersede and replace any other agreement, plan or program applicable to Executive to the extent that such other agreement, plan or program provides for payments or benefits to Executive arising out of the involuntary termination of Executive's employment or termination by Executive for Good Reason. In addition, the acceleration of stock options and lapsing of forfeiture provisions of restricted stock provided pursuant to Section 2(a)(iv) of this Agreement shall not be subject to the provisions of

Article 13 of the Company's 1992 Long-Term Incentive Plan (or similar successor provision or plan).

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

12. TERM. This Agreement shall commence on the date of this Agreement and shall terminate, and the Term of this Agreement shall end, on the later of (A) the expiration of the term of Executive's employment pursuant to that certain Employment Agreement between the Company and Executive of even date herewith, if the same is not renewed in accordance with its terms, or (B) if the Commencement Date occurs on or prior to such expiration, the first anniversary of the Commencement Date.

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

FAIR ISAAC CORPORATION

By

THOMAS G. GRUDNOWSKI

By

EXHIBIT 31.1

CERTIFICATIONS

I, Thomas G. Grudnowski, certify that:

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

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

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

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

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

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

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

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

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

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

Date: February 6, 2004

/s/ THOMAS G. GRUDNOWSKI

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Thomas G. Grudnowski
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Kenneth J. Saunders, 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 6, 2004

/s/ KENNETH J. SAUNDERS

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Kenneth J. Saunders
Chief Financial Officer

EXHIBIT 32.1

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

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

Date: February 6, 2004

/s/ THOMAS G. GRUDNOWSKI

Thomas G. Grudnowski
Chief Executive Officer

EXHIBIT 32.2

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

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

Date: February 6, 2004

/s/ KENNETH J. SAUNDERS

Kenneth J. Saunders
Chief Financial Officer