

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended September 30, 2003

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)
200 Smith Ranch Road
San Rafael, California
(Address of principal executive offices)

94-1499887
(I.R.S. Employer
Identification No.)
94903
(Zip Code)

Registrant's telephone number, including area code:

(415) 472-2211

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

(Title of Class)
Common Stock, \$0.01 par value per share
Preferred Stock Purchase Rights

(Name of each exchange on which registered)
New York Stock Exchange, Inc.
New York Stock Exchange, Inc.

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

None

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

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

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

As of March 31, 2003, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,672,822,642 based on the last transaction price as reported on the New York Stock Exchange on such date. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes.

The number of shares of common stock outstanding on November 26, 2003 was 46,702,037 (excluding 11,673,402 shares held by the Company as treasury stock).

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on February 2, 2004.

TABLE OF CONTENTS

PART I

[Item 1. Business](#)

[Item 2. Properties](#)

[Item 3. Legal Proceedings](#)

[Item 4. Submission of Matters to a Vote of Security Holders](#)

EXECUTIVE OFFICERS OF THE REGISTRANT

PART II

[Item 5. Market for Registrant's Common Equity and Related Stockholder Matters](#)

[Item 6. Selected Financial Data](#)

[Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 7A. Quantitative and Qualitative Disclosures About Market Risk](#)

[Item 8. Financial Statements and Supplementary Data](#)

[Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure](#)

[Item 9A. Controls and Procedures](#)

PART III

[Item 10. Directors and Executive Officers of the Registrant](#)

[Item 11. Executive Compensation](#)

[Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters](#)

[Item 13. Certain Relationships and Related Transactions](#)

[Item 14. Principal Accounting Fees and Services](#)

PART IV

[Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K](#)

SIGNATURES

[EXHIBIT 4.6](#)

[EXHIBIT 4.7](#)

[EXHIBIT 10.32](#)

[EXHIBIT 10.38](#)

[EXHIBIT 12.1](#)

[EXHIBIT 14.1](#)

[EXHIBIT 21.1](#)

[EXHIBIT 23.1](#)

[EXHIBIT 31.1](#)

[EXHIBIT 31.2](#)

[EXHIBIT 32.1](#)

[EXHIBIT 32.2](#)

TABLE OF CONTENTS

PART I		
Item 1.	Business	1
Item 2.	Properties	13
Item 3.	Legal Proceedings	13
Item 4.	Submission of Matters to a Vote of Security Holders	13
Executive Officers of the Registrant		14
PART II		
Item 5.	Market for Registrant’s Common Equity and Related Stockholder Matters	16
Item 6.	Selected Financial Data	17
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 8.	Financial Statements and Supplementary Data	43
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	83
Item 9A.	Controls and Procedures	83
PART III		
Item 10.	Directors and Executive Officers of the Registrant	83
Item 11.	Executive Compensation	83
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	83
Item 13.	Certain Relationships and Related Transactions	84
Item 14.	Principal Accounting Fees and Services	84
PART IV		
Item 15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	84
Signatures		89

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 Item 7, 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-Q and 8-K to be filed by the Company in fiscal year 2004.

PART I

Item 1. Business

GENERAL

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”) provides analytic, software and data management products and services that enable businesses to automate and improve decisions. Our predictive modeling, decision analytics, business intelligence management, decision management systems and consulting services power billions of customer decisions each year.

We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, we help thousands of companies in over 60 countries target and acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do insurers, retailers, telecommunications providers, healthcare organizations and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure of credit risk, empowering them to manage their financial health.

More information about us can be found on our principal Web site, www.fairisaac.com. We make our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, as well as amendments to those reports, available free of charge through our Web site as soon as reasonably practicable after we electronically file them with the SEC. Information on our Web site is not part of this report.

PRODUCTS AND SERVICES

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

Our Segments

We categorize our products and services into the following four segments:

- *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.
- *Strategy Machine Solutions*. Our Strategy Machine Solutions are industry-tailored applications designed for specific processes such as marketing, account origination, customer management, fraud and medical bill review, as well as consumer solutions through our myFICO service.
- *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. These tools comprise a suite known as Fair Isaac Business Science™.

Comparative segment revenues, operating income and related financial information for fiscal years 2003, 2002 and 2001 are set forth in Note 18 to the accompanying consolidated financial statements.

Key Products by Operating Segment

<u>Operating Segment</u>	<u>Key Products and Services</u>
Scoring Solutions	FICO® scores NextGen FICO® scores Marketing and bankruptcy scores Commercial credit risk scores Insurance scores ScoreNet® Service PreScore® Service
Strategy Machine Solutions	Fair Isaac MarketSmart Decision System® solution Fair Isaac SmartLink SM customer data integration service LiquidCredit® service StrategyWare® decision engine Capstone® Decision Manager system CreditDesk® software TRIAD TM adaptive control system Customer Management TRIAD TM adaptive control system Adaptive Control Service RoamEx® Roamer Data Exchanger TelAdaptive® service UniScore PlacementsPlus® service Falcon TM Fraud Manager CardAlert Fraud Manager Fraud Predictor with Merchant Profiles Risk Manager Fraud Manager TRIAD Transaction Scores MIRA® Claims Advisor Claims Advisor for Exceptions Management Claims Advisor for Subrogation Payment Optimizer CompAdvisor® medical bill review AutoAdvisor® medical bill review Outsourced Cost Containment Services myFICO® service Strategy Science
Professional Services	Technology integration services Business integration services Custom analytics Fraud consulting Strategy Science services CRM consulting
Analytic Software Tools	Fair Isaac Blaze Advisor Fair Isaac Blaze Decision System Model Builder for Decision Trees Model Builder for Predictive Analytics Fair Isaac Decision Optimizer

Our Solutions

Our solutions involve three fundamental disciplines:

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

[Table of Contents](#)

- Data management, profiling and text recognition that bring extensive customer information to every decision; and
- Software such as decision engines and rules engines that implement decision strategies, often in a real-time environment.

All of our solutions are designed to help businesses make decisions that are faster, more successful, more consistent and more objective, throughout the enterprise.

Scoring Solutions

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

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

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

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

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

Strategy Machine Solutions

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

Marketing Strategy Machine Solutions

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

relationship and potential. MarketSmart also includes list processing and data enhancement services, which we provide to direct marketing organizations in many industries.

Origination Strategy Machine Solutions

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

Our solutions include LiquidCredit, a Web-based service primarily focused on the credit decision and offered largely to mid-tier financial services institutions and e-commerce providers; Capstone, a complete solution for application decisioning and processing, which is offered in both end-user software and application service provider (ASP) mode to high-volume operations; StrategyWare, an end-user software product used to design and automate more complex credit decision strategies; and CreditDesk, an end-user software product that performs credit decisioning and application processing for the mid-tier financial services market. We also offer custom and consortium-based credit risk and application fraud models.

Account Management Strategy Machine Solutions

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

We provide account management solutions for:

- *Financial Services.* In financial services, our leading account management product is the TRIAD adaptive control system. TRIAD technology is known as adaptive control because it enables businesses to rapidly adapt to changing business and internal conditions by designing and testing new strategies in a "champion/challenger" environment. TRIAD — the world's leading credit account management system — has more than 250 users worldwide and is used to manage approximately 65% of the world's credit card accounts. TRIAD is made available to our client base in many different ways, including Customer Management TRIAD, which enables lenders to manage customer relationships and credit exposure across multiple credit products. Netsourced TRIAD is a Web-delivered service that we offer directly to users, which enables users to access TRIAD account management capabilities in ASP mode, where we host the software. We also offer transaction-based neural network (the term neural network is defined under "Technology" later in this section) models for TRIAD that help payment card issuers manage their credit card accounts more profitably. We market and sell TRIAD multi-year software licenses, maintenance, consulting services, and strategy design and evaluation. Additionally, we provide TRIAD and similar credit account management services through large third-party credit card processors worldwide, including the two largest processors in the U.S.: First Data Resources, Inc. and Total System Services, Inc.

As a result of our acquisition of NAREX Inc. in July 2003, we now offer collections and recovery solutions to financial institutions, collections agencies and debt buyers. These solutions include UniScore, a Web-based recovery score package; PlacementsPlus, an account placement optimization and management system; and custom collection and recovery models implemented in an ASP environment.

- *Telecommunications.* Our principal solution is RoamEx Roamer Data Exchanger, which helps wireless telecommunications carriers reduce fraud. RoamEx delivers near real-time exchange of roamer call records that occur when subscribers roam outside a carrier's home network. RoamEx is used to exchange more than 90% of North American wireless carriers' roamer call detail records,

[Table of Contents](#)

helping carriers combat fraud. We also offer the TelAdaptive account management system, which provides functionality similar to TRIAD as a Web-delivered service.

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

Fraud Strategy Machine Solutions

Our fraud products improve our clients' profitability by predicting the likelihood that a customer account is experiencing fraud. Our fraud products analyze customer transactions in real time and generate recommendations for immediate action, which is critical to stopping fraud and abuse. These applications can also detect some organized fraud schemes that are too complex and well-hidden to be identified by other methods.

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

Our leading fraud detection solution is Falcon Fraud Manager, recognized as the leader in global payment card fraud detection. Falcon uses neural network predictive models and patented profiling technology, both further described below, to examine transaction, cardholder and merchant data to detect a wide range of payment card fraud quickly and accurately. Falcon analyzes payment card transactions in real-time, assesses the risk of fraud, and takes the user-defined steps to prevent fraud while expediting legitimate transactions. Falcon protects hundreds of millions of active accounts, and is used in approximately 65% of all credit card transactions worldwide.

Fraud Predictor with Merchant Profiles is used in conjunction with Falcon to improve fraud detection rates by analyzing merchant profile data. The merchant profiles include characteristics that reveal, for example, merchants that have a history of higher fraud volumes, and which purchase types and ticket sizes have most often been fraudulent at a particular merchant.

We also market fraud and fraud-related solutions for:

- *Financial Services:* We complement our Falcon product with fraud consulting services, and with fraud and risk management solutions for merchants and others. CardAlert Fraud Manager helps card issuers and Electronic Funds Transfer (EFT) network providers effectively combat large-scale counterfeit ATM and debit card fraud. Our Risk Manager for Acquirers products helps merchant acquirers assess the bankruptcy and fraud risk of merchant relationships, as well as the likelihood of merchant attrition.
- *Insurance:* Our Claims Advisor products use neural networks and data analysis to forecast appropriate claims reserves based on individual claim data, to identify opportunities for subrogation, to identify fraud, and to manage claims workflow.
- *Healthcare:* Our Payment Optimizer product detects fraud and abuse of healthcare claims before claims are paid.
- *Telecommunications:* Our Risk Manager and Fraud Manager solutions help telecommunications carriers stop complex types of fraud such as subscription fraud, internal fraud, dealer/agent fraud, calling card fraud, cloning, clip-on fraud and PBX fraud, as well as to mitigate early-life and ongoing bad debt.

Medical Bill Review Strategy Machine Solutions

We provide software solutions and services that automate the review and repricing of medical bills for workers' compensation and automobile medical injuries. Using these solutions, property and casualty insurers can automatically review and process up to 80 percent of medical bills without human intervention.

Our principal solutions in this area are:

- *Medical Bill Review:* Our principal solutions are CompAdvisor, the leading medical bill review and repricing solution for workers' compensation, and AutoAdvisor, our medical bill repricing solution for automobile medical injury claims. These solutions check each bill against an extensive database of state fee schedules, automated contracts and user-defined policies to help insurers and others get the maximum savings on every bill reviewed. Both solutions optionally include Capstone for Medical Bills, a module that uses rules management technology to increase the speed, accuracy and consistency of decisions and reduce labor costs. These products are available in both licensed client/server and ASP versions.
- *Outsourced Cost Containment Services:* We provide turnkey insurance bill review administration services at selected locations across the country. These branch operations offer expert medical bill and preferred provider review for workers' compensation and auto medical insurance bills, including the additional review of complex medical, hospital and surgical bills.

In September 2003, Fair Isaac expanded its medical bill review capabilities through the acquisition of Diversified HealthCare Services, Inc., a provider of medical bill review products and services for the workers' compensation insurance industry.

Consumer Strategy Machine Solutions

Through our myFICO service, we provide solutions based on our analytics to consumers, sold directly by us or through distribution partners. U.S. consumers can use the myFICO services to purchase their FICO scores, the credit reports underlying the scores, explanations of the factors affecting their scores, and customized advice on how to improve their scores. Customers of myFICO can also simulate how taking specific actions would affect their FICO score. In 2003, myFICO became the first and only source for consumers to obtain their FICO scores and credit reports from all three of the major US credit reporting agencies. The myFICO services are available online at www.myfico.com as well as through two of the credit reporting agencies involved — Equifax and TransUnion — as well as through lenders and financial portals.

Professional Services

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

Our services include:

- *Technology Integration Services.* We provide business consulting and technology integration services that support, complement and enhance the value of our software products. These services include installation and strategy development associated with our Strategy Machine solutions and analytic software tools.
- *Business Integration Services.* We help formulate, align, and deploy business and operational strategies across the enterprise to drive profitability, expand top-line growth, and deliver real competitive advantage. We holistically assess the business, prioritize high-impact areas for improve-

ment, and provide creative solutions to complex business issues through operational strategy, business process alignment, and enabling technology services.

- *Strategy Science.* Using our Strategy Science technology and related advanced analytic methodologies, we perform decision modeling and strategy science projects for customer acquisition and customer management.
- *Global Analytics.* We perform custom analytic projects, primarily predictive model development and analytic consulting for the credit and insurance industries. This work leverages our analytic methodologies and expertise to solve risk management and marketing challenges for a single business, using that business' data and industry best practices to develop a highly customized solution.
- *Customer Relationship Management Consulting.* We provide strategy development, analytics and systems planning for customer management and marketing.

Analytic Software Tools

We provide end-user software products that businesses use to build their own tailored decisioning applications. In contrast to our packaged Strategy Machine applications developed for specific industry applications, we design our analytic software tools to perform a single function — such as management of the rules and policies an enterprise uses to make decisions — that can be easily integrated within a variety of specialized industry applications. The combination of these tools supports enterprise-wide decision management leveraging data analytics.

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

The principal products offered in fiscal 2003 were software products that enable:

- *Decision Design and Management.* Fair Isaac Blaze Advisor and Fair Isaac Blaze Decision System are software tools supporting enterprise-wide decision management. Fair Isaac Blaze Advisor is a rules management tool used to design, develop, execute and maintain rules-based business applications. Fair Isaac Blaze Decision System provides a mechanism for deploying decision strategies and associated predictive analytics into an enterprise's IT architecture. These tools enable businesses to more quickly develop complex decisioning applications, respond to changing customer needs, implement regulatory compliance and reduce the total cost of day-to-day operations. Among the users of these tools are 7 of the 10 top companies on the 2003 Fortune 500 list. In September 2003, we released Fair Isaac Blaze Advisor 5.1, which allows clients to use Blaze Advisor, Blaze Decision System and Model Builder for Decision Trees in combination to automate complex decisions.
- *Analytic Model Development.* Model Builder for Decision Trees enables the user to create empirical strategies, augmenting the user's expert judgment by applying data-driven analytics to discover patterns empirically. In designing the steps and criteria of a decision strategy, the user can segment the customer base for targeted action based on the results of different performance measures, and can simulate the performance of the designed strategy. Model Builder for Predictive Analytics takes this data analysis further, enabling the user to develop and deploy sophisticated predictive models for use in automated decisions. Decision Optimizer, a key component in our Strategy Science offering, creates decision models for making optimal decisions across a customer portfolio where business constraints mean that each decision cannot be considered in isolation. The data-driven strategies, predictive models, and decision models produced by these tools can be executed in either Blaze Advisor or Blaze Decision System, or deployed within our Strategy Machines.

COMPETITION

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

- in-house analytic and systems developers;
- scoring model builders;
- enterprise resource planning (ERP) and customer relationship management (CRM) packaged solutions providers;
- business intelligence solutions providers;
- providers of credit reports and credit scores;
- providers of automated application processing services;
- data vendors;
- neural network developers and artificial intelligence system builders;
- third-party professional services and consulting organizations;
- network and telecommunications switch manufacturers, and service providers that seek to enhance their value-added services;
- managed care organizations; and
- software tools companies supplying modeling, rules, or analytic development tools.

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

Scoring Solutions

In this segment we compete with both outside suppliers and in-house analytics and computer systems departments for scoring business. Major competitors among outside suppliers of scoring models include the three major credit-reporting agencies, which are also our partners in offering our scoring solutions, and also include credit reporting agencies outside the United States. Our FICO scores are used as a part of the credit decision process by the overwhelming majority of U.S. financial institutions to make the credit decisions that impact consumers, and we believe that this provides us an advantage over our competition in this market.

Strategy Machine Solutions

Products in our Strategy Machine solutions segment help our clients with customer acquisition, origination and management, including fraud management.

In the customer acquisition market, we compete with our customers' internal IT departments, Acxiom Corporation, Experian, Harte-Hanks Inc., PeopleSoft and Siebel, among others.

In the origination market, we compete with American Management Systems Inc., Experian, Automatic Data Processing, Inc., Lightbridge, Inc., Appro Systems, Inc. and First American Credit Management Solutions, Inc. (CMSI), among others.

In the account management market, we compete with American Management Systems, Inc., Experian, Insurance Services Organization, Inc., Choicepoint, Inc., Lightbridge, Inc., PeopleSoft and Siebel, among others.

In the fraud solutions market, we mainly compete with Retail Decisions and ACI Worldwide, a division of Transaction Systems Architects, Inc., in the financial services market; ECTel Ltd., Hewlett Packard

[Table of Contents](#)

Company, Cerebrus Solutions Limited and Neural Technologies in the telecommunications market; CyberSource and ClearCommerce in the online retail market; International Business Machines, Inc. and ViPS, Inc. in the healthcare segment; and SAS Institute Inc., Infoglide Software Corporation, NetMap Analytics LLC and Magnify, Inc. in the property and casualty and workers' compensation insurance market.

In the medical bill review market, we mainly compete with Medata and First Health.

For our direct-to-consumer services that deliver credit scores, credit reports and consumer credit education services, we compete with our credit reporting agency partners and their affiliated companies, as well as from Trilegiant, InterSections and others.

Professional Services

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

Analytic Software Tools

Our primary competitors in this segment include SAS Institute, SPSS Inc., Angoss Software Corporation, iLog S.A., Computer Associates International, Inc., and Pegasystems Inc.

Competitive Factors

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

MARKETS AND CUSTOMERS

Our products and services serve clients in multiple industries, including financial services, insurance, retail, telecommunications, healthcare and governmental agencies. During fiscal 2003, end users of our products included more than 90 of the 100 largest banks in the United States, and more than half of the largest 50 banks in the world; more than 70 of the 100 largest credit card issuers in the world, and all 50 of the largest U.S. issuers; more than 400 insurers; more than 150 retailers; more than 80 government or public agencies; and more than 100 telecommunications carriers.

In addition, our consumer services are marketed to an estimated 190 million U.S. consumers whose credit relationships are reported to the three major credit reporting agencies.

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

During fiscal 2003, 2002 and 2001, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 19%, 27% and 27%, respectively.

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

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

Revenues from international customers, including end users and resellers, amounted to 21%, 19% and 18% of our total revenues in fiscal 2003, 2002 and 2001, respectively. See Note 18 to the accompanying consolidated financial statements for a summary of our operating segments and geographic information.

TECHNOLOGY

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

Because of our pioneering work in credit scoring and fraud detection, we are widely recognized as the leader in predictive technology. In all our work, we believe that our tools and processes are among the very best commercially available, and that we are uniquely able to integrate advanced analytic, software and data technologies into mission-critical business solutions that offer superior returns on investment.

Principal Areas of Expertise

Predictive Modeling. Predictive modeling identifies and mathematically represents underlying relationships in historical data in order to explain the data and make predictions or classifications about future events. Our models summarize large quantities of data to amplify its value. Predictive models typically analyze current and historical data on individuals to produce easily understood metrics such as scores. These scores rank-order individuals by likely future performance, e.g., their likelihood of making credit payments on time, or of responding to a particular offer for services. We also include in this category models that detect the likelihood of a transaction being fraudulent. Our predictive models are frequently operationalized in mission-critical transactional systems and drive decisions and actions in near real time. A number of analytic methodologies underlie our products in this area. These include proprietary applications of both linear and non-linear mathematical programming algorithms, in which one objective is optimized within a set of constraints, and advanced “neural” systems, which learn complex patterns from large data sets to predict the probability that a new individual will exhibit certain behaviors of business interest.

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

Transaction Profiling. Transaction profiling is a patent-protected technique used to extract meaningful information and reduce the complexity of transaction data used in modeling. Many of our products operate using transactional data, such as credit card purchase transactions, or other types of data that change over time. In its raw form, this data is very difficult to use in predictive models for several reasons: First, an isolated transaction contains very little information about the behavior of the individual that generated the transaction. In addition, transaction patterns change rapidly over time. Finally, this type of data can often be highly complex. To overcome these issues, we have developed a set of proprietary techniques that transform raw transactional data into a mathematical representation that reveals latent information, and which make the data more usable by predictive models. This profiling technology accumulates data across multiple transactions of many types to create and update profiles of transaction patterns. These profiles enable our neural network models to efficiently and effectively make accurate assessments of, for example, fraud risk and credit risk within real-time transaction streams.

[Table of Contents](#)

Customer Data Integration. Decisions made on customers or prospects can benefit from data stored in multiple sources, both inside and outside the enterprise. We have focused on developing data integration processes that are able to assemble and integrate those disparate data sources into a unified view of the customer or household, through the application of persistent keying technology.

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

Research and Development Activities

Our research and development expenses were \$67.6 million in fiscal 2003, \$33.8 million in fiscal 2002, and \$28.3 million in fiscal 2001. We believe that our future success depends on our ability to continually maintain and improve our core technologies, enhance our existing products, and develop new products and technologies that meet an expanding range of markets and customer requirements. In the development of new products and enhancements to existing products, we use our own development tools extensively.

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

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

PRODUCT PROTECTION AND TRADEMARKS

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

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

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

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

[Table of Contents](#)

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

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

PERSONNEL

As of September 30, 2003, we employed 2,355 persons worldwide. Of these, 465 full-time employees were located in our San Rafael, California office, 472 full-time employees were located in our Minneapolis and Arden Hills, Minnesota offices, and 410 full-time employees were located in our San Diego, California offices. None of our employees is covered by a collective bargaining agreement and no work stoppages have been experienced.

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

Fair Isaac, FICO, ScoreNet, PreScore, Fair Isaac MarketSmart Decision System, Fair Isaac SmartLink, LiquidCredit, StrategyWare, Capstone, CreditDesk, TRIAD, RoamEx, TelAdaptive, PlacementsPlus, Falcon, MIRA, CompAdvisor, AutoAdvisor, myFICO, Strategy Machine and “It’s just a smarter way to do business” are trademarks or registered trademarks of Fair Isaac Corporation, in the United States and/or in other countries.

Item 2. *Properties*

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

Our leased properties include:

- approximately 225,500 square feet of office space in San Rafael, California in three buildings under leases expiring in 2006 or later;
- approximately 238,000 square feet of office and data processing space in Arden Hills and Minneapolis, Minnesota in five buildings under leases expiring in 2012 or later;
- approximately 178,500 square feet of office space in San Diego, California in two buildings under leases expiring in 2004 or later; and
- an aggregate of approximately 395,000 square feet of office and data center space in Alpharetta, GA; Arlington, VA; Atlanta, GA; Baltimore, MD; Birmingham, UK; Brentford, UK; Brookings, SD; Chestnut Hill, MA; Chicago, IL; Coppell, TX; Cranbury, NJ; Emeryville, CA; Englewood, CO; Exton, PA; Golden CO; Irvine, CA; Madrid, Spain; Mooresville, NC; Nanuet, NY; New Castle, DE; New York, NY; Norwalk, CT; Oakbrook Terrace, IL; Paris, France; Petaluma, CA; Reston, VA; San Jose, CA; San Mateo, CA; San Ramon, CA; Sao Paulo, Brazil; Sarasota, FL; Singapore, Singapore; St. Louis, MO; Tokyo, Japan; Toronto, Canada; Walpole, MA; and Warrenville, IL.

See Note 20 to the accompanying consolidated financial statements for information regarding our obligations under leases. We believe that suitable additional space will be available to accommodate future needs.

Item 3. *Legal Proceedings*

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

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

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers as of September 30, 2003 were as follows:

<u>Name</u>	<u>Positions Held</u>	<u>Age</u>
Thomas G. Grudnowski	December 1999-present, Director, President and Chief Executive Officer of the Company. 1983-1999, Partner, Andersen Consulting.	53
Brett Bachman	September 2003-present, Vice President, Business Science. 1998-2003, President, Chief Operating Officer and Founder, MS2 Inc. 1982-1998, held a variety of positions with system and web management software enterprises, including Informix, Oracle, NeXT and Rational.	48
Chad L. Becker	August 2002-present, Vice President, Account Management, Fraud and Scoring Solutions. 2000-2002, Vice President, Global Financial Services of the Company. 1991-2000, held various other senior and executive positions with the Company.	35
Michael S. Chiappetta	August 2002-present, Vice President, Product Development. 1993-2002, held various senior positions, including Executive Vice President, Analytic Solutions, HNC Software Inc ("HNC").	39
Russell C. Clark	August 2002-present, Vice President, Finance and Corporate Controller. 2000-2002, held various positions, including Senior Vice President, Corporate Finance, HNC. 1990-2000, held various positions, including Senior Manager in the audit and business advisory services group, with PricewaterhouseCoopers LLP's Technology Industry Group.	35
Richard S. Deal	January 2001-present, Vice President, Human Resources of the Company. 1998-2001, Vice President, Human Resources, Arcadia Financial, Ltd. 1993-1998, managed broad range of human resources corporate and line consulting functions with U.S. Bancorp.	36
Sean M. Downs	August 2002-present, Vice President, Healthcare and Insurance Solutions. 1998-2002, held various executive positions, including President, HNC Insurance Solutions, Senior Vice President, Predictive Software Solutions, and Senior Vice President, Strategic Development, HNC. 1990-1998, held various executive positions, including Senior Vice President, Sales and Marketing with Risk Data Corporation.	43
Eric J. Educate	July 2000-present, Vice President, Worldwide Sales. 1999-2000, Vice President of Global Sales, Imation Corporation. 1997-1999, sales executive, EMC Corporation. 1987-1997, held various sales leadership positions with Silicon Graphics.	51

[Table of Contents](#)

Name	Positions Held	Age
Andrea M. Fike	February 2002-present, Vice President, General Counsel and Secretary of the Company. 2001-2002, Vice President and General Counsel of the Company. 1999-2001, Senior Counsel of the Company. 1998-1999, Partner, Faegre & Benson, LLP. 1989-1997, Associate, Faegre & Benson.	43
W. Thomas McEnery	May 2001-present, Vice President, Marketing of the Company. 1993-2001, Group Director, Fallon Worldwide.	41
William F. Nowacki, Jr.	January 2003-present, Vice President, Professional Services of the Company. 2001-2002, Partner, KJE, LLC. 1999-2000, EVP World-Wide Sales & Services, Armature Ltd. 1996-1998, Director and Chief Executive Officer, Hyperparallel, Inc. 1994-1996, Managing Partner, Americas Professional Services, NCR Corporation. 1991-1993, Principal, The Delaware Group. 1984-1990, Regional Manager, Teradata Corporation.	43
Mark P. Pautsch	August 2000-present, Vice President and Chief Information Officer — Technology Solutions of the Company. 1999-2000, Managing Partner for the CIO Technology Services Organization, Andersen Consulting. 1995-1999, Managing Partner, Teleworks Solution Center. 1979-1995, held various positions with Andersen Consulting.	47
Larry E. Rosenberger	December 1999-present, Vice President, Research and Development — Analytics of the Company. 1991-1999, President and Chief Executive Officer of the Company. 1983-1991, various executive positions with the Company. 1983-1999, a director of the Company. Joined the Company in 1974.	57
Kenneth J. Saunders	August 2002-present, Vice President, Chief Financial Officer of the Company. 2000-2002, Chief Financial Officer and Secretary of HNC. 1999-2000, Vice President and Chief Financial Officer, HNC. 1997-2002, held various financial positions, including Treasurer, Corporate Controller, and Vice President Corporate Finance, with HNC.	42
Steven A. Sjoblad	August 2002-present, Vice President, Consumer Solutions of the Company. 2002-2001, Vice President, Corporate Development of the Company. 1981-2001, Managing Director and President, Fallon McElligott.	54

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

Our common stock trades on the New York Stock Exchange under the symbol: FIC. According to records of our transfer agent, at September 30, 2003, we had 481 shareholders of record of our common stock.

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

	High	Low
Fiscal 2002		
October 1 — December 31, 2001	\$43.33	\$25.19
January 1 — March 31, 2002	\$43.67	\$31.79
April 1 — June 30, 2002	\$44.00	\$32.87
July 1 — September 30, 2002	\$39.40	\$29.48
Fiscal 2003		
October 1 — December 31, 2002	\$43.74	\$29.72
January 1 — March 31, 2003	\$50.78	\$42.45
April 1 — June 30, 2003	\$55.73	\$49.10
July 1 — September 30, 2003	\$60.95	\$49.30

Dividends

We paid quarterly dividends of 2 cents per share, or 8 cents per year, during the 2003, 2002 and 2001 fiscal years. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, 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. On June 5, 2002 and June 4, 2001, we effected three-for-two common stock splits, each in the form of a stock dividend. All share and per share amounts within this report have been restated to reflect these stock splits.

Item 6. Selected Financial Data

On August 5, 2002, we completed our acquisition of HNC Software Inc. (“HNC”), a provider of analytic and decision management software. Results of operations of HNC are included prospectively from the date of acquisition. As a result of this acquisition, and to lesser degrees the Nykamp Consulting Group, Inc. (“Nykamp”) acquisition consummated in December 2001, the Spectrum Managed Care, Inc. (“Spectrum”) acquisition consummated in December 2002, the NAREX Inc. (“NAREX”) acquisition consummated in July 2003, and the Diversified HealthCare Services, Inc. (“Diversified HealthCare Services”) acquisition consummated in September 2003, the comparability of the data below is impacted.

	Fiscal Years Ended September 30,				
	2003	2002(1)	2001	2000	1999
	(In thousands, except per share data)				
Revenues	\$629,295	\$392,418	\$329,148	\$298,630	\$277,041
Operating income(2)	174,194	47,112	72,107	44,614	46,375
Income before income taxes	172,140	53,098	76,853	47,070	50,600
Net income	107,157	17,884	46,112	27,631	29,980
Earnings per share:					
Basic	\$ 2.23	\$ 0.49	\$ 1.40	\$ 0.86	\$ 0.95
Diluted	\$ 2.12	\$ 0.48	\$ 1.33	\$ 0.84	\$ 0.93
Dividends declared per share	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08

	At September 30,				
	2003	2002	2001	2000	1999
Working capital	\$ 569,510	\$ 337,965	\$ 94,624	\$100,694	\$ 55,885
Total assets	1,495,173	1,217,800	317,013	241,288	210,353
Senior convertible notes	400,000	—	—	—	—
Convertible subordinated notes, net of discount	141,364	139,922	—	—	—
Long-term capital lease obligations	—	—	—	—	364
Stockholders' equity	849,542	973,472	271,772	199,001	156,499

- (1) Results of operations for fiscal 2002 include a \$40.2 million charge associated with the write-off of in-process research and development in connection with the HNC acquisition and \$7.2 million in restructuring and other acquisition-related charges.
- (2) Includes amortization of goodwill prior to our adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002.

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

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

RESULTS OF OPERATIONS

Overview

We are 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 year ended September 30, 2003, 82% 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-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. 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.

On August 5, 2002, we completed our acquisition of HNC, a provider of analytic and decision management software. Results of operations of HNC are included prospectively from the date of acquisition. As a result of this acquisition, and to lesser degrees the Nykamp acquisition consummated in December 2001, the Spectrum acquisition consummated in December 2002, the NAREX acquisition consummated in July 2003, and the Diversified HealthCare Services acquisition consummated in September 2003, our financial results during the year ended September 30, 2003, are not directly comparable to those during the years ended September 30, 2002 and 2001.

Our reportable segments are: Scoring Solutions, Strategy Machine Solutions, Professional Services and Analytic Software Tools. 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 years ended September 30, 2003, 2002 and 2001 are set forth in Note 18 to the accompanying consolidated financial statements.

[Table of Contents](#)

Revenues

The following table displays (a) the percentage of revenues by segment and (b) the percentage change in segment revenues from the prior fiscal year for the fiscal periods indicated. Segment information for fiscal 2002 and 2001 has been restated to conform to fiscal 2003 presentation.

Segment	Percentage of Revenues			Period-to-Period Percentage Change	
	Fiscal Year			2003 to 2002	2002 to 2001
	2003	2002	2001		
Scoring Solutions	22%	33%	38%	6%	3%
Strategy Machine Solutions	60%	48%	49%	100%	18%
Professional Services	13%	16%	11%	34%	69%
Analytic Software Tools	5%	3%	2%	148%	83%
Total Revenues	100%	100%	100%	60%	19%

Total revenues increased by \$236.9 million from \$392.4 million during fiscal 2002 to \$629.3 million during fiscal 2003, which included a \$4.8 million increase in revenues that resulted from our three fiscal 2003 acquisitions as well as increases attributable to products and services previously offered by HNC as discussed below. **Scoring Solutions** segment revenues increased by \$8.0 million from \$128.0 million during fiscal 2002 to \$136.0 million during fiscal 2003, primarily due to a \$6.0 million increase in PreScore service revenues and a \$4.7 million increase in revenues derived from risk scoring services at the credit reporting agencies, partially offset by a \$2.7 million net decrease in various other product revenues. The increase in PreScore revenues was attributable primarily to a higher level of marketing efforts by credit card issuers. The growth in risk scoring services resulted primarily from increased sales of scores for account review as well as mortgage origination and refinancing. During fiscal 2003 and 2002, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 19% and 27%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments. **Strategy Machine Solutions** segment revenues increased by \$190.4 million from \$190.2 million during fiscal 2002 to \$380.6 million during fiscal 2003, primarily due to a \$159.9 million increase in revenues derived from products and services previously offered by HNC, a \$11.2 million increase in revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, a \$9.2 million increase in Strategy Science revenues, a \$6.9 million increase in TRIAD revenues and a \$3.2 million net increase in various other product revenues. The increase in consumer score services revenue was attributable primarily to an increase in customer volume. The increase in Strategy Science revenues was principally due 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. The increase in Strategy Science revenues also included \$4.5 million in fees associated with perpetual licensing of preconfigured strategies to customers who had previously licensed the strategies on a transactional, service basis. The increase in TRIAD revenues was attributable primarily to an increase in perpetual license sales and an increase in transactional volume associated with our processor account management services period over period. Fiscal 2003 revenues also include \$2.6 million of Falcon perpetual license fees related to the integration of licensing rights in connection with client acquisition activity and superseding transactional license fee arrangements. **Professional Services** segment revenues increased by \$21.4 million from \$62.6 million during fiscal 2002 to \$84.0 million during fiscal 2003, primarily due to increased revenues of \$23.2 million resulting from the acquisition of HNC, partially offset by a \$1.8 million net decrease associated with various other professional service offerings. **Analytic Software Tools** segment revenues increased by \$17.2 million from \$11.6 million during fiscal 2002 to \$28.8 million during fiscal 2003, primarily due to a \$15.7 million increase in revenues derived from products previously offered by HNC and a \$3.3 million increase from Strategy Science software products in connection with the perpetual licensing of preconfigured strategies to customers who had previously licensed the strategies on a transactional, service basis, partially offset by a \$1.8 million net decrease in revenues associated with various other products.

[Table of Contents](#)

Total revenues increased by \$63.3 million from \$329.1 million during fiscal 2001 to \$392.4 million during fiscal 2002. **Scoring Solutions** segment revenues increased by \$4.0 million from \$124.0 million during fiscal 2001 to \$128.0 million during fiscal 2002, primarily due to a \$6.4 million increase in revenues derived from risk and insurance scoring services at the credit reporting agencies and a \$0.6 million net increase in other product revenues, partially offset by a \$3.0 million decrease in PreScore and ScoreNet services. The growth in risk scoring services resulted primarily from increased sales of scores for account review and increased online scores for auto financing, as well as for mortgage originations and refinancing. During both fiscal 2002 and 2001, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 27% of our total revenues, including revenues from these customers that are recorded in our other segments. **Strategy Machine Solutions** segment revenues increased by \$28.4 million from \$161.8 million during fiscal 2001 to \$190.2 million during fiscal 2002, primarily due to the addition of \$28.2 million of revenues derived from products and services previously offered by HNC, an \$8.0 million increase in revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, partially offset by a \$4.8 million decrease in MarketSmart Decision System revenues and a \$3.0 million net decrease in various other product revenues. The increase in consumer score services revenue was attributable primarily to an increase in customer volume. The decrease in MarketSmart Decision System revenues was attributable primarily to a decline in customer transaction volumes. **Professional Services** segment revenues increased by \$25.6 million from \$37.0 million during fiscal 2001 to \$62.6 million during fiscal 2002, primarily due to a \$6.0 million increase in revenues resulting from the acquisition of HNC, a \$5.4 million increase in Strategy Science development revenues, a \$3.4 million increase in TRIAD implementation revenues and a \$10.8 million net increase associated with various other professional service offerings. **Analytic Software Tools** segment revenues increased by \$5.3 million from \$6.3 million during fiscal 2001 to \$11.6 million during fiscal 2002, primarily due to the addition of \$3.1 million in Blaze Advisor revenues previously offered by HNC, a \$2.5 million increase in Blaze Decision System revenues, offset by a \$0.3 million net decrease in revenues associated with various other products. The increase in Blaze Decision System revenues was attributable to an increase in perpetual license sales.

Revenues derived from clients outside the United States totaled \$133.6 million, \$76.2 million and \$60.0 million in fiscal 2003, 2002 and 2001, respectively, representing 21%, 19% and 18% of total consolidated revenues in each of these years.

[Table of Contents](#)

Operating Expenses and Other Income (Expense)

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

	Percentage of Revenues			Period-to-Period	
	Fiscal Year			Percentage Change	
	2003	2002	2001	2003 to 2002	2002 to 2001
Revenues	100%	100%	100%	60%	19%
Operating expenses:					
Cost of revenues	39%	44%	44%	43%	16%
Research and development	11%	9%	9%	100%	19%
Selling, general and administrative	20%	22%	24%	43%	12%
Amortization of intangible assets	2%	1%	1%	215%	109%
In-process research and development	—	10%	—	(100)%	100%
Restructuring and merger-related	—	2%	—	(65)%	100%
Total operating expenses	72%	88%	78%	32%	34%
Operating income	28%	12%	22%	270%	(35)%
Interest income	1%	2%	2%	18%	10%
Interest expense	(2)%	—	—	621%	—
Other income (expense), net	—	—	—	—	—
Income before income taxes	27%	14%	23%	224%	(31)%
Provision for income taxes	10%	9%	9%	85%	15%
Net income	17%	5%	14%	499%	(61)%

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; amounts payable to credit reporting agencies for scores; software costs; and expenses related to our consumer score services through myFICO.com.

The fiscal 2003 over fiscal 2002 increase in cost of revenues was principally due to the HNC acquisition. Cost of revenues, as a percentage of revenues, decreased during fiscal 2003 as compared to 2002. This percentage decrease was attributable primarily to the addition of higher margin product offerings from the HNC acquisition, including Falcon Fraud Manager, Capstone Decision Manager, RoamEx and Blaze Advisor, an increase in higher margin Strategy Science and Decision Optimizer revenues, an increase in high margin TRIAD perpetual license sales and higher margins achieved by our consumer score services through myFICO.com due to increased revenues and related cost efficiencies.

The fiscal 2002 over 2001 increase in cost of revenues was principally due to the acquisition of the Nykamp and HNC businesses and to an increase in direct materials expenses associated with our consumer score services through myFICO.com, offset by a reduction in the use of outside consultants and contractors that are relatively more expensive than internal resources. Cost of revenues, as a percentage of revenues, was consistent between fiscal 2002 and 2001.

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 fiscal 2003 over fiscal 2002 increase in research and development expenses was principally due to the HNC acquisition. Research and development expenses, as a percentage of revenues, increased in fiscal 2003 as compared to fiscal 2002. This percentage increase was attributable primarily to a higher level of research and development efforts associated with product lines acquired from HNC. Research and development expenses as a percentage of revenues were consistent between fiscal 2002 and fiscal 2001. We anticipate that research and development expenditures in future periods, as a percentage of revenue, will be consistent with fiscal 2003 levels.

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 fiscal 2003 over fiscal 2002 increase in selling, general and administrative expenses was principally due to the HNC acquisition. Selling, general and administrative expenses, as a percentage of revenues, decreased in fiscal 2003 as compared to fiscal 2002. This percentage decrease was attributable primarily to personnel and other general and administrative cost efficiencies achieved by the HNC acquisition, offset partially by a \$2.5 million increase in our provision for doubtful accounts and a \$2.3 million increase in media expenditures.

Selling, general and administrative expenses, as a percentage of revenues, decreased in fiscal 2002 as compared to fiscal 2001. This percentage decrease was attributable primarily to a reduction in personnel, consulting, sales commission, conference and trade show expenses, offset in part by increased personnel and other expenses resulting from the HNC acquisition during fiscal 2002.

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. Effective October 1, 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, and accordingly, ceased the amortization of goodwill and indefinite-lived intangible assets. Amortization expense in fiscal 2003 totaled \$13.8 million as compared to amortization expense of \$4.4 million in fiscal 2002. The increase is attributable primarily to the incremental amortization of intangible assets recorded in connection with the HNC acquisition in August 2002, and to a lesser degree the full year of amortization of intangible assets resulting from our acquisition of assets from Nykamp in December 2001, the nine months of amortization of intangible assets resulting from our acquisition of assets from Spectrum in December 2002, the two months of amortization of intangible assets resulting from our acquisition of assets from NAREX in July 2003, and the partial month of amortization of intangible assets resulting from our acquisition of assets from Diversified HealthCare Services in September 2003.

Amortization expense in fiscal 2002 totaled \$4.4 million as compared to amortization expense of \$2.1 million in fiscal 2001. The increase in fiscal 2002 is attributable primarily to the incremental amortization of intangible assets recorded in connection with the HNC acquisition on August 5, 2002, and to a lesser degree the amortization of intangible assets resulting from our acquisition of assets from Nykamp in December 2001.

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.

In-process Research and Development

During fiscal 2002, we recorded in-process research and development (IPR&D) expense of \$40.2 million in connection with our acquisition of HNC. No IPR&D was recorded in connection with our fiscal 2003 acquisitions as we did not acquire any in-process technology. IPR&D represents the present value of the estimated after-tax cash flows expected to be generated by purchased technologies that, as of the acquisition dates, had not yet reached technological feasibility. The classification of the technology as complete or under development was made in accordance with the guidelines of SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, and Financial Accounting Standards Board Interpretation No. 4, *Applicability of SFAS No. 2 to Business Combinations Accounted for by the Purchase Method*. In addition, the Fair Value, as defined below, of the IPR&D projects was determined in accordance with SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*.

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

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

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

Restructuring and Merger-related

During fiscal 2002, in connection with our acquisition of HNC, we incurred charges totaling \$7.2 million, consisting of the following: (i) \$5.0 million in restructuring charges, including \$3.2 million in charges associated with our abandonment of a Fair Isaac facility lease concurrent with the acquisition, representing future cash obligations under the lease net of estimated sublease income, and \$1.8 million in severance costs associated with a reduction in Fair Isaac staff in connection with the acquisition, and (ii) \$2.2 million in other non-recurring acquisition related costs, consisting primarily of retention bonuses earned through September 30, 2002 by employees with future severance dates and employee outplacement costs.

During fiscal 2003, we incurred HNC-related merger expenses totaling \$2.5 million, consisting primarily of retention bonuses. No such amounts were recorded in fiscal 2001.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. Interest income increased to \$7.5 million in fiscal 2003, as compared to \$6.4 million for fiscal 2002 and \$5.8 million in fiscal 2001. The increases were attributable primarily to higher average cash and investment balances, principally resulting from our acquisition of HNC on August 5, 2002, an increase in cash proceeds from stock option exercises, and \$391.5 million in net proceeds from the issuance of our 1.5% Senior Convertible Notes in August 2003, partially offset by increases in our repurchases of common stock and lower interest and investment income yields due to market conditions.

Interest Expense

On August 6, 2003, we issued \$400.0 million of 1.5% Senior Convertible Notes (the "Senior Notes") that mature in August 2023. Interest expense on the Senior Notes recorded by us, including amortization of debt issuance costs, totaled \$1.3 million during fiscal 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% Convertible Subordinated Notes (the "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 \$9.3 million and \$1.5 million during fiscal 2003 and 2002, respectively.

Other Income (Expense), Net

Other income (expense), net consists primarily of realized investment gains/losses, exchange rate gains/losses resulting from re-measurement of foreign-denominated receivable and cash balances held by our U.S. reporting entities into the U.S. dollar functional currency at period-end market rates, net of the impact of offsetting forward exchange contracts, and other non-operating items. Other income, net totaled \$1.0 million in fiscal 2003 as compared to \$1.1 million in fiscal 2002. The decrease in other income, net is attributable primarily to a \$1.9 million decrease in gains recorded from the sale of marketable securities during fiscal 2003 as compared to fiscal 2002, partially offset by the non-recurrence of a \$1.1 million loss associated with the impairment and write-off of an equity investment recorded during fiscal 2002 and to a \$0.7 million increase in foreign exchange rate gains recorded during fiscal 2003 as compared to fiscal 2002.

Other income, net totaled \$1.1 million in fiscal 2002 as compared to other expense, net of \$1.0 million in fiscal 2001. Other income, net in fiscal 2002 includes \$2.7 million in realized gains on the sale of investments, whereas investment gains/losses were insignificant in fiscal 2001.

Provision for Income Taxes

Our effective tax rate was 37.75%, 66.3% and 40.0% in fiscal 2003, 2002 and 2001, respectively. The fiscal 2003 over 2002 decrease was principally due to the non-recurrence of a \$40.2 million non-deductible IPR&D charge. The fiscal 2002 over 2001 increase was principally due to the \$40.2 million non-deductible IPR&D charge, offset by the reduction of the valuation allowance on capital loss carryovers and to the increased availability of research and development tax credits. The fiscal 2002 effective tax rate, excluding the IPR&D adjustment, would have been 37.7%.

Operating Income

Operating income increased from \$47.1 million in fiscal 2002 to \$174.2 million in fiscal 2003. This increase was attributable primarily to the HNC acquisition, including the non-recurrence of the \$40.2 million IPR&D charge, a \$4.7 million decrease in 2003 related to merger-related expenses, and to a lesser degree, increased revenues and operating income associated with legacy Fair Isaac product offerings. At the segment level, the increase in operating income was attributable primarily to a \$63.5 million increase in segment operating income within our Strategy Machine Solutions segment, and to a lesser degree increased segment operating income within our Professional Services, Scoring Solutions and Analytic Software Tools segments of \$11.1 million, \$4.2 million, and \$3.4 million, 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 additional revenues derived from products and services previously offered by HNC, but also by the increase in revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, an increase in Strategy Science revenues and an increase in TRIAD revenues. HNC merger-related cost efficiencies also contributed to the increase in Strategy Machine Solutions segment operating income. The increase in Professional Services segment operating income was driven primarily by the increase in segment revenues, including those derived from legacy HNC services as well as an increase in higher margin professional service revenues associated with legacy Fair Isaac product offerings. The increase in Scoring Solutions segment operating income was driven primarily by an increase in PreScore revenues and by an increase in revenues derived from risk scoring services at the credit reporting agencies. The increase in Analytic Software Tools segment operating income was driven primarily by the addition of higher margin Blaze Advisor revenues previously offered by HNC and by the increase in higher margin Decision Optimizer software license revenues.

Operating income decreased from \$72.1 million for fiscal 2001 to \$47.1 million for fiscal 2002. This decrease was attributable primarily to the \$40.2 million IPR&D charge and \$7.2 million in other merger-related costs recorded in connection with the HNC acquisition. Excluding these charges, operating income in fiscal 2002 increased by \$22.4 million. At the segment level, the increase in operating income was attributable to increased segment operating income within our Strategy Machine Solutions, Scoring Solutions, and Analytical Software Tools segments of \$11.9 million, \$11.6 million and \$2.6 million, respectively, partially offset by a \$3.7 million decrease in segment operating income within our Professional Services segment. The increase in Strategy Machine Solutions segment operating income was driven primarily by the increase in revenues from consumer score services through myFICO.com and strategic alliance partners' web sites, as well as additional revenues derived from products and services previously offered by HNC. The increase in Scoring Solutions segment operating income was driven primarily by an increase in revenues derived from risk scoring services at the credit reporting agencies. The increase in Analytic Software Tools segment operating income was due primarily to an increase in higher margin Blaze Decision System and Blaze Advisor revenues in fiscal 2002, the latter of which resulted from the HNC acquisition. The decrease in the Professional Services segment operating income resulted primarily from the acquisitions of Nykamp and HNC, which contributed to lower professional services margins in fiscal 2002, offset by the increase in professional service revenue contributions from these acquisitions.

Stock-based Compensation

We have stock-based employee compensation plans, which are described more fully in Notes 1 and 17 to the accompanying consolidated financial statements. We measure compensation expense for our employee

[Table of Contents](#)

stock-based compensation awards using the intrinsic value method and provide pro forma disclosures of net income and earnings per share as if a fair value method had been applied. Therefore, compensation cost for employee stock awards is measured as the excess, if any, of the fair value of our common stock at the grant date over the amount an employee must pay to acquire the stock and is amortized over the related service periods using the straight-line method. Compensation expense previously recorded for unvested employee stock-based compensation awards that are forfeited upon employee termination is reversed in the period of forfeiture.

We recorded stock-based compensation expense of \$3.0 million, \$1.4 million and \$1.0 million during fiscal 2003, 2002 and 2001, respectively. This expense is recorded in cost of revenues, research and development, and selling, general and administrative expense. The fiscal 2003 over fiscal 2002 increase is primarily due to a \$1.0 million incremental increase related to a full year of amortization of deferred compensation related to 156,700 shares of restricted common stock granted during fiscal 2002, which vest in 25% increments at each annual anniversary from the grant date. We are amortizing this deferred compensation on a straight-line basis over the total four-year vesting period. The additional \$0.6 million increase is due a full year of 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. This deferred compensation is being amortized on a straight-line basis over the vesting period of the options.

The fiscal 2002 over fiscal 2001 increase is primarily due to amortization of \$0.2 million of deferred compensation on the intrinsic value of HNC's unvested options to purchase Fair Isaac common stock assumed at the time of the HNC acquisition. The additional \$0.2 million increase is due to amortization of deferred compensation on the shares of restricted common stock granted during fiscal 2002.

Capital Resources and Liquidity

Our working capital at September 30, 2003 and 2002 totaled \$569.5 million and \$338.0 million, respectively. The increase in working capital year over year is attributable primarily to a \$224.1 million increase in cash and cash equivalents and short-term marketable securities, and an aggregate \$7.4 million increase in other net working capital accounts. The increase in cash and cash equivalents and short-term marketable securities is principally due to the \$391.5 million in net proceeds from issuance of the Senior Notes in August 2003, net cash provided by operating and other financing activities during fiscal 2003, as described below, partially offset by the use of \$331.6 million for stock repurchases.

The increase in other net working capital balances consisted primarily of a \$12.0 million increase in net receivables, a \$10.9 million decrease in other accrued liabilities, a \$2.3 million decrease in accrued compensation and employee benefits, offset by a \$8.4 million increase in deferred revenue, a \$7.7 million increase in accounts payable, a \$1.2 million decrease in deferred income taxes, and a \$0.5 million decrease in prepaid expenses and other current assets. The increase in net receivables was attributable primarily to an increase in revenues during the quarter ended September 30, 2003, as compared to the quarter preceding September 30, 2002, partially offset by an increase in our allowance for doubtful accounts. The decrease in other accrued liabilities was attributable primarily to a reduction in HNC merger-related accruals, partially offset by an increase in income taxes payable. The decrease in accrued compensation and employee benefits was attributable primarily to a decrease in accrued incentive compensation. The increase in deferred revenue was attributable primarily to an increase in customer prepayments. The increase in accounts payable was attributable primarily to the timing of vendor disbursements and to a lesser degree the acquisitions of NAREX and Diversified HealthCare Services.

Our primary method for funding operations and growth has been through cash flows generated from operations. Net cash provided by operating activities increased from \$103.1 million in fiscal 2002 to \$174.6 million in fiscal 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 provided by operating activities increased from \$70.5 million in fiscal 2001 to \$103.1 million in fiscal 2002, reflecting primarily an increase in net earnings before merger-related IPR&D and other non-cash charges, partially offset by the effect of net working capital changes excluding the impact of the HNC and Nykamp acquisitions.

[Table of Contents](#)

Net cash used in investing activities totaled \$153.9 million in fiscal 2003, compared to net cash provided by investing activities of \$92.5 million in fiscal 2002, and net cash used in investing activities of \$98.1 million in fiscal 2001. The increase in net cash used in investing activities during fiscal 2003 as compared to fiscal 2002 is attributable primarily to a \$189.1 million decrease in net cash and cash equivalents acquired in acquisitions, net of cash paid, period over period, a \$65.5 million increase in purchases of marketable securities, net of sales and maturities, and \$0.5 million in cash paid for a cost-method investment in the current year period only, offset by a \$5.1 million reduction in property and equipment purchases and the receipt of \$3.6 million in cash proceeds from the sale of a product line in the current period. The increase in cash flows provided by investing activities in fiscal 2002 as compared to fiscal 2001 is attributable primarily to the \$143.1 million of cash and cash equivalents acquired in the HNC acquisition, a \$49.5 million reduction in purchases of marketable securities, net of proceeds from sales and maturities, a \$0.6 million reduction in property and equipment purchases, partially offset by \$2.6 million of cash paid to effect the Nykamp acquisition in fiscal 2002.

Net cash provided by financing activities totaled \$132.0 million in fiscal 2003, compared to net cash used in financing activities of \$123.4 million in fiscal 2002 and net cash provided by financing activities of \$12.7 million in fiscal 2001. The increase in net cash provided by financing activities during fiscal 2003 as compared to fiscal 2002 is attributable primarily to the \$391.5 million in net proceeds from issuance of the Senior Notes, a \$52.3 million increase in proceeds from issuances of common stock year over year, partially offset by the use of \$331.6 million in cash to repurchase common stock in fiscal 2003, as compared to the use of \$144.4 million to repurchase common stock in fiscal 2002, and a \$1.3 million increase in dividends paid year over year. The increase in net cash used in financing activities in fiscal 2002, as compared to fiscal 2001, is attributable primarily to the \$144.4 million in cash to repurchase common stock in fiscal 2002, as compared to the use of \$19.9 million to repurchase common stock in fiscal 2001, a \$10.6 million decrease in proceeds from issuances of common stock, and to a \$1.3 million increase in dividends paid year over year.

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During fiscal 2003, 2002 and 2001, we expended \$331.6 million, \$144.4 million and \$19.9 million, respectively, 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. No shares have been repurchased under this new program.

We paid quarterly dividends of two cents per share, or eight cents per year, during each of fiscal 2003, 2002 and 2001. 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.

On August 6, 2003, we issued \$400.0 million of the Senior Notes. 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 5 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.

[Table of Contents](#)

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. The Subordinated Notes are convertible into shares of Fair Isaac common stock at a conversion rate of approximately 18.02 shares of Fair Isaac common stock per \$1,000 principal amount of the Subordinated Notes, subject to anti-dilution adjustment. 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. We may redeem the Subordinated Notes on or after September 5, 2004, or earlier if the price of Fair Isaac common stock reaches certain levels. If we redeem the Subordinated Notes prior to September 1, 2007, we will also be required to pay a redemption premium as prescribed by the indenture.

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 September 30, 2003, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of September 30, 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 September 30, 2003, this credit facility also served to collateralize contracts to sell certain currencies aggregating \$7.6 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.

As of September 30, 2003, we had \$660.7 million in cash, cash equivalents and marketable security investments. We believe that these balances, including interest to be earned thereon, and anticipated cash flows from operating activities will be sufficient to fund our working and other capital requirements over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security

[Table of Contents](#)

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. The most recent capital call required us to invest an additional \$0.5 million into this fund in May 2003. It is possible that additional capital calls may require us to invest some or all of our remaining commitment during fiscal 2004.

The following is a summary of our contractual obligations as of September 30, 2003:

	2004	2005	2006	2007	2008	Thereafter	Total
	(In thousands)						
Senior Notes(1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$400,000	\$400,000
Subordinated Notes(2)	—	—	—	—	150,000	—	150,000
Operating lease obligations	22,355	20,217	18,710	16,748	15,614	56,411	150,055
Mainframe service agreement	6,598	517	—	—	—	—	7,115
Azure cost-method investment capital call(3)	1,413	—	—	—	—	—	1,413
Total commitments	\$30,366	\$20,734	\$18,710	\$16,748	\$165,614	\$456,411	\$708,583

- (1) \$400.0 million represents the aggregate principal amount of the Senior Notes. Refer to Note 9 to our accompanying consolidated financial statements for more detailed information regarding the Senior Notes.
- (2) \$150.0 million represents the aggregate principal amount of the Subordinated Notes. Refer to Note 10 to our accompanying consolidated financial statements for more detailed information regarding the Subordinated Notes.
- (3) We are committed to invest an additional \$1.4 million into the Azure 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.

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.

Transactional-based license fees under software license arrangements, network service and internally-hosted software agreements are recognized as revenue based on system usage or when fees based on system usage exceed monthly minimum license fees, provided persuasive evidence of an arrangement exists, fees are fixed or determinable and collection is reasonably assured.

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. 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 closely analyze specific accounts receivable balances, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment cycles. Material differences may result in the amount and timing of expense for any period if we were to make different judgments or utilize different estimates. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances might be required.

Business Acquisitions; Valuation of Goodwill and Other Intangible Assets

Our business acquisitions typically result in the recognition of goodwill and other intangible assets, and in certain cases one-time charges associated with the write-off of in-process research and development, which affect the amount of current and future period charges and amortization expense. The determination of the value of these components of a business combination, as well as associated asset useful lives, requires management to make various estimates and assumptions. Estimates using different, but each reasonable, assumptions could produce significantly different results.

We continually review the events and circumstances related to our financial performance and economic environment for factors that would provide evidence of the impairment of goodwill. We adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002, and as a result have ceased amortization of goodwill. As required by SFAS No. 142, we have determined that our reporting units are the same as our reportable segments. In addition, we were required to assess whether goodwill within our reporting units was impaired at the date of the adoption of this statement using a two-step transitional impairment test. We completed the first step during fiscal 2003, and determined that goodwill was not impaired on October 1, 2002. Accordingly, we were not required to complete the second step of the impairment test. We selected the fourth quarter to perform our annual goodwill impairment test, and determined that goodwill was not impaired as of July 1, 2003. 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, write-offs of capitalized software costs could result.

Internal-use Software

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

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. If we determine during any period that we could realize a larger net deferred tax asset than the recorded amount, we would adjust the deferred tax asset to increase income for the period. Conversely, if we determine that we would be unable to realize a portion of our recorded deferred tax asset, we would adjust the deferred tax asset to record a charge to income for the period.

Contingencies and Litigation

We are subject to various proceedings, lawsuits and claims relating to product, technology, labor, shareholder and other matters. We are required to assess the likelihood of any adverse outcomes and the potential range of probable losses in these matters. The amount of loss accrual, if any, is determined after analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies.

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 from some or all of our Falcon Fraud Manager, Decision Manager for Medical Bill Review, Outsourced Bill Review and account management products and services, and our agreements with TransUnion, Equifax and Experian, 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. These contracts accounted for 19% of our revenues in fiscal 2003. The loss of any major customer, the loss of a relationship with one of the major credit reporting agencies or the delay of significant revenue from these customers or credit reporting agencies, 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

[Table of Contents](#)

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. 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, our Decision Manager for Medical Bill Review products uses 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;

[Table of Contents](#)

- 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

[Table of Contents](#)

operate in Internet, intranet and other online environments. Our future success will depend, in part, upon our ability to:

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

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

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

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

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

[Table of Contents](#)

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, the national uniformity provisions of the FCRA are set to expire in 2004 which could lead to greater state regulation and additional costs to our business. 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, our Decision Manager for Medical Bill Review products and Outsourced Bill Review services.

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

During fiscal 2003, 82% 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,

[Table of Contents](#)

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 could continue to result in a reduced demand for our products and services.

Due to the economic slowdown in the United States and in Europe in recent years, companies in many industries are delaying or reducing technology purchases. This softening of demand for our decisioning solutions or other products and services results in reductions in capital expenditures by our customers, longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition. As a result, if the current economic conditions in the U.S. and Europe continue or worsen, if a wider or global economic slowdown occurs, or if there is an escalation in regional or continued global conflicts, we may fall short of our revenue expectations for the first quarter of fiscal 2004 or for the entire year.

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

A growing portion of our revenues is derived from international sales. During fiscal 2003, 21% 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 Amended and 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.

If requirements relating to accounting treatment for employee stock options are changed, we may be forced to change our business practices.

We have not decided to expense stock options despite the recent debate regarding the accounting treatment of stock options. If we elected or were required to record an expense for 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 avoid any 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 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

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

Interest Rate 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

[Table of Contents](#)

market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our fixed rate investment portfolio at September 30, 2003 and 2002:

	September 30, 2003			September 30, 2002		
	Cost Basis	Carrying Amounts	Average Yield	Cost Basis	Carrying Amounts	Average Yield
(In thousands)						
Cash and cash equivalents	\$243,368	\$243,358	1.05%	\$ 76,195	\$ 76,189	1.66%
Short-term investments	255,423	255,893	1.50%	184,434	184,377	2.39%
Long-term investments	151,201	151,610	1.94%	135,788	136,971	3.27%
	<u>\$649,992</u>	<u>\$650,861</u>	1.43%	<u>\$396,417</u>	<u>\$397,537</u>	2.55%

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.

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 September 30, 2003:

	Contract Amount		Fair Value US\$
	Foreign Currency	US\$	
(In thousands)			
Sell foreign currency:			
British Pound (GBP)	GBP 3,500	\$5,783	\$5,804
EURO (EUR)	EUR 1,300	1,493	1,514
Japanese Yen (YEN)	YEN 34,000	305	305
		<u>\$7,581</u>	<u>\$7,623</u>

Item 8. Financial Statements and Supplementary Data

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

Fair Isaac Corporation:

We have audited the accompanying consolidated balance sheets of Fair Isaac Corporation and subsidiaries (the "Company") as of September 30, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fair Isaac Corporation and subsidiaries as of September 30, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and accordingly, changed its method of accounting for goodwill effective October 1, 2002.

/s/ KPMG LLP

Los Angeles, California

October 31, 2003

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

	September 30,	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 249,458	\$ 96,834
Marketable securities available for sale, current portion	255,893	184,377
Receivables, net	138,712	126,743
Prepaid expenses and other current assets	16,981	17,498
Deferred income taxes, current portion	6,828	8,009
	667,872	433,461
Total current assets		
Marketable securities available for sale, less current portion	155,312	140,398
Other investments	8,942	9,804
Property and equipment, net	50,706	62,474
Goodwill	457,842	430,739
Intangible assets, net	93,930	89,375
Deferred income taxes, less current portion	40,738	45,384
Other assets	19,831	6,165
	\$1,495,173	\$1,217,800
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 15,267	\$ 7,603
Accrued compensation and employee benefits	25,839	28,153
Other accrued liabilities	25,672	36,532
Deferred revenue	31,584	23,208
	98,362	95,496
Total current liabilities		
Senior convertible notes	400,000	—
Convertible subordinated notes, net of discount	141,364	139,922
Other liabilities	5,905	8,910
	645,631	244,328
Total liabilities		
Commitments and contingencies (Notes 6, 20, 21 and 22)		
Stockholders' equity:		
Preferred stock (\$0.01 par value; 1,000 shares authorized; none issued and outstanding)	—	—
Common stock (\$0.01 par value; 100,000 shares authorized, 58,251 and 55,619 shares issued and 46,578 and 50,665 shares outstanding at September 30, 2003 and 2002, respectively)	466	507
Paid-in-capital	1,019,847	927,169
Treasury stock, at cost (11,673 and 4,954 shares at September 30, 2003 and 2002, respectively)	(486,477)	(163,038)
Unearned compensation	(3,710)	(7,128)
Retained earnings	319,341	216,041
Accumulated other comprehensive income (loss)	75	(79)
	849,542	973,472
Total stockholders' equity		
	\$1,495,173	\$1,217,800

See accompanying notes to consolidated financial statements.

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

	Years Ended September 30,		
	2003	2002	2001
Revenues	\$629,295	\$392,418	\$329,148
Operating expenses:			
Cost of revenues(1)	246,592	172,617	148,559
Research and development	67,574	33,840	28,321
Selling, general and administrative(1)	124,641	87,045	78,061
Amortization of intangible assets(1)	13,793	4,380	2,100
In-process research and development	—	40,200	—
Restructuring and merger-related	2,501	7,224	—
Total operating expenses	455,101	345,306	257,041
Operating income	174,194	47,112	72,107
Interest income	7,548	6,374	5,785
Interest expense	(10,605)	(1,471)	—
Other income (expense), net	1,003	1,083	(1,039)
Income before income taxes	172,140	53,098	76,853
Provision for income taxes	64,983	35,214	30,741
Net income	\$107,157	\$ 17,884	\$ 46,112
Earnings per share:			
Basic	\$ 2.23	\$ 0.49	\$ 1.40
Diluted	\$ 2.12	\$ 0.48	\$ 1.33
Shares used in computing earnings per share:			
Basic	48,123	36,534	32,979
Diluted	50,649	37,550	34,589

(1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 7 to consolidated financial statements.

See accompanying notes to consolidated financial statements.

FAIR ISAAC CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years Ended September 30, 2003, 2002 and 2001
(In thousands)

	Common Stock		Paid-In-Capital	Treasury Stock	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income (Loss)
	Shares	Par Value							
Balance at September 30, 2000	32,713	\$328	\$ 55,322	\$ (8,795)	\$(3,159)	\$155,949	\$ (644)	\$ 199,001	
Exercise of stock options	2,078	21	34,224	—	—	—	—	34,245	
Tax benefit from exercised stock options	—	—	8,449	—	—	—	—	8,449	
Amortization of unearned compensation	—	—	—	—	998	—	—	998	
Repurchases of common stock	(957)	(10)	—	(19,854)	—	—	—	(19,864)	
Issuance of ESPP and ESOP shares from treasury	123	1	(26)	2,210	—	—	—	2,185	
Dividends paid	—	—	—	—	—	(1,322)	—	(1,322)	
Cash paid in lieu of fractional shares in effecting stock split	—	—	(49)	—	—	—	—	(49)	
Net income	—	—	—	—	—	46,112	—	46,112	\$ 46,112
Unrealized gain on investments, net of tax of \$1,346	—	—	—	—	—	—	1,954	1,954	1,954
Cumulative translation adjustments, net of tax of \$42	—	—	—	—	—	—	63	63	63
Balance at September 30, 2001	33,957	340	97,920	(26,439)	(2,161)	200,739	1,373	271,772	\$ 48,129
Issuance of stock in HNC acquisition	18,780	188	719,857	—	—	—	—	720,045	
Options assumed in HNC acquisition	—	—	68,705	—	(1,827)	—	—	66,878	
Restricted stock in escrow — Nykamp acquisition	87	1	2,817	—	—	—	—	2,818	
Exercise of stock options	1,383	14	23,662	—	—	—	—	23,676	
Tax benefit from exercised stock options	—	—	14,350	—	—	—	—	14,350	
Amortization of unearned compensation	—	—	—	—	1,418	—	—	1,418	
Forfeitures of stock options assumed in HNC acquisition	—	—	(237)	—	237	—	—	—	
Repurchases of common stock	(3,800)	(38)	—	(144,313)	—	—	—	(144,351)	
Issuance of ESPP and ESOP shares from treasury	102	1	462	2,693	—	—	—	3,156	
Issuance of restricted stock to employees from treasury, net of forfeitures	156	1	(227)	5,021	(4,795)	—	—	—	
Dividends paid	—	—	—	—	—	(2,582)	—	(2,582)	
Cash paid in lieu of fractional shares in effecting stock split	—	—	(140)	—	—	—	—	(140)	
Net income	—	—	—	—	—	17,884	—	17,884	\$ 17,884
Unrealized losses on investments, net of tax of \$2,040	—	—	—	—	—	—	(1,304)	(1,304)	(1,304)
Cumulative translation adjustments, net of tax of \$94	—	—	—	—	—	—	(148)	(148)	(148)
Balance at September 30, 2002	50,665	507	927,169	(163,038)	(7,128)	216,041	(79)	973,472	\$ 16,432
Exercise of stock options	2,632	26	69,141	—	—	—	—	69,167	
Tax benefit from exercised stock options	—	—	25,296	—	—	—	—	25,296	
Amortization of unearned compensation	—	—	—	—	2,992	—	—	2,992	
Forfeitures of stock options assumed in HNC acquisition	—	—	(426)	—	426	—	—	—	
Repurchases of common stock	(6,938)	(69)	—	(331,569)	—	—	—	(331,638)	
Issuance of ESPP and ESOP shares from treasury	219	2	(1,333)	8,130	—	—	—	6,799	
Dividends paid	—	—	—	—	—	(3,857)	—	(3,857)	
Net income	—	—	—	—	—	107,157	—	107,157	\$107,157
Unrealized losses on investments, net of tax of \$178	—	—	—	—	—	—	(191)	(191)	(191)
Cumulative translation adjustments, net of tax of \$102	—	—	—	—	—	—	345	345	345
Balance at September 30, 2003	46,578	\$466	\$1,019,847	\$(486,477)	\$(3,710)	\$319,341	\$ 75	\$ 849,542	\$107,311

See accompanying notes to consolidated financial statements.

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

	Years Ended September 30,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	\$ 107,157	\$ 17,884	\$ 46,112
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,935	30,985	25,074
In-process research and development	—	40,200	—
Share of equity in (earnings) losses and impairment of investments	(19)	1,045	871
Gain on sales of marketable securities	(703)	(2,662)	(54)
Amortization of unearned compensation	2,992	1,418	998
Deferred income taxes	2,442	5,315	2,429
Tax benefit from exercised stock options	25,296	14,350	8,449
Net amortization of premium on marketable securities	4,248	510	285
Provision for doubtful accounts	4,800	2,285	2,542
Amortization of discount on convertible subordinated notes	1,442	—	—
Net (gain) loss on sales of property and equipment	(29)	253	177
Changes in operating assets and liabilities, net of acquisition effects:			
Receivables	(14,104)	(4,111)	(14,474)
Prepaid expenses and other assets	2,149	4,084	(7,149)
Accounts payable	5,238	114	1,182
Accrued compensation and employee benefits	(5,361)	13,076	4,668
Accrued and other liabilities	(13,397)	(21,208)	(497)
Deferred revenue	7,488	(418)	(74)
Net cash provided by operating activities	174,574	103,120	70,539
Cash flows from investing activities:			
Purchases of property and equipment	(18,312)	(23,386)	(24,004)
Cash proceeds from sale of product line	3,562	—	—
Cash and cash equivalents acquired in HNC acquisition	—	143,092	—
Cash paid in acquisitions, net of cash acquired	(48,620)	(2,593)	—
Purchases of marketable securities	(486,767)	(189,858)	(125,169)
Proceeds from sales of marketable securities	298,879	140,045	27,083
Proceeds from maturities of marketable securities	97,814	25,203	23,969
Investment in cost-method investee	(500)	—	—
Net cash provided by (used in) investing activities	(153,944)	92,503	(98,121)
Cash flows from financing activities:			
Principal payments on capital lease obligations	—	—	(364)
Proceeds from issuance of senior convertible notes	400,000	—	—
Debt issuance costs – senior convertible notes	(8,477)	—	—
Proceeds from issuances of common stock	75,966	23,676	34,283
Dividends paid	(3,857)	(2,582)	(1,322)
Repurchases of common stock	(331,638)	(144,351)	(19,864)
Cash paid in lieu of fractional shares in effecting stock-split	—	(140)	(49)
Net cash provided by (used in) financing activities	131,994	(123,397)	12,684
Increase (decrease) in cash and cash equivalents	152,624	72,226	(14,898)
Cash and cash equivalents, beginning of year	96,834	24,608	39,506
Cash and cash equivalents, end of year	\$ 249,458	\$ 96,834	\$ 24,608
Supplemental disclosures of cash flow information:			
Cash paid for income taxes, net of refunds	\$ 27,889	\$ 17,791	\$ 18,490
Cash paid for interest	\$ 7,875	\$ 3,938	\$ —

See accompanying notes to consolidated financial statements.

FAIR ISAAC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2003, 2002 and 2001

(In thousands, except per share amounts)

1. Nature of Business and Summary of Significant Accounting Policies

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 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 (see Note 2), is referred to as “HNC.”

Principles of Consolidation and Basis of Presentation

The 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.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The fair value of certain of our financial instruments, including cash and cash equivalents, receivables, prepaid expenses and other current assets, accounts payable, accrued compensation and employee benefits, and other accrued liabilities, approximate their carrying amounts because of the short-term maturity of these instruments. The fair values of our marketable security investments are disclosed in Note 4. The fair value of our senior convertible notes and our convertible subordinated notes is disclosed in Notes 9 and 10, respectively.

Investments

Management determines the appropriate classification of our investments in marketable debt and equity securities at the time of purchase, and re-evaluates this designation at each balance sheet date. While it is our intent to hold debt securities to maturity, our investments in U.S. government obligations and marketable equity and debt securities that have readily determinable fair values are classified as available-for-sale, as the sale of such securities may be required prior to maturity to implement management strategies. Therefore, such securities are carried at fair value with unrealized gains or losses related to these securities included in

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

comprehensive income (loss). Realized gains and losses are included in other income, net. The cost of investments sold is based on the specific identification method. Losses resulting from other than temporary declines in fair value are charged to operations. Investments with remaining maturities over one year are classified as long-term investments.

Our investments in equity securities of companies over which we do not have significant influence are accounted for under the cost method. Investments in which we own 20% to 50% and exercise significant influence over operating and financial policies are accounted for using the equity method. Under the equity method, the investment is originally recorded at cost and adjusted to recognize our share of net earnings or losses of the investee, limited to the extent of our investment in, advances to, and financial guarantees for the investee. Under the cost method, the investment is originally recorded at cost and adjusted only for additional contributions or distributions. Management periodically reviews equity-method and cost-method investments for instances where fair value is less than the carrying amount and the decline in value is determined to be other than temporary. If the decline in value is judged to be other than temporary, the carrying amount of the security is written down to fair value and the resulting loss is charged to operations.

Concentration of Risk

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

Property and Equipment

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

	<u>Estimated Useful Life</u>
Data processing equipment and software	2 to 3 years
Office furniture, vehicles and equipment	3 to 7 years
Leasehold improvements	Shorter of estimated useful life or lease term

The cost and accumulated depreciation for property and equipment sold, retired or otherwise disposed of are removed from the accounts and resulting gains or losses are recorded in operations. Depreciation and amortization on property and equipment totaled \$30,860, \$26,453 and \$22,974 for fiscal years 2003, 2002, and 2001, respectively.

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

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. Capitalized costs are amortized using the straight-line method over two years.

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.

Capitalized Software Development Costs

All costs incurred prior to the resolution of unproven functionality and features, including new technologies, are expensed as research and development. After the uncertainties have been tested and the development issues have been resolved and technological feasibility is achieved, subsequent direct costs such as coding, debugging and testing are capitalized. Capitalized software development costs are amortized using the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. Capitalized software development costs were \$3,038 and \$1,424, net of accumulated amortization of \$434 and \$152, as of September 30, 2003 and 2002, respectively, and are included in other long-term assets in the accompanying consolidated balance sheets. Amortization expense related to capitalized software development costs totaled \$282, \$152 and \$0 for fiscal years 2003, 2002 and 2001, respectively.

Periodically, we compare a product's unamortized capitalized cost to the product's estimated net realizable value. To the extent unamortized capitalized costs exceed net realizable value based on the product's estimated future gross revenues, reduced by the estimated future costs of completing and disposing of the product, the excess is written off. This analysis requires us to estimate future gross revenues associated with certain products, and the future costs of completing and disposing of certain products. If these estimates change, write-offs of capitalized software costs could result. No write-offs were recorded during fiscal 2003, 2002 or 2001.

Goodwill and Intangible Assets

We adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002. Under the provisions of SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment at least annually or more frequently if impairment indicators arise. All of our intangible assets have definitive lives and are being amortized in accordance with this statement. 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 (see Note 2).

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

We amortize our intangible assets, which result from our acquisitions accounted for under the purchase method of accounting, based on the forecasted cash flows associated with the assets or using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Completed technology	5 years
Customer contracts and relationships	3 to 15 years
Trade name	4 to 5 years
Other	2 to 5 years

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.

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.

Transactional-based license fees under software license arrangements, network service and internally-hosted software agreements are recognized as revenue based on system usage or when fees based on system usage exceed monthly minimum license fees, provided persuasive evidence of an arrangement exists, fees are fixed or determinable and collection is reasonably assured.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

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. 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 closely analyze specific accounts receivable balances, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment cycles. Material differences may result in the amount and timing of expense for any period if we were to make different judgments or utilize different estimates. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances might be required.

Income Taxes

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

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

Earnings Per Share

Diluted earnings per share are based on the weighted-average number of common shares outstanding and common stock equivalent shares. Common stock equivalent shares result from the assumed exercise of outstanding stock options or other potentially dilutive equity instruments, including our outstanding senior convertible notes and convertible subordinated notes, when they are dilutive under the treasury stock method or the if-converted method. Basic earnings per share are computed on the basis of the weighted-average number of common shares outstanding.

Comprehensive Income (Loss)

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

Foreign Currency

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

From time to time, we utilize forward contract instruments to manage market risks associated with fluctuations in certain foreign currency exchange rates as they relate to specific balances of accounts receivable and cash denominated in foreign currencies. It is our policy to use derivative financial instruments to protect against market risks arising in the normal course of business. Our policies prohibit the use of derivative instruments for the sole purpose of trading for profit on price fluctuations or to enter into contracts that intentionally increase our underlying exposure. All of our forward foreign currency contracts have maturity periods of less than three months.

At the end of the reporting period, foreign currency receivable and cash balances are remeasured into the functional currency of the reporting entities at current market rates. The change in value from this remeasurement is reported as a foreign exchange gain or loss for that period in other income (expense) in the accompanying consolidated statements of income. The resulting gains or losses from the forward foreign currency contracts described above, which are also included in other income (expense), mitigate the exchange rate risk of the associated assets.

Stock-Based Compensation

We have stock-based employee compensation plans, which are described more fully in Note 17. We measure compensation expense for our employee stock-based compensation awards using the intrinsic value method and provide pro forma disclosures of net income and earnings per share as if a fair value method had been applied. Therefore, compensation cost for employee stock awards is measured as the excess, if any, of the fair value of our common stock at the grant date over the amount an employee must pay to acquire the stock and is amortized over the related service periods using the straight-line method. Compensation expense previously recorded for unvested employee stock-based compensation awards that are forfeited upon employee termination is reversed in the period of forfeiture.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

During fiscal 2002, we granted 156 shares of restricted stock, net of forfeitures, to various key employees, for which we recorded deferred compensation of \$4,795 based upon the aggregate market value of the shares at the grant date. The shares of the restricted stock vest in 25% increments at each annual anniversary from the grant date. We are amortizing this deferred compensation on a straight-line basis over the total four-year vesting period. During fiscal 2003, 39 shares of restricted stock vested. Amortization of deferred compensation related to these grants totaled \$1,199 and \$198 during fiscal 2003 and 2002, respectively, and is recorded in cost of revenues, research and development, and selling, general and administrative expense within the accompanying consolidated statements of income.

In connection with our acquisition of HNC during fiscal 2002, we recorded \$1,827 to deferred compensation representing the intrinsic value of HNC's unvested options to purchase Fair Isaac common stock assumed at the time of acquisition. The deferred compensation is being amortized on a straight-line basis over the vesting period of the options. Amortization of deferred compensation related to these options totaled \$795 and \$222 during fiscal 2003 and 2002, respectively, and is recorded in cost of revenues, research and development, and selling, general and administrative expense within the accompanying consolidated statements of income.

During fiscal 2000, we granted 945 stock options to an officer and recorded associated deferred compensation of \$3,990. The deferred compensation is being amortized on a straight-line basis over the four-year vesting period of the options. Amortization of deferred compensation related to these options totaled \$998 during fiscal 2003, 2002 and 2001, and is recorded in selling, general and administrative expense in the accompanying consolidated statements of income.

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 fiscal 2003, 2002 and 2001:

	2003	2002	2001
Net income, as reported	\$107,157	\$ 17,884	\$46,112
Add: Stock-based employee compensation expense included in reported net income, net of tax	1,863	883	599
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(19,976)	(13,439)	(9,064)
Pro forma net income	<u>\$ 89,044</u>	<u>\$ 5,328</u>	<u>\$37,647</u>
Earnings per share, as reported:			
Basic	<u>\$ 2.23</u>	<u>\$ 0.49</u>	<u>\$ 1.40</u>
Diluted	<u>\$ 2.12</u>	<u>\$ 0.48</u>	<u>\$ 1.33</u>
Pro forma earnings per share:			
Basic	<u>\$ 1.85</u>	<u>\$ 0.15</u>	<u>\$ 1.14</u>
Diluted	<u>\$ 1.77</u>	<u>\$ 0.14</u>	<u>\$ 1.10</u>

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

The weighted-average fair value of options granted during fiscal 2003, 2002 and 2001 was \$20.06, \$17.56 and \$12.17, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions during fiscal 2003, 2002 and 2001:

	2003	2002	2001
Expected life (years)	4	4	5
Interest rate	2.6%	3.7%	5.1%
Volatility	55%	56%	49%
Dividend yield	0.2%	0.2%	0.3%

The weighted-average fair value of employee purchase rights granted pursuant to the 1999 Employee Stock Purchase Plan during fiscal 2003, 2002 and 2001 was \$11.81, \$9.86 and \$10.50, respectively. The fair value of those purchase rights at the date of grant was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions during fiscal 2003, 2002 and 2001:

	2003	2002	2001
Expected life (years)	0.5	0.5	0.5
Interest rate	1.1%	1.7%	4.5%
Volatility	37%	49%	62%
Dividend yield	0.2%	0.2%	0.2%

The estimated fair value of options and purchase rights granted is subject to the assumptions made and if the assumptions changed, the estimated fair value amounts could be significantly different. Amounts for fiscal 2002 and 2001 above have been restated to reflect the tax effect of stock option deductions, the impact of employee stock purchase plan rights and an adjustment to dividend yield.

Impairment of Long-lived Assets

We assess potential impairment to long-lived assets and certain identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs totaled \$3,763, \$1,549 and \$1,117 in fiscal 2003, 2002 and 2001, respectively, and are included in selling, general and administrative expense in the accompanying consolidated statements of income.

Patents and Trademarks

Costs of internally developing and maintaining patents and trademarks as well as costs incurred resulting from claims and legal actions related to our patents and trademarks are expensed as incurred.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 5.

Adoption of New Accounting Pronouncements

We adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002. Disclosures related to SFAS No. 142 are included in Note 7.

We adopted the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, on October 1, 2002. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business (as previously defined in that opinion). The adoption of SFAS No. 144 did not have an impact on our financial position or results of operations.

We adopted the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, on January 1, 2003. SFAS No. 146 revises the accounting for specified employee and contract terminations that are part of restructuring activities and allows recognition of a liability for the cost associated with an exit or disposal activity only when the liability is incurred and can be measured at fair value. This statement applies on a prospective basis to exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on our financial position or results of operations.

We adopted the provisions of SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, during fiscal 2003. Related disclosures are included herein.

We adopted SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, on July 1, 2003. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The adoption of SFAS No. 149 did not have an impact on our financial position or results of operations.

We adopted SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, during fiscal 2003. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The adoption of SFAS No. 150 did not have an impact on our financial position or results of operations.

We adopted the initial recognition and measurement provisions of Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, on January 1, 2003, which apply on a prospective basis to guarantees issued or modified after December 31, 2002. Related disclosures are included in Note 22. We do not have guarantees that fall within the measurement and recognition provisions of FIN No. 45.

We adopted FIN No. 46, *Consolidation of Variable Interest Entities*, during fiscal 2003. FIN No. 46 expands upon existing accounting guidance that addresses when a company should include in its financial

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The adoption of FIN No. 46 did not have an impact on our financial position or results of operations.

We adopted the Emerging Issues Task Force ("EITF") consensus on Issue 00-21, *Revenue Arrangements with Multiple Deliverables*, on July 1, 2003. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. The adoption of EITF Issue No. 00-21 did not have a material impact on our financial position or results of operations.

2. Acquisitions

Diversified HealthCare Services, Inc.

On September 17, 2003, we acquired all of the outstanding stock of Diversified HealthCare Services, Inc. ("Diversified HealthCare Services"), a provider of medical bill review products and services for the workers' compensation insurance industry, in exchange for cash consideration of \$30,153 and contingent cash consideration of up to \$13,949 consisting of: (i) up to \$13,500 if certain revenue parameters are achieved during the calendar year ended December 31, 2004, and (ii) up to \$449 if certain acquired accounts receivable balances are collected through September 2004. In connection with this acquisition, we placed \$3,949 into escrow to secure certain contingent consideration elements as well as to secure us against potential future indemnification obligations of the selling shareholders, which is included in other assets in the accompanying consolidated balance sheets. This acquisition was consummated principally to expand our medical bill review customer base. We accounted for this transaction using the purchase method of accounting. The results of operations of Diversified HealthCare Services have been included in the accompanying consolidated statements of income beginning on September 17, 2003.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

Our preliminary allocation of the purchase price, including accrued acquisition costs of \$211, is summarized as follows:

Assets:	
Cash and cash equivalents	\$ 2,267
Receivables	2,928
Other current assets	194
Property and equipment	452
Goodwill	20,685
Intangible assets:	
Completed technology	50
Customer contracts and relationships	8,560
Non-competition agreements	100
Other assets	90
	<hr/>
Total assets	35,326
	<hr/>
Liabilities:	
Accounts payable and accrued expenses	4,772
Non-current liabilities	190
	<hr/>
Total liabilities	4,962
	<hr/>
Net assets	\$30,364
	<hr/>

The acquired intangible assets have a weighted average useful life of approximately 7 years and are being amortized using the straight-line method over their estimated useful lives as follows: completed technology, five years; customer contracts and relationships, seven years; and non-competition agreements, three years. The goodwill was allocated entirely to our Strategy Machine Solutions operating segment, all of which is deductible for tax purposes.

NAREX Inc.

On July 24, 2003, we acquired all of the outstanding stock of NAREX Inc. ("NAREX"), a provider of collections and recovery solutions to financial institutions, collection agencies and debt buyers, in exchange for cash consideration of \$10,000. In connection with this acquisition, we placed \$1,000 of the consideration into escrow to secure us against potential future indemnification obligations of the selling shareholders. This acquisition was consummated principally to expand our financial market product offerings into the areas noted above. We accounted for this transaction using the purchase method of accounting. The results of operations of NAREX have been included in the accompanying consolidated statements of income beginning on July 24, 2003.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

Our preliminary allocation of the purchase price, including accrued acquisition costs of \$189, is summarized as follows:

Assets:	
Cash and cash equivalents	\$ 365
Receivables	174
Other current assets	455
Property and equipment	525
Goodwill	6,483
Intangible assets:	
Completed technology	3,680
Customer contracts and relationships	890
Non-competition agreements	160
	<hr/>
Total assets	12,732
	<hr/>
Liabilities:	
Accounts payable and accrued expenses	1,822
Deferred revenue	721
	<hr/>
Total liabilities	2,543
	<hr/>
Net assets	\$10,189
	<hr/>

The acquired intangible assets have a weighted average useful life of approximately five years and are being amortized using the straight-line method over their estimated useful lives as follows: completed technology, five years; customer contracts and relationships, five years; and non-competition agreements, two years. The goodwill was allocated entirely to our Strategy Machine Solutions operating segment, all of which is deductible for tax purposes.

Spectrum Managed Care, Inc.

On December 31, 2002, we acquired substantially all of the assets of the medical bill review business of Spectrum Managed Care, Inc. ("Spectrum"), a wholly owned subsidiary of Ward North America Holding, Inc., for cash consideration of \$7,150. We placed \$250 of the consideration into escrow to secure us against potential future indemnification obligations of the seller. This acquisition was consummated in order to expand our outsourced medical bill review service offering and has been accounted for using the purchase method of accounting. The results of operations of Spectrum have been included in the accompanying consolidated statements of income beginning on December 31, 2002.

The total consideration paid, including accrued acquisition costs of \$25, was allocated to the acquired assets as follows:

Assets:	
Property and equipment	\$ 127
Customer contracts and relationships	4,908
Goodwill	2,140
	<hr/>
	\$7,175
	<hr/>

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

The acquired contracts and relationships have a weighted average estimated useful life of approximately 10 years and are being amortized over this term based on the forecasted cash flows associated with the assets. The goodwill was allocated entirely to our Strategy Machine Solutions operating segment, all of which is deductible for tax purposes.

HNC Software Inc.

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

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

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

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

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

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

Assets:	
Cash, cash equivalents, and investments	\$324,619
Receivables	37,835
Property and equipment	17,802
Goodwill	426,110
Intangible assets:	
Trade name	8,600
Completed technology	42,000
Customer contracts and relationships	39,700
In-process research and development	40,200
Other assets	52,755
	<hr/>
Total assets	989,621
	<hr/>
Liabilities:	
Current liabilities	51,065
Non-current liabilities	3,390
Convertible subordinated notes	139,698
	<hr/>
Total liabilities	194,153
	<hr/>
Net assets	\$795,468
	<hr/>

Of the acquired intangible assets, \$40,200 pertained to in-process research and development and was written off by our recognition of a one-time charge to operations on the acquisition date. The remaining acquired intangible assets have a weighted average useful life of approximately nine years and are being amortized using the straight-line method over their estimated useful lives as follows: trade name, five years; completed technology, five years; and customer contracts and relationships, 15 years. The goodwill was allocated to our Strategy Machine Solutions, Scoring Solutions and Analytic Software Tools operating segments in the amounts of \$329,063, \$86,015 and \$11,032, respectively. None of this goodwill is deductible for tax purposes.

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

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

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

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

Two of our officers are former HNC employees that were party to agreements with HNC providing for payment in the event of a change in control of HNC, 80% of which was payable immediately and 20% of which was payable after three months of service following the acquisition date. As a result of our acquisition of HNC, these employees were paid the first installment in August 2002, and we assumed the obligation to make aggregate cash payments of \$321 to these employees in November 2002. During fiscal 2003 and 2002, we recorded expense of \$107 and \$214, respectively, relating to these agreements. This amount was paid in November 2002.

Nykamp Consulting Group, Inc.

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

Of the \$406 that we placed into escrow, we released an aggregate of \$326 to the selling shareholders during fiscal 2002 and 2003, and the remaining \$80 was released in favor of Fair Isaac during fiscal 2003. During fiscal 2003, we also released 19 shares of the restricted Fair Isaac common stock held in escrow to the selling shareholders. The remaining shares of restricted stock, by virtue of a clause in the purchase agreement pertaining to a change in employment status of one of the selling shareholders, is now scheduled to be issued on the fifth anniversary of the acquisition, subject to indemnification claims made by us, if any. The number of shares to be issued will be determined by dividing the \$2,000 by the average market price of our common stock for the ten consecutive trading days leading up to the issuance date.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

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

Assets:	
Current assets	\$1,662
Property, equipment and other assets	327
Intangible assets (including trade name, non-compete agreement, and customer base, amortizable between 3 and 5 years)	1,359
Goodwill	3,077
Total assets	6,425
Liabilities	787
Net assets	\$5,638

The goodwill was allocated entirely to our Professional Services operating segment, all of which is deductible for tax purposes.

Unaudited Pro Forma Results of Operations

The following unaudited pro forma results of operations present the impact on our results of operations for fiscal 2003 and 2002 as if the Diversified HealthCare Solutions, NAREX, Spectrum, HNC and Nykamp acquisitions had occurred on October 1, 2001, instead of their respective later acquisition dates:

	2003		2002	
	Historical	Pro forma Combined	Historical	Pro forma Combined
Revenues	\$629,295	(Unaudited) \$653,498	\$392,418	(Unaudited) \$606,478
Net income	\$107,157	\$100,888	\$ 17,884	\$ 51,243
Basic earnings per share	\$ 2.23	\$ 2.10	\$ 0.49	\$ 0.98
Diluted earnings per share	\$ 2.12	\$ 1.99	\$ 0.48	\$ 0.96

3. Sales of Product Line Assets

In October 2002, we entered into an agreement with Open Solutions, Inc. ("OSI"), pursuant to which we sold HNC's former Profit Vision product line, associated customer base, intellectual property rights and other related assets in exchange for a \$950 secured promissory note from OSI and OSI's assumption of certain related product line liabilities. The promissory note received bears interest at the rate of 4.5% per annum and all principal and interest is payable in full in October 2005. The promissory note is secured by the assets sold to OSI. We discounted this note by \$185 to reflect estimated market interest rates and are amortizing this discount over the term of the note using the effective interest method.

In November 2002, we entered into an agreement with Bridium, Inc. ("Bridium"), pursuant to which we sold HNC's former Connectivity Manager product line, associated customer base, intellectual property rights and other related assets in exchange for \$3,000 in cash and a \$3,000 secured promissory note from Bridium, as well as Bridium's assumption of certain related product line liabilities. The promissory note received bears interest at the rate of 7.0% per annum and is due and payable in twelve quarterly installments commencing in April 2003 and ending in April 2006. The promissory note is secured by the assets sold to Bridium and is also guaranteed by Bridium's parent company. We discounted this note by \$415 to reflect estimated market interest rates and are amortizing this discount over the term of the note using the effective interest method.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

As the above dispositions of former HNC assets occurred shortly after the HNC acquisition and their fair value did not change significantly from the date of the HNC acquisition, no gain or loss was recorded in connection with these transactions. The difference between the book value of net assets sold and consideration received in each transaction was recorded as an adjustment to goodwill.

4. Marketable Securities Available for Sale

The following is a summary of marketable securities available for sale at September 30, 2003 and 2002:

	2003				2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:								
U.S. government obligations	\$199,995	\$390	\$ (13)	\$200,372	\$ 85,748	\$ 75	\$ (32)	\$ 85,791
U.S. corporate debt	55,428	104	(11)	55,521	98,686	94	(194)	98,586
	<u>\$255,423</u>	<u>\$494</u>	<u>\$ (24)</u>	<u>\$255,893</u>	<u>\$184,434</u>	<u>\$ 169</u>	<u>\$ (226)</u>	<u>\$184,377</u>
Long-term:								
U.S. government obligations	\$102,910	\$378	\$ (17)	\$103,271	\$109,730	\$1,213	\$ (87)	\$110,856
U.S. corporate debt	48,292	96	(49)	48,339	26,058	61	(4)	26,115
Marketable equity securities	4,481	—	(779)	3,702	4,588	—	(1,161)	3,427
	<u>\$155,683</u>	<u>\$474</u>	<u>\$(845)</u>	<u>\$155,312</u>	<u>\$140,376</u>	<u>\$1,274</u>	<u>\$(1,252)</u>	<u>\$140,398</u>

Short-term marketable securities mature at various dates over the course of the next twelve months. Our long-term U.S. government obligations and U.S. corporate debt investments mature at various dates over the next one to three years. During fiscal 2003, 2002, and 2001, we recognized gross realized gains on the sale of investments totaling \$703, \$2,662, and \$54, respectively, which are included in other income (expense), net in the accompanying consolidated statements of income.

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

5. Receivables

Receivables at September 30, 2003 and 2002 consist of the following:

	2003	2002
Billed	\$100,647	\$ 91,415
Unbilled	40,470	36,537
	<u>141,117</u>	<u>127,952</u>
Less allowance	(2,405)	(1,209)
Receivables, net	<u>\$138,712</u>	<u>\$126,743</u>

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

Unbilled receivables represent revenue recorded in excess of amounts billable pursuant to contract provisions and generally become billable at contractually specified dates or upon the attainment of milestones. Unbilled amounts are expected to be realized within one year. The unbilled receivable balance at September 30, 2002 reflects the reclassification of \$5,287 of deferred revenue balances that were previously classified as unbilled receivables. This reclassification was identified during certain enterprise accounting system conversion activities that were completed during the quarter ended September 30, 2003.

During fiscal 2003, 2002 and 2001, we increased our allowance by \$4,800, \$2,285 and \$2,542, respectively, and wrote off (net of recoveries) \$3,604, \$3,590 and \$1,158, respectively.

6. Other Investments

Other long-term investments include the following at September 30, 2003 and 2002:

	2003	2002
Cost-method investments	\$8,565	\$9,519
Other	377	285
	<u>\$8,942</u>	<u>\$9,804</u>

As a result of our acquisition of HNC, we maintain two investments that are being accounted for using the cost method as follows: (i) we hold an approximate 6.0% ownership interest in OSI, a developer of client/server core data processing solutions for community banks and credit unions, and (ii) we are a limited partner in Azure Venture Partners I, L.P. ("Azure"), a venture capital investment management fund. The OSI and Azure investments were recorded by us at their estimated fair values of \$7,469 and \$2,050, respectively, in connection with the HNC acquisition. The OSI carrying amount has not changed through September 30, 2003. During the first quarter of fiscal 2003, we recorded a \$1,454 reduction to the carrying amount of Azure. The reduction in the Azure investment carrying amount was made based on valuation estimates obtained from Azure management, from which we determined that the fair value of this investment approximated \$596. As the valuation estimates were obtained shortly after the HNC acquisition and there were no impairment triggering events subsequent to the HNC acquisition, the reduction to the carrying amount of Azure was recorded as an adjustment to goodwill. During the third quarter of fiscal 2003, we invested an additional \$500 into Azure in connection with a capital call, and we are committed to invest an additional \$1,413 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. Including this commitment, our percentage ownership in this fund will not exceed two percent of the total fund ownership.

We are the holder of a \$500 secured promissory note receivable from OSI that originated from HNC's sale to OSI of certain product line assets prior to our acquisition of HNC. This note bears interest at the rate of 6.0% per annum and all principal and interest is payable in full in March 2004. As discussed in Note 3, we received an additional \$950 secured promissory note from OSI in October 2002, in connection with our sale of additional product line assets to OSI.

On June 1, 2000, we entered into a joint venture, OptiFI, Inc., with MarketSwitch Corporation ("MarketSwitch"). Fair Isaac and MarketSwitch each held a 50% voting interest in the joint venture. We accounted for the investment on an equity basis and recorded our equity share of the joint venture's operating gain/loss each period. During fiscal 2002, the joint venture wound down its business operations, reverted certain rights in its intangible assets to MarketSwitch and us, and distributed its remaining assets among its creditors. Pursuant to a separation agreement executed by us, MarketSwitch and the joint venture, we agreed

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

to pay the joint venture \$5 in consideration for the rights assigned by the separation agreement. We have no further obligation to fund the joint venture or to discharge any of its remaining indebtedness. During fiscal 2002, we wrote off our remaining investment balance of \$210, and recorded our share of the equity loss of the joint venture and the investment write-off within other income, net. During fiscal 2002 and 2001, we recorded in other income (expense), net our equity share of the operating loss from the joint venture totaling \$866 and \$854, respectively.

7. Goodwill and Intangible Assets

We adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002. Under the provisions of SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment at least annually or more frequently if impairment indicators arise. All of our remaining intangible assets have definitive lives and are being amortized in accordance with this statement.

In connection with our adoption of SFAS No. 142, we were required to assess whether goodwill within our reporting units was impaired at the date of our adoption of this statement using a two-step transitional impairment test. As prescribed by this statement, we have determined that our reporting units are the same as our reportable segments (see Note 18). We completed the first step of our transitional impairment testing during fiscal 2003, and determined that goodwill was not impaired as of October 1, 2002. Accordingly, we were not required to complete the second step of the transitional impairment test. We selected the fourth quarter to perform our annual goodwill impairment test, and determined that goodwill was not impaired as of July 1, 2003.

Intangible assets that are subject to amortization under SFAS No. 142 consist of the following:

	September 30, 2003	September 30, 2002
Completed technology	\$ 45,730	\$42,000
Customer contracts and relationships	54,213	39,855
Trade name	9,090	9,090
Other	974	714
	<u>110,007</u>	<u>91,659</u>
Less accumulated amortization	(16,077)	(2,284)
	<u>\$ 93,930</u>	<u>\$89,375</u>

Amortization expense associated with our intangible assets and goodwill, which has been reflected as a separate operating expense caption within the accompanying consolidated statements of income, consisted of the following during fiscal 2003, 2002 and 2001:

	2003	2002	2001
Cost of revenues	\$ 8,523	\$1,336	\$ —
Selling, general and administrative expenses	5,270	3,044	2,100
	<u>\$13,793</u>	<u>\$4,380</u>	<u>\$2,100</u>

In the table above, cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflect our amortization of other intangible assets and goodwill. Intangible asset amortization expense totaled \$13,793, \$2,284 and \$0 during fiscal 2003, 2002 and 2001, respectively, and

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

goodwill amortization, prior to our adoption of SFAS No. 142, totaled \$2,096 and \$2,100 during fiscal 2002 and 2001, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing as of September 30, 2003 is as follows:

Fiscal Year	
2004	\$15,982
2005	15,873
2006	15,653
2007	13,786
2008	5,077
Thereafter	27,559
	\$93,930

For comparative purposes, the following table summarizes reported results for fiscal 2002 and 2001, adjusted to exclude the amortization of goodwill as if the provisions of SFAS No. 142 had been adopted as of the beginning of these respective periods:

	Earnings Per Share		
	Net Income	Basic	Diluted
Fiscal Year 2002:			
As reported	\$17,884	\$0.49	\$0.48
Amortization of goodwill, net of tax impact	2,096	0.06	0.05
As adjusted	\$19,980	\$0.55	\$0.53
Fiscal Year 2001:			
As reported	\$46,112	\$1.40	\$1.33
Amortization of goodwill, net of tax impact	2,100	0.06	0.06
As adjusted	\$48,212	\$1.46	\$1.39

The following table summarizes changes to goodwill during fiscal 2003, both in total and as allocated to our operating segments (Note 18).

	Scoring Solutions	Strategy Machine Solutions	Professional Services	Analytic Software Tools	Total
Balance at September 30, 2002	\$85,508	\$331,558	\$2,706	\$10,967	\$430,739
Goodwill acquired in acquisitions (see Note 2)	—	29,308	—	—	29,308
Purchase accounting adjustments	507	1,940	371	65	2,883
Product line dispositions (see Note 3)	—	(5,088)	—	—	(5,088)
Balance at September 30, 2003	\$86,015	\$357,718	\$3,077	\$11,032	\$457,842

During fiscal 2003, we adjusted our preliminary allocation of the HNC purchase price, which resulted in a \$2,512 net increase to goodwill. During this period, we also adjusted our preliminary allocation of the Nykamp purchase price to reflect the reduction in fair value of certain assets acquired by us, which resulted in a \$371 increase to goodwill. The HNC adjustments reflect: (i) a \$3,462 reduction in net deferred tax assets

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

resulting from our revision of estimates related to research and development credit and net operating loss carryforwards assumed in the HNC acquisition, which consisted of a \$5,624 reduction of gross deferred tax assets and a \$2,162 reduction in the deferred tax asset valuation allowance, (ii) a \$1,454 reduction in the carrying amount of our cost-method investment in Azure Venture Partners I, L.P. (“Azure”) (see Note 6), and (iii) a \$2,404 net reduction in assumed liabilities, principally related to revisions made to our estimate of future facility lease exit costs.

8. Composition of Certain Financial Statement Captions

	September 30,	
	2003	2002
Property and equipment:		
Data processing equipment and software	\$ 120,931	\$115,172
Office furniture, vehicles and equipment	26,184	26,331
Leasehold improvements	21,811	20,392
Less accumulated depreciation and amortization	(118,220)	(99,421)
	<u>\$ 50,706</u>	<u>\$ 62,474</u>
Other accrued liabilities:		
Income taxes payable	\$ 9,027	\$ —
Accruals related to abandoned facility lease obligations	1,895	6,858
Investment banking fees payable — HNC acquisition related	—	12,058
Other	14,750	17,616
	<u>\$ 25,672</u>	<u>\$ 36,532</u>

9. Senior Convertible Notes

On August 6, 2003, we issued \$400,000 of 1.5% Senior Convertible Notes (the “Senior Notes”) that mature on August 15, 2023. The Senior Notes become convertible into shares of Fair Isaac common stock, subject to the conditions described below, at an initial conversion price of \$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 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 5 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

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

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 recorded interest expense of \$1,288 related to the Senior Notes during fiscal 2003. The fair value of the Senior Notes at September 30, 2003, as determined based upon quoted market prices, was \$441,000.

10. Convertible Subordinated Notes

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

In connection with the HNC acquisition, we recorded the Subordinated Notes at their fair market value of \$139,698, as determined by reference to quoted market prices on August 5, 2002, which resulted in a note discount of \$10,302. We are accreting this amount over the remaining term of the Subordinated Notes to their \$150,000 maturity value via the effective interest method. We recorded interest expense of \$9,317 and \$1,471 related to the Subordinated Notes during fiscal 2003 and 2002, respectively. The carrying amount of the Subordinated Notes at September 30, 2003 and 2002 was \$141,364 and \$139,922, respectively. The fair value of the Subordinated Notes at September 30, 2003 and 2002, as determined based upon quoted market prices, was \$179,063 and \$140,719, respectively.

11. Credit Agreement

In November 2002, we executed a credit agreement with a financial institution that provides for a \$15,000 revolving line of credit through February 2004. Under the agreement, as amended, we are required to comply with various financial covenants, which include but are not limited to, minimum levels of domestic liquidity, parameters for treasury stock repurchases, dividend payments, and merger and acquisition requirements. At our option, borrowings under this agreement bear interest at the rate of LIBOR plus 1.25% (which was 2.37%

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

at September 30, 2003) or at the financial institution's Prime Rate (which was 4.00% at September 30, 2003), 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 \$5,000 and a foreign exchange facility that allows us to enter into contracts with the financial institution to purchase and sell certain currencies, subject to a maximum aggregate amount of \$20,000 and other specified limits. As of September 30, 2003, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of September 30, 2003, this credit facility served to collateralize certain letters of credit aggregating \$678, issued by us in the normal course of business. As of September 30, 2003, this credit facility also served to collateralize contracts to sell certain currencies aggregating \$7,581, 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.

12. Restructuring and Merger-Related Expenses

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

The following table summarizes our fiscal 2002 and 2003 restructuring activity related to the above actions:

	2002 Expense	Cash Payments	Accrual at September 30, 2002	Cash Payments	Reversals	Accrual at September 30, 2003
Facilities charges	\$3,221	\$(145)	\$3,076	\$ (868)	\$ —	\$2,208
Employee separation	1,794	(264)	1,530	(1,484)	(41)	5
	<u>\$5,015</u>	<u>\$(409)</u>	<u>\$4,606</u>	<u>\$(2,352)</u>	<u>\$(41)</u>	<u>\$2,213</u>

During fiscal 2003, we also incurred merger-related expenses totaling \$2,501, consisting primarily of retention bonuses.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

13. Income Taxes

The provision for income taxes consisted of the following during fiscal 2003, 2002 and 2001:

	2003	2002	2001
Current:			
Federal	\$49,232	\$23,754	\$22,638
State	9,189	4,933	5,310
Foreign	4,120	1,212	364
	<u>62,541</u>	<u>29,899</u>	<u>28,312</u>
Deferred:			
Federal	1,835	4,371	2,150
State	607	944	279
	<u>2,442</u>	<u>5,315</u>	<u>2,429</u>
Total	<u>\$64,983</u>	<u>\$35,214</u>	<u>\$30,741</u>

The foreign provision for income taxes is based on foreign pretax earnings of \$2,613, \$3,471, and \$760 in 2003, 2002, and 2001, respectively. The foreign provision includes foreign withholding taxes of \$3,163, \$1,212, and \$364 in 2003, 2002 and 2001, respectively.

During fiscal 2003, 2002 and 2001, we realized certain tax benefits related to nonqualified and incentive stock options in the amounts of \$25,296, \$14,350 and \$8,449, respectively. The tax benefits from these stock option tax deductions were credited directly to paid-in-capital.

The tax effects of significant temporary differences resulting in deferred tax assets and liabilities at September 30, 2003 and 2002 are as follows:

	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	\$37,202	\$ 39,021
Research and development credit carryforwards	14,786	15,953
Compensated absences	3,444	3,860
Investments	3,441	2,412
Depreciation	2,878	1,769
Deferred compensation	2,225	2,382
Provision for doubtful accounts	1,830	2,096
Accrued lease costs	1,661	3,318
Employee benefit plans	1,618	1,760
Other	1,598	1,764
	<u>70,683</u>	<u>74,335</u>
Less valuation allowance	(9,005)	(11,167)
	<u>61,678</u>	<u>63,168</u>

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

	2003	2002
Deferred tax liabilities:		
Amortization	(9,256)	(6,640)
Convertible subordinated notes	(2,807)	(2,263)
Prepaid expenses	(1,746)	(183)
Other	(303)	(689)
	(14,112)	(9,775)
Deferred tax assets, net	\$ 47,566	\$53,393

We acquired net operating losses and research credits in connection with our acquisition of HNC. As of September 30, 2003, we had available federal and state net operating loss carryforwards of approximately \$102,111 and \$30,433, respectively. We also have available federal and California research and development tax credit carryforwards of approximately \$8,999 and \$8,902, respectively. The federal net operating loss and credit carryforwards will expire at various dates beginning in fiscal 2019 through fiscal 2021, if not utilized. The state net operating loss carryforwards will begin to expire in fiscal 2004 through fiscal 2021, if not utilized. Utilization of our net operating loss carryforwards and credits may be subject to an annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions.

Based upon the level of historical taxable income and projections for future taxable income over the periods that the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowance, at September 30, 2003. In connection with the HNC acquisition, we recorded a valuation allowance of \$11,167 against acquired deferred tax assets, primarily as a result of limitations on utilization pursuant to Section 382 of the Internal Revenue Code. If these deferred tax assets are later realized, the release of the related valuation allowance will result in a credit to goodwill. During fiscal 2003, the valuation allowance was reduced by \$2,162 as a result of our revision of utilizable research and development tax credits as determined on the filing of the final HNC tax returns (see Note 7).

The reconciliation between the federal statutory income tax rate of 35% and our effective tax rate is shown below for fiscal 2003, 2002 and 2001:

	2003	2002	2001
Income tax provision at federal statutory rates	\$60,249	\$18,584	\$26,898
State income taxes, net of federal benefit	6,367	3,820	3,633
In-process research and development charge	—	14,070	—
Research and development credits	(1,502)	(1,442)	(216)
(Decrease) increase in valuation allowance	—	(222)	7
Other	(131)	404	419
Recorded income tax provision	\$64,983	\$35,214	\$30,741

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

14. Earnings Per Share

The following reconciles the numerators and denominators of basic and diluted earnings per share (“EPS”) for fiscal 2003, 2002 and 2001:

	2003	2002	2001
Numerator — net income	\$107,157	\$17,884	\$46,112
Denominator — shares:			
Basic weighted-average shares	48,123	36,534	32,979
Effect of dilutive securities	2,526	1,016	1,610
Diluted weighted-average shares	50,649	37,550	34,589
Earnings per share:			
Basic	\$ 2.23	\$ 0.49	\$ 1.40
Diluted	\$ 2.12	\$ 0.48	\$ 1.33

The computation of diluted EPS for fiscal 2003, 2002 and 2001 excludes stock options to purchase 871, 1,424 and 76 shares of common stock, respectively, because the options’ exercise prices exceeded the average market price of our common stock in these fiscal years and their inclusion would be antidilutive. The computation of diluted EPS for fiscal 2003 and 2002 excludes 2,703 shares of common stock issuable upon conversion of our Subordinated Notes, as the inclusion of such shares would have been antidilutive for these fiscal years. The computation of diluted EPS for fiscal 2003 also excludes 6,067 shares of common stock issuable upon conversion of our Senior Notes, as the conditions for conversion (see Note 9) had not been satisfied as of September 30, 2003.

15. Stockholders’ Equity***Common Stock***

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

We paid quarterly dividends on common stock of two cents per share, or eight cents per year, during each of fiscal 2003, 2002 and 2001.

Stockholder Rights Plan

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

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

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

16. Employee Benefit Plans

Defined Contribution Plans

We sponsor a Fair Isaac 401(k) plan for eligible employees. Under this plan, eligible employees may contribute up to 25% of compensation, not to exceed statutory limits. We also provide a company matching contribution. Investments in Fair Isaac common stock is not an option under this plan. Our contributions into all 401(k) plans, including former acquired company sponsored plans that have since merged into the Fair Isaac 401(k) plan or have been frozen, totaled \$6,159, \$4,457 and \$3,799 during fiscal 2003, 2002 and 2001, respectively.

Employee Stock Ownership Plans

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

During fiscal 2002 and 2001, we maintained a Non-U.S. Employee Stock Ownership Plan (“Non-U.S. ESOP”) that covered eligible employees working in the United Kingdom and contributions into the Non-U.S. ESOP were determined annually by our Board of Directors. There were no contributions into this plan during fiscal 2003, 2002 and 2001.

Employee Incentive Plans

We maintain various employee incentive plans for the benefit of eligible employees, including officers. The awards generally are based on the achievement of certain financial and performance objectives subject to the discretion of management. Total expenses under our employee incentive plans were \$10,037, \$4,915 and \$4,841 during fiscal 2003, 2002 and 2001, respectively.

Employee Stock Purchase Plans

Under the 1999 Employee Stock Purchase Plan (the “Purchase Plan”), we are authorized to issue up to 3,375 shares of common stock to eligible employees. Employees may have up to 10% of their base salary withheld through payroll deductions to purchase Fair Isaac common stock during semi-annual offering periods. The purchase price of the stock is the lower of 85% of (i) the fair market value of the common stock on the enrollment date (the first day of the offering period), or (ii) the fair market value on the exercise date (the last day of each offering period). Offering period means approximately six-month periods commencing (a) on the first trading day on or after January 1 and terminating on the last trading day in the following June, and (b) on the first trading day on or after July 1 and terminating on the last trading day in the following December.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

A total of 153, 102 and 123 shares of our common stock with a weighted average purchase price of \$32.39, \$30.82 and \$17.48 per share were issued under the Purchase Plan during fiscal 2003, 2002 and 2001, respectively. At September 30, 2003, 2,949 shares remained available for issuance.

In connection with our acquisition of HNC, we agreed to assume HNC's Employee Stock Purchase Plan (the "HNC Purchase Plan") for the remaining semi-annual purchase period ending on January 31, 2003. In connection with the HNC Purchase Plan assumption, we became authorized to issue up to 793 shares of our common stock to eligible employee participants, which consisted of former HNC employees that participated in the HNC Purchase Plan prior to the acquisition. Our Board of Directors has authorized termination of the HNC Purchase Plan, and no further purchases were made under the HNC Purchase Plan after January 31, 2003. Until January 31, 2003, existing participants were eligible to contribute up to 10% of their base salary into this plan to purchase Fair Isaac stock at the lower of 85% of (i) the fair market value of HNC common stock at the beginning of the applicable offering period, adjusted to reflect the merger exchange ratio into Fair Isaac stock, and (ii) the fair market value of Fair Isaac common stock on January 31, 2003. A total of 61 shares of Fair Isaac common stock with a purchase price of \$27.18 per share were issued under the HNC Purchase Plan during fiscal 2003. None of our common stock was issued under the HNC Purchase Plan during fiscal 2002.

17. Stock Option Plans

We maintain a Fair Isaac stock option plan under which we may grant stock options, stock appreciation rights, restricted stock and common stock to officers, key employees and non-employee directors. Under this plan, a number of shares equal to 4% of the number of shares of Fair Isaac common stock outstanding on the last day of the preceding fiscal year is added to the shares available under the plan each fiscal year, provided that the number of shares for grants of incentive stock options for the remaining term of the plan shall not exceed 3,375 shares. As of September 30, 2003, 194 shares remained available for grants under this plan. The plan will terminate in February 2012. We maintain individual stock option plans for certain of our executive officers and the chairman of the board. There are no shares available for future grants under these plans. Granted awards generally have a maximum term of ten years and vest over four years.

We also assumed all outstanding stock options held by former employees and non-employee directors of HNC, who as of our acquisition date, held unexpired and unexercised stock option grants under the various HNC stock option plans. As of September 30, 2003, 1,418 shares remained available for future grant under these option plans; however, the issuance of these shares may be subject to further approval by our stockholders under New York Stock Exchange corporate governance rules.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

Option activity under our plans during fiscal 2003, 2002 and 2001 is summarized as follows:

	2003		2002		2001	
	Options	Weighted-average Exercise Price	Options	Weighted-average Exercise Price	Options	Weighted-average Exercise Price
Outstanding at beginning of year	10,042	\$27.93	6,422	\$19.60	6,597	\$16.47
Granted	2,557	\$45.47	1,946	\$38.19	2,287	\$25.36
Assumption of HNC options	—	—	3,898	\$32.87	—	—
Exercised	(2,632)	\$26.28	(1,383)	\$17.10	(2,078)	\$16.48
Forfeited	(716)	\$34.38	(841)	\$28.78	(384)	\$17.01
Outstanding at end of year	9,251	\$32.75	10,042	\$27.93	6,422	\$19.60
Options exercisable at year end	3,350	\$25.13	3,675	\$24.54	1,388	\$16.90

The following table summarizes information about stock options outstanding at September 30, 2003:

	Options outstanding			Options exercisable	
	Number Outstanding	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price	Number Outstanding	Weighted-average Exercise Price
\$ 2.46 to \$18.19	1,715	5.15	\$15.42	1,370	\$15.19
\$18.20 to \$27.11	1,735	6.35	\$23.27	826	\$23.19
\$27.21 to \$35.76	1,562	6.09	\$31.62	535	\$31.86
\$35.99 to \$42.20	1,765	8.08	\$39.51	337	\$39.43
\$42.21 to \$46.24	1,591	8.58	\$43.74	108	\$44.79
\$46.55 to \$64.55	883	8.53	\$53.72	174	\$52.02
\$ 2.46 to \$64.55	9,251	7.00	\$32.75	3,350	\$25.13

18. 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:

- *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.
- *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.
- *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

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

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

The following tables summarize segment information for fiscal 2003, 2002 and 2001. Segment information for fiscal 2002 and 2001 has been restated to conform to fiscal 2003 presentation.

	Fiscal 2003				Total
	Scoring Solutions	Strategy Machine Solutions	Professional Services	Analytic Software Tools	
Revenues	\$ 135,994	\$ 380,550	\$ 83,975	\$ 28,776	\$ 629,295
Operating expenses	(62,281)	(289,888)	(75,733)	(24,698)	(452,600)
Segment operating income	\$ 73,713	\$ 90,662	\$ 8,242	\$ 4,078	176,695
Unallocated restructuring and merger-related					(2,501)
Operating income					174,194
Unallocated interest expense					(10,605)
Unallocated interest and other income, net					8,551
Income before income taxes					\$ 172,140
Depreciation and amortization	\$ 11,792	\$ 25,813	\$ 5,885	\$ 1,445	\$ 44,935

	Fiscal 2002				Total
	Scoring Solutions	Strategy Machine Solutions	Professional Services	Analytic Software Tools	
Revenues	\$ 127,991	\$ 190,249	\$ 62,576	\$ 11,602	\$ 392,418
Operating expenses	(58,505)	(163,073)	(65,418)	(10,886)	(297,882)
Segment operating income (loss)	\$ 69,486	\$ 27,176	\$ (2,842)	\$ 716	94,536
Unallocated restructuring and merger-related					(47,424)
Operating income					47,112
Unallocated interest expense					(1,471)
Unallocated interest and other income, net					7,457
Income before income taxes					\$ 53,098
Depreciation and amortization	\$ 7,059	\$ 18,945	\$ 4,089	\$ 892	\$ 30,985

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

	Fiscal 2001				
	Scoring Solutions	Strategy Machine Solutions	Professional Services	Analytic Software Tools	Total
Revenues	\$ 123,980	\$ 161,828	\$ 37,011	\$ 6,329	\$ 329,148
Operating expenses	(66,108)	(146,580)	(36,135)	(8,218)	(257,041)
Segment operating income (loss)	\$ 57,872	\$ 15,248	\$ 876	\$(1,889)	72,107
Unallocated interest and other income, net					4,746
Income before income taxes					\$ 76,853
Depreciation and amortization	\$ 6,532	\$ 15,661	\$ 2,472	\$ 409	\$ 25,074

Our revenues and percentage of revenues by reportable market segments are as follows for fiscal 2003, 2002 and 2001, the majority of which are derived from the sale of products and services within the consumer credit, financial services and insurance industries:

	2003		2002		2001	
Scoring Solutions	\$135,994	22%	\$127,991	33%	\$123,980	38%
Strategy Machine Solutions	380,550	60%	190,249	48%	161,828	49%
Professional Services	83,975	13%	62,576	16%	37,011	11%
Analytic Software Tools	28,776	5%	11,602	3%	6,329	2%
	\$629,295	100%	\$392,418	100%	\$329,148	100%

Within our Strategy Machine Solutions segment, our marketing solutions accounted for 12%, 18% and 22% of total revenues in fiscal 2003, 2002 and 2001, respectively, and our customer account management solutions accounted for 15%, 16% and 17% of total revenues in these periods, respectively. Additionally within this segment, our fraud solutions and our medical bill review solutions each accounted for 11% of total revenues in fiscal 2003.

Our revenues and percentage of revenues on a geographical basis are summarized below for fiscal 2003, 2002 and 2001. No individual country outside of the United States accounted for 10% or more of revenue in any of these years.

	2003		2002		2001	
United States	\$495,650	79%	\$316,241	81%	\$269,161	82%
International	133,645	21%	76,177	19%	59,987	18%
	\$629,295	100%	\$392,418	100%	\$329,148	100%

One customer accounted for 10%, 12% and 11% of our total revenues during fiscal 2003, 2002 and 2001, respectively, principally within our Scoring Solutions and Strategy Machine Solutions segments. At September 30, 2003 and 2002, no individual customer contributed to 10% or more of total consolidated receivables.

Our property and equipment, net, on a geographical basis are summarized below at September 30, 2003 and 2002. At September 30, 2003 and 2002, no individual country outside of the United States accounted for 10% or more of total consolidated net property and equipment.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

	2003		2002	
United States	\$48,190	95%	\$59,672	96%
International	2,516	5%	2,802	4%
	\$50,706	100%	\$62,474	100%

19. Related Party Transaction

Prior to its expiration in November 2002, we were party to a consulting service agreement with Cherry Tree Development, in which a director of Fair Isaac holds a 50% beneficial equity interest. During fiscal 2003, 2002 and 2001, we recorded \$60, \$404 and \$159 in selling, general and administrative expenses related to this agreement. Accounts payable under this agreement totaled \$0 and \$60 at September 30, 2003 and 2002, respectively.

20. Commitments

Minimum future commitments under non-cancelable operating leases are as follows as of September 30, 2003:

Fiscal Year	Future Minimum Lease Payments
2004	\$ 22,355
2005	20,217
2006	18,710
2007	16,748
2008	15,614
Thereafter	56,411
	\$150,055

The above amounts will be reduced by contractual sublease commitments totaling \$893, \$536, \$476, and \$189 in fiscal 2004 through 2007, respectively. We occupy the majority of our facilities under non-cancelable operating leases with lease terms in excess of one year. Such facility leases generally provide for annual increases based upon the Consumer Price Index or fixed increments. Rent expense under operating leases, including month-to-month leases, totaled \$20,857, \$11,992 and \$10,260 during fiscal 2003, 2002 and 2001, respectively.

In fiscal 2001, we entered into a mainframe service agreement that expires in fiscal 2005. Expense recorded by us under this agreement totaled \$10,171 and \$12,352 during fiscal 2003 and 2002, respectively. No expense was recorded by us under this agreement in fiscal 2001 as the service period had not yet commenced. Minimum future commitments under this service agreement are as follows as of September 30, 2003:

Fiscal Year	
2004	\$6,598
2005	517
	\$7,115

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

We are party to employment agreements with three of our executive officers that stipulate, among other things, base salary levels and performance-based incentive bonus targets. In the event that we terminate employment with any of these executive officers without cause, as defined, we would be obligated to pay certain severance amounts to the executive officers. These agreements also contain change in control provisions that could require us, or an entity acquiring us, to make cash payments to the executive officers in certain instances. We are also a party to a Management Agreement with each of twenty-four other senior executive officers providing for certain payments and other benefits in the event of a change in control of Fair Isaac, coupled with a termination of the executive during the following year.

21. Contingencies

We are in a dispute with a customer regarding the amount owed in connection with the sale of several of our products. Given the preliminary nature of the dispute, 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.

22. Guarantees

In the ordinary course of business, we are not subject to potential obligations under guarantees that fall within the scope of FIN No. 45 except for standard indemnification and warranty provisions that are contained within many of our customer license and service agreements and certain supplier agreements, as well as standard indemnification agreements that we have executed with certain of our officers and directors, and give rise only to the disclosure requirements prescribed by FIN No. 45. In addition, under previously existing accounting principles generally accepted in the United States of America, we continue to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the guarantees and indemnifications when those losses are estimable.

Indemnification and warranty provisions contained within our customer license and service agreements and certain supplier agreements are generally consistent with those prevalent in our industry. The duration of our product warranties generally does not exceed 90 days following delivery of our products. We have not incurred significant obligations under customer indemnification or warranty provisions historically and do not expect to incur significant obligations in the future. Accordingly, we do not maintain accruals for potential customer indemnification or warranty-related obligations. The indemnification agreements that we have executed with certain of our officers and directors would require us to indemnify such officers and directors in certain instances. We have not incurred obligations under these indemnification agreements historically and do not expect to incur significant obligations in the future. Accordingly, we do not maintain accruals for potential officer or director indemnification obligations. The maximum potential amount of future payments that we could be required to make under the indemnification provisions in our customer license and service agreements, and officer and director agreements is unlimited.

23. Subsequent Events

On October 1, 2003, we acquired substantially all of the assets of Seurat Company (“Seurat”) for cash consideration of \$5,000. Seurat is a provider of solutions and services that help companies target, acquire and retain customers through creative marketing strategies. We will account for this transaction using the purchase

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

method of accounting. We have not yet performed a preliminary allocation of the purchase price to the acquired assets and liabilities. The results of operations of Seurat will be included in the accompanying consolidated statements of income beginning on October 1, 2003.

24. Supplementary Financial Data (Unaudited)

The following table presents selected unaudited consolidated financial results for each of the eight quarters in the two-year period ended September 30, 2003. In the opinion of management, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments, except as noted below) necessary for a fair statement of the consolidated financial information for the period presented.

	Dec. 31, 2002	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003(1)
Revenues	\$146,732	\$158,598	\$163,000	\$160,965
Cost of revenues	60,654	64,041	62,209	59,688
Gross profit	\$ 86,078	\$ 94,557	\$100,791	\$101,277
Net income	\$ 19,789	\$ 25,645	\$ 30,033	\$ 31,690
Earnings per share(2):				
Basic	\$ 0.39	\$ 0.54	\$ 0.63	\$ 0.68
Diluted(3)	\$ 0.38	\$ 0.51	\$ 0.60	\$ 0.64
Shares used in computing earnings per share:				
Basic	50,162	47,898	47,488	46,933
Diluted	52,173	50,453	52,957	52,406
	Dec. 31, 2001	Mar. 31, 2002	Jun. 30, 2002	Sept. 30, 2002(4)
Revenues	\$85,061	\$87,050	\$91,014	\$129,293
Cost of revenues	38,585	39,127	40,724	55,764
Gross profit	\$46,476	\$47,923	\$50,290	\$ 73,529
Net income (loss)	\$13,547	\$14,185	\$14,352	\$ (24,200)
Earnings (loss) per share(2):				
Basic	\$ 0.40	\$ 0.41	\$ 0.43	\$ (0.55)
Diluted	\$ 0.38	\$ 0.39	\$ 0.41	\$ (0.55)
Shares used in computing earnings (loss) per share:				
Basic	34,190	34,532	33,629	43,717
Diluted	35,946	36,287	35,233	43,717

(1) During the quarter ended September 30, 2003, we reduced revenue and gross profit by \$2,866, net income by \$1,964 and basic and diluted earnings per share by \$0.04 and \$0.03, respectively, related to certain unbilled accounts receivable and deferred revenue balances remaining from prior years that were no longer assets or liabilities of Fair Isaac. These adjustments were identified during certain enterprise accounting system conversion activities that were completed during the fourth quarter.

FAIR ISAAC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Years Ended September 30, 2003, 2002 and 2001
(In thousands, except per share amounts)

- (2) Net income (loss) per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts does not equal the totals for the respective years.
- (3) The computation of diluted earnings per share for the quarters ended June 30, 2003 and September 30, 2003 include 2,703 shares of common stock issuable upon conversion of our Subordinated Notes, along with a corresponding adjustment to net income to add back related interest expense, net of tax, of \$1,585 and \$1,606, respectively.
- (4) Results of operations for the quarter ended September 30, 2002 include HNC's results of operations since the acquisition date of August 5, 2002. Results also include a \$40.2 million charge associated with the write-off of in-process research and development in connection with the acquisition and \$7.2 million in restructuring and other acquisition-related charges.

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

Not applicable.

Item 9A. *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 annual 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 annual report and that has materially affected, or is reasonably likely to materially affect, Fair Isaac's internal control over financial reporting.

PART III

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

The required information regarding our Directors is incorporated by reference from the information under the caption "Election of Directors — Nominees" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 2, 2004.

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

The required information regarding compliance with Section 16(a) of the Securities Exchange Act is incorporated by reference from the information under the caption "Section 16(a) Beneficial Ownership Reporting Employer Compliance" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 2, 2004.

Fair Isaac has adopted a Code of Ethics for Senior Financial Management that applies to the Company's Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions who have been identified by the Chief Executive Officer. This Code of Ethics is filed as Exhibit 14.1 to this report. Fair Isaac intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or a waiver from, this Code of Ethics by posting such information on its Web site which is located at www.fairisaac.com.

Item 11. *Executive Compensation*

The information required by this Item is incorporated by reference from the information under the captions "Directors Compensation," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Certain Relationships and Related Transactions" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 2, 2004.

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

The information required by this Item is incorporated by reference from the information under the caption "Security Ownership Of Certain Beneficial Owners and Management" and "Executive Compensation" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 2, 2004.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated by reference from the information under the captions “Certain Relationships and Related Transactions” and “Compensation Committee Interlocks and Insider Participation” in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 2, 2004.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference from the information under the caption “Audit and Non-Audit Fees” in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 2, 2004.

PART IV**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K****(a) 1. Consolidated Financial Statements:**

	Reference Page Form 10-K
Independent auditors’ report	43
Consolidated balance sheets as of September 30, 2003 and 2002	44
Consolidated statements of income for the years ended September 30, 2003, 2002, and 2001	45
Consolidated statements of stockholders’ equity and comprehensive income (loss) for the years ended September 30, 2003, 2002, and 2001	46
Consolidated statements of cash flows for the years ended September 30, 2003, 2002, and 2001	47
Notes to consolidated financial statements	48

2. Financial Statement Schedules

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

3. Exhibits:

Exhibit Number	Description
3.1	By-laws of the Company (as amended effective March 31, 2003). (Incorporated by reference to Exhibit 3.2 to Company’s report on Form 10-Q for the fiscal quarter ended March 31, 2003.)
3.2	Restated Certificate of Incorporation of Fair Isaac Corporation (Incorporated by reference to Exhibit 3.1 to Company’s report on Form 10-Q for the fiscal quarter ended March 31, 2003.)
4.1	Indenture, dated as of August 24, 2001, between HNC and State Street Bank and Trust Company of California, N.A., as Trustee. (Incorporated by reference to Exhibit 4.04 to HNC’s Form S-3 Registration Statement, File No. 333-72804, filed November 6, 2001.)
4.2	Form of Note for HNC’s 5.25% Convertible Subordinated Note due September 1, 2008. (Included in Exhibit 4.1.)
4.3	Registration Rights Agreement, dated as of August 24, 2001, between HNC and Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and U.S. Bancorp Piper Jaffray Inc. (Incorporated by reference to Exhibit 4.05 to HNC’s Form S-3 Registration Statement, File No. 333-72804, filed November 6, 2001.)

[Table of Contents](#)

Exhibit Number	Description
4.4	Rights Agreement dated as of August 8, 2001 between the Company and Mellon Investor Services LLC, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights. (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A relating to the Series A Participating Preferred Stock Purchase Rights filed August 10, 2001.)
4.5	Form of Right Certificate. (Included in Exhibit 4.4.)
4.6*	Indenture, dated as of August 6, 2003, between the Company and Wells Fargo Bank Minnesota, N.A., as Trustee
4.7*	Registration Rights Agreement, dated as of August 6, 2003, by and among the Company, Credit Suisse First Boston LLC, Goldman Sachs & Co. and Thomas Weisel LLC.
4.8*	Form of 1.5% Senior Convertible Note due August 15, 2023. (included in Exhibit 4.6.)
10.1	HNC's 1995 Equity Incentive Plan, as amended through March 30, 2000. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-40344, filed June 28, 2000.)(1)
10.2	Form of 1995 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 10.02 to HNC's Form S-4 Registration Statement, File No. 333-64527, as amended December 21, 1998.)(1)
10.3	HNC's 2001 Equity Incentive Plan and related form of Stock Option Agreement. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-62492, filed June 7, 2001.)(1)
10.4	HNC's 1995 Directors Stock Option Plan, as amended through April 30, 2000. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-40344, filed June 28, 2000.)(1)
10.5	Form of 1995 Directors Stock Option Plan Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 10.01 to HNC's Form 10-Q for the quarter ended June 30, 1999.)(1)
10.6	HNC's 1995 Employee Stock Purchase Plan, as amended through January 1, 2002.(1) (Incorporated by reference to Exhibit 10.07 to HNC's report on Form 10K for the fiscal year ended December 31, 2001.)
10.7	HNC's 1998 Stock Option Plan, as amended through September 1, 2000 and related form of option agreement. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-45442, filed September 8, 2000.)(1)
10.8	Aptex Software Inc. 1996 Equity Incentive Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-71923, filed February 5, 1999.)(1)
10.9	Form of Aptex Software Inc. 1996 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-71923, filed February 5, 1999.)(1)
10.10	Office Building Lease, Regency Center, by and between The Joseph and Eda Pell Revocable Trust and the Company dated June 13, 2001. (Incorporated by reference to Exhibit 10.11 to Company's Annual Report on Form 10-K, as amended, for the year ended September 30, 2001.)
10.11	First Amendment to Lease by and between 111 Partners and the Company, effective July 1, 2001. (Incorporated by reference to Exhibit 10.13 to Company's Annual Report on Form 10-K, as amended, for the year ended September 30, 2001.)
10.12	Form of Advanced Information Management Solutions, Inc. Stock Option Agreement. (Incorporated by reference to Exhibit 4.02 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1)
10.13	ONYX Technologies, Inc. 1999 Stock Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1)

[Table of Contents](#)

Exhibit Number	Description
10.14	Lease dated May 1, 1995, between Control Data Corporation and DynaMark, Inc. (Incorporated by reference to Exhibit 10.15 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.)
10.15	Form of ONYX Technologies, Inc. Stock Option Agreement. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1)
10.16	Fair, Isaac Supplemental Retirement and Savings Plan and Trust Agreement effective November 1, 1994. (Incorporated by reference to Exhibit 10.20 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.)(1)
10.17	The Center for Adaptive Systems Applications, Inc. 1995 Stock Option Plan assumed by HNC. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1)
10.18	Forms of The Center for Adaptive Systems Applications, Inc. Stock Option Agreements. (Incorporated by reference to Exhibit 4.06 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.)(1)
10.19	eHNC Inc. 1999 Equity Incentive Plan, as amended, assumed by HNC. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1)
10.20	Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Equity Incentive Plan. (Incorporated by reference to Exhibit 4.02 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1)
10.21	eHNC Inc. 1999 Executive Equity Incentive Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1)
10.22	Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Executive Equity Incentive Plan. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.)(1)
10.23	Systems/ Link Corporation 1999 Stock Option Plan assumed by HNC and related forms of agreements. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-45442, filed September 8, 2000.)(1)
10.24	Form of Management Agreement entered into as of August 14, 2002, with certain of the Company's officers. (Incorporated by reference to Exhibit 10.26 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)(1)
10.25	Lease dated April 28, 1995, between CSM Investors, Inc., and DynaMark, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.)
10.26	Second Amendment to Employment Agreement entered into effective as of December 26, 2001, by and between Fair, Isaac and Company, Inc. and Thomas G. Grudnowski. (Incorporated by reference to Exhibit 10.13 to Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2001.)(1)
10.27	Employee Option Exercise Assistance documents used under HNC's option plans, consisting of forms of Secured Full Recourse Promissory Note, Stock Pledge Agreement and related documents. (Incorporated by reference to Exhibit 10.01 to HNC's Form 10-Q for the quarter ended September 30, 2000.)(1)
10.28	Amended Employee Option Exercise Assistance documents, consisting of forms of Secured Full Recourse Promissory Note, Stock Pledge Agreement and related documents. (Incorporated by reference to Exhibit 10.33 to HNC's Form 10-K, as amended, for the year ended December 31, 2000.)(1)
10.29	Strategic Partnership Agreement dated as of October 23, 2000, between HNC and GeoTrust, Inc., as amended by Amendment No. 1 dated March 6, 2001. (Incorporated by reference to Exhibit 10.35 to HNC's Form 10-K, as amended, for the year ended December 31, 2000.)

[Table of Contents](#)

Exhibit Number	Description
10.30	Office Building Lease dated as of December 1, 1993, as amended effective February 1, 1994 and June 1, 1994, between HNC and PacCor Partners. (Previously filed as Exhibit 10.09 to the HNC IPO S-1.) (Incorporated by reference to Exhibit 10.32 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)
10.31	Credit Agreement dated November 1, 2002, by and between Fair, Isaac and Company, Inc. and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 10.33 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)
10.32*	First Amendment to Credit Agreement entered into as of August 1, 2003 by and between the Company and Wells Fargo Bank, National Association.
10.33	Lease dated June 1, 2001 by and between The Prudential Assurance Company Limited and Fair, Isaac International UK Corporation. (Incorporated by reference to Exhibit 10.4 to Company's Annual Report on Form 10-K, as amended, for the year ended September 30, 2001.)
10.34	Industrial Lease dated as of October 2, 1998, between HNC and The Irvine Company. (Incorporated by reference to Exhibit 99.01 to HNC's Registration Statement on Form S-8, File No. 333-71923, filed February 5, 1999.)
10.35	Industrial Building Lease between HNC and Coppell Commerce Center, Ltd dated as of December 13, 2000. (Incorporated by reference to Exhibit 10.45 to HNC's report on Form 10K for the fiscal year ended December 31, 2001.)
10.36	Sublease Agreement between HNC and Federal Insurance Company dated as of October 31, 2001. (Incorporated by reference to Exhibit 10.46 to HNC's report on Form 10K for the fiscal year ended December 31, 2001.)
10.37	Lease dated July 1, 1993, between The Joseph and Eda Pell Revocable Trust and the Company and the First Addendum thereto. (Incorporated by reference to Exhibit 10.7 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.)
10.38*	The Company's 1992 Long Term Incentive Plan as amended and restated effective August 26, 2003.
10.39	Employment Agreement entered into effective as of August 5, 2002, by and between Fair, Isaac and Company, Inc. and Kenneth J. Saunders. (Incorporated by reference to Exhibit 10.47 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)(1)
10.40	Nonstatutory Stock Option Agreement with Kenneth J. Saunders entered into as of August 5, 2002. (Incorporated by reference to Exhibit 10.48 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)(1)
10.41	Form of Indemnity Agreement entered into by the Company with the Company's directors and executive officers. (Incorporated by reference to Exhibit 10.49 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)
10.42	The Thomas G. Grudnowski Stock Option Plan. (Incorporated by reference to the Company's Form S-8 Registration Statement, File No. 333-32396, filed March 14, 2000.)(1)
10.43	The Thomas G. Grudnowski Stock Option Plan. (Incorporated by reference to the Company's Form S-8 Registration Statement, File No. 333-66332, filed July 31, 2001.)(1)
10.44	The Mark Pautsch Stock Option Plan. (Incorporated by reference to the Company's Form S-8 Registration Statement, File No. 333-66332, filed July 31, 2001.)(1)
10.45	2002 Stock Bonus Plan of the Company (Incorporated by reference to Exhibit 99.1 of the Company's Form S-8 Registration Statement, File No. 333-97695, filed August 6, 2002.)(1)
10.46	Second Supplemental Indenture, dated as of October 31, 2002, between Fair, Isaac and State Street Bank and Trust Company of California, N.A., as trustee. (Incorporated by reference to Exhibit 4.3 to the Company's Form S-3 Registration Statement, File No. 333-101033, filed November 6, 2002.)
10.47	Stock Option Agreement with A. George Battle entered into as of February 5, 2002. (Incorporated by reference to Exhibit 10.58 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)(1)

Table of Contents

Exhibit Number	Description
10.48	Nonstatutory Stock Option Agreement with Thomas Grudnowski entered into as of November 16, 2002. (Incorporated by reference to Exhibit 10.59 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.)(1)
10.49	Lease Agreement dated as of February 14, 2003, between Kilroy Realty, L.P. and the Company. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2003.)
10.50	Lease Agreement dated as of January 17, 2003, between International Centre Limited Partnership and the Company. Sublease Agreement dated as of January 17, 2003, between Utility Engineering Corporation and the Company. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended December 31, 2002.)
12.1*	Computations of ratios of earnings to fixed charges.
14.1*	Code of Ethics for Senior Financial Management.
21.1*	List of Company's subsidiaries.
23.1*	Independent Auditors' Consent.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of CEO.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of CFO.
32.1*	Section 1350 Certifications of CEO.
32.2*	Section 1350 Certifications of CFO.

(1) Management contract or compensatory plan or arrangement.

* Filed herewith.

(b) Reports on Form 8-K:

i. On July 23, 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 nine months ended June 30, 2003.

ii. On August 4, 2003, we furnished a Current Report on Form 8-K to the SEC, including the Company's two press releases announcing on July 31, 2003: 1) that the registrant intends to offer approximately \$350 million aggregate principal amount (excluding any option for the initial purchasers to the offering to purchase additional Senior Notes) of Senior Notes through an offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and 2) that the registrant priced its offering of \$350 million aggregate principal amount of the Senior Notes (excluding the option for the initial purchasers to the offering to purchase an additional \$50 million aggregate principal amount of Senior Notes) through an offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act.

iii. 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.

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

By

/s/ KENNETH J. SAUNDERS

Kenneth J. Saunders
Vice President and Chief Financial Officer

DATE: December 11, 2003

POWER OF ATTORNEY

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

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

/s/ THOMAS G. GRUDNOWSKI

Thomas G. Grudnowski

President, Chief Executive Officer (Principal Executive Officer) and Director

December 11, 2003

/s/ KENNETH J. SAUNDERS

Kenneth J. Saunders

Vice President, Chief Financial Officer (Principal Financial Officer)

December 11, 2003

/s/ RUSSELL C. CLARK

Russell C. Clark

Vice President, Finance and Corporate Controller (Principal Accounting Officer)

December 11, 2003

/s/ A. GEORGE BATTLE

A. George Battle

Director

December 11, 2003

/s/ TONY J. CHRISTIANSON

Tony J. Christianson

Director

December 11, 2003

/s/ ALEX W. HART

Alex W. Hart

Director

December 11, 2003

/s/ PHILIP G. HEASLEY

Philip G. Heasley

Director

December 11, 2003

[Table of Contents](#)

/s/ GUY R. HENSHAW

Guy R. Henshaw

Director

December 11, 2003

/s/ DAVID S. P. HOPKINS

David S. P. Hopkins

Director

December 11, 2003

/s/ MARGARET L. TAYLOR

Margaret L. Taylor

Director

December 11, 2003

EXHIBIT INDEX

To Fair Isaac Corporation

Report On Form 10-K For The Fiscal Year Ended September 30, 2003

Exhibit Number	Description	
3.1	By-laws of the Company (as amended effective March 31, 2003).	Incorporated by Reference
3.2	Restated Certificate of Incorporation of Fair Isaac Corporation.	Incorporated by Reference
4.1	Indenture, dated as of August 24, 2001, between HNC and State Street Bank and Trust Company of California, N.A., as Trustee.	Incorporated by Reference
4.2	Form of Note for HNC's 5.25% Convertible Subordinated Note due September 1, 2008. (Included in Exhibit 4.1.)	Incorporated by Reference
4.3	Registration Rights Agreement, dated as of August 24, 2001, between HNC and Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and U.S. Bancorp Piper Jaffray Inc.	Incorporated by Reference
4.4	Rights Agreement dated as of August 8, 2001 between Fair, Isaac and Company, Incorporated and Mellon Investor Services LLC, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights.	Incorporated by Reference
4.5	Form of Right Certificate. (Included in Exhibit 4.4.)	Incorporated by Reference
4.6	Indenture, dated as of August 6, 2003 between the Company and Wells Fargo Bank Minnesota, N.A., as Trustee	Filed Electronically
4.7	Registration Rights Agreement, dated as of August 6, 2003, by and among the Company, Credit Suisse First Boston LLC, Goldman Sachs & Co. and Thomas Weisel LLC.	Filed Electronically
4.8	Form of 1.5% Senior Convertible Note due August 15, 2023 (included in Exhibit 4.6.)	Filed Electronically
10.1	HNC's 1995 Equity Incentive Plan, as amended through March 30, 2000.	Incorporated by Reference
10.2	Form of 1995 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement.	Incorporated by Reference
10.3	HNC's 2001 Equity Incentive Plan and related form of Stock Option Agreement.	Incorporated by Reference
10.4	HNC's 1995 Directors Stock Option Plan, as amended through April 30, 2000.	Incorporated by Reference
10.5	Form of 1995 Directors Stock Option Plan Option Agreement and Stock Option Exercise Agreement.	Incorporated by Reference
10.6	HNC's 1995 Employee Stock Purchase Plan, as amended through January 1, 2002.	Incorporated by Reference
10.7	HNC's 1998 Stock Option Plan, as amended through September 1, 2000 and related form of option agreement.	Incorporated by Reference
10.8	Aptex Software Inc. 1996 Equity Incentive Plan assumed by HNC.	Incorporated by Reference
10.9	Form of Aptex Software Inc. 1996 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement.	Incorporated by Reference
10.10	Office Building Lease, Regency Center, by and between The Joseph and Eda Pell Revocable Trust and the Company dated June 13, 2001.	Incorporated by Reference
10.11	First Amendment to Lease by and between 111 Partners and the Company, effective July 1, 2001.	Incorporated by Reference
10.12	Form of Advanced Information Management Solutions, Inc. Stock Option Agreement.	Incorporated by Reference
10.13	ONYX Technologies, Inc. 1999 Stock Plan assumed by HNC.	Incorporated by Reference

[Table of Contents](#)

Exhibit Number	Description	
10.14	Lease dated May 1, 1995, between Control Data Corporation and DynaMark, Inc.	Incorporated by Reference
10.15	Form of ONYX Technologies, Inc. Stock Option Agreement.	Incorporated by Reference
10.16	Fair, Isaac Supplemental Retirement and Savings Plan and Trust Agreement effective November 1, 1994.	Incorporated by Reference
10.17	The Center for Adaptive Systems Applications, Inc. 1995 Stock Option Plan assumed by HNC.	Incorporated by Reference
10.18	Forms of The Center for Adaptive Systems Applications, Inc. Stock Option Agreements.	Incorporated by Reference
10.19	eHNC Inc. 1999 Equity Incentive Plan, as amended, assumed by HNC.	Incorporated by Reference
10.20	Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Equity Incentive Plan.	Incorporated by Reference
10.21	eHNC Inc. 1999 Executive Equity Incentive Plan assumed by HNC.	Incorporated by Reference
10.22	Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Executive Equity Incentive Plan.	Incorporated by Reference
10.23	Systems/ Link Corporation 1999 Stock Option Plan assumed by HNC and related forms of agreements.	Incorporated by Reference
10.24	Form of Management Agreement entered into as of August 14, 2002, with certain of the Company's officers.	Incorporated by Reference
10.25	Lease dated April 28, 1995, between CSM Investors, Inc., and DynaMark, Inc.	Incorporated by Reference
10.26	Second Amendment to Employment Agreement entered into effective as of December 26, 2001, by and between Fair, Isaac and Company, Inc. and Thomas G. Grudnowski.	Incorporated by Reference
10.27	Employee Option Exercise Assistance documents used under HNC's option plans, consisting of forms of Secured Full Recourse Promissory Note, Stock Pledge Agreement and related documents.	Incorporated by Reference
10.28	Amended Employee Option Exercise Assistance documents, consisting of forms of Secured Full Recourse Promissory Note, Stock Pledge Agreement and related documents.	Incorporated by Reference
10.29	Strategic Partnership Agreement dated as of October 23, 2000, between HNC and GeoTrust, Inc., as amended by Amendment No. 1 dated March 6, 2001.	Incorporated by Reference
10.30	Office Building Lease dated as of December 1, 1993, as amended effective February 1, 1994 and June 1, 1994, between HNC and PacCor Partners. (Previously filed as Exhibit 10.09 to the HNC IPO S-1.)	Incorporated by Reference
10.31	Credit Agreement dated November 1, 2002, by and between the Company and Company, Inc. and Wells Fargo Bank, National Association.	Incorporated by Reference
10.32	First Amendment to Credit Agreement entered into as of August 1, 2003 by and between the Company and Wells Fargo Bank, National Association.	Filed Electronically
10.33	Lease dated June 1, 2001 by and between The Prudential Assurance Company Limited and Fair, Isaac International UK Corporation.	Incorporated by Reference
10.34	Industrial Lease dated as of October 2, 1998, between HNC and The Irvine Company.	Incorporated by Reference

[Table of Contents](#)

Exhibit Number	Description	
10.35	Industrial Building Lease between HNC and Coppell Commerce Center, Ltd dated as of December 13, 2000.	Incorporated by Reference
10.36	Sublease Agreement between HNC and Federal Insurance Company dated as of October 31, 2001.	Incorporated by Reference
10.37	Lease dated July 1, 1993, between The Joseph and Eda Pell Revocable Trust and the Company and the First Addendum thereto.	Incorporated by Reference
10.38	The Company's 1992 Long Term Incentive Plan as amended and restated effective August 26, 2003.	Filed Electronically
10.39	Employment Agreement entered into effective as of August 5, 2002, by and between Fair, Isaac and Company, Inc. and Kenneth J. Saunders.	Incorporated by Reference
10.40	Nonstatutory Stock Option Agreement with Kenneth J. Saunders entered into as of August 5, 2002.	Incorporated by Reference
10.41	Form of Indemnity Agreement entered into by the Company with the Company's directors and executive officers.	Incorporated by Reference
10.42	The Thomas G. Grudnowski Stock Option Plan.	Incorporated by Reference
10.43	The Thomas G. Grudnowski Stock Option Plan.	Incorporated by Reference
10.44	The Mark Pautsch Stock Option Plan.	Incorporated by Reference
10.45	2002 Stock Bonus Plan of the Company.	Incorporated by Reference
10.46	Second Supplemental Indenture, dated as of October 31, 2002, between Fair, Isaac and State Street Bank and Trust Company of California, N.A., as trustee.	Incorporated by Reference
10.47	Stock Option Agreement with A. George Battle entered into as of February 5, 2002.	Incorporated by Reference
10.48	Nonstatutory Stock Option Agreement with Thomas Grudnowski entered into as of November 16, 2002.	Incorporated by Reference
10.49	Lease Agreement dated as of February 14, 2003, between Kilroy Realty, L.P. and The Company.	Incorporated by Reference
10.50	Lease Agreement dated as of January 17, 2003, between International Centre Limited Partnership and the Company. Sublease Agreement dated as of January 17, 2003, between Utility Engineering Corporation and the Company.	Incorporated by Reference
12.1	Computations of ratios of earnings to fixed charges.	Filed Electronically
14.1	Code of Ethics for Senior Financial Management.	Filed Electronically
21.1	List of Company's subsidiaries.	Filed Electronically
23.1	Independent Auditors' Consent.	Filed Electronically
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO.	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO.	Filed Electronically
32.1	Section 1350 Certifications of CEO.	Filed Electronically
32.2	Section 1350 Certifications of CFO.	Filed Electronically

=====

FAIR ISAAC CORPORATION

1.5% SENIOR CONVERTIBLE NOTES DUE AUGUST 15, 2023

INDENTURE
DATED AS OF AUGUST 6, 2003

WELLS FARGO BANK MINNESOTA, N.A.
AS TRUSTEE

=====

TABLE OF CONTENTS

	PAGE

ARTICLE 1 DEFINITIONS AND INCORPORATION BY REFERENCE.....	1
SECTION 1.1. DEFINITIONS.....	1
SECTION 1.2. OTHER DEFINITIONS.....	5
SECTION 1.3. TRUST INDENTURE ACT PROVISIONS.....	6
SECTION 1.4. RULES OF CONSTRUCTION.....	6
ARTICLE 2 THE SECURITIES.....	7
SECTION 2.1. FORM AND DATING.....	7
SECTION 2.2. EXECUTION AND AUTHENTICATION.....	8
SECTION 2.3. REGISTRAR, PAYING AGENT AND CONVERSION AGENT.....	9
SECTION 2.4. PAYING AGENT TO HOLD MONEY IN TRUST.....	10
SECTION 2.5. SECURITYHOLDER LISTS.....	10
SECTION 2.6. TRANSFER AND EXCHANGE.....	10
SECTION 2.7. REPLACEMENT SECURITIES.....	11
SECTION 2.8. OUTSTANDING SECURITIES.....	12
SECTION 2.9. TREASURY SECURITIES.....	12
SECTION 2.10. TEMPORARY SECURITIES.....	12
SECTION 2.11. CANCELLATION.....	13
SECTION 2.12. LEGEND; ADDITIONAL TRANSFER AND EXCHANGE REQUIREMENTS.....	13
SECTION 2.13. CUSIP NUMBERS.....	15
ARTICLE 3 REDEMPTION, PURCHASE AND REPURCHASE.....	16
SECTION 3.1. RIGHT TO REDEEM; NOTICE TO TRUSTEE.....	16
SECTION 3.2. SELECTION OF SECURITIES TO BE REDEEMED.....	16
SECTION 3.3. NOTICE OF REDEMPTION.....	16
SECTION 3.4. EFFECT OF NOTICE OF REDEMPTION.....	17
SECTION 3.5. DEPOSIT OF REDEMPTION PRICE.....	17
SECTION 3.6. SECURITIES REDEEMED IN PART.....	18
SECTION 3.7. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION.....	18
SECTION 3.8. PURCHASE OF SECURITIES AT OPTION OF THE HOLDER UPON CHANGE IN CONTROL.....	18
SECTION 3.9. EFFECT OF CHANGE IN CONTROL PURCHASE NOTICE.....	21
SECTION 3.10. DEPOSIT OF CHANGE IN CONTROL PURCHASE PRICE.....	22
SECTION 3.11. REPURCHASE OF SECURITIES AT OPTION OF THE HOLDER ON SPECIFIED DATES.....	22
SECTION 3.12. SECURITIES PURCHASED IN PART.....	25
SECTION 3.13. COMPLIANCE WITH SECURITIES LAWS UPON PURCHASE OF SECURITIES.....	25
SECTION 3.14. REPAYMENT TO THE COMPANY.....	25
ARTICLE 4 CONVERSION.....	26
SECTION 4.1. CONVERSION PRIVILEGE.....	26
SECTION 4.2. CONVERSION PROCEDURE.....	28
SECTION 4.3. FRACTIONAL SHARES.....	29
SECTION 4.4. TAXES ON CONVERSION.....	29

TABLE OF CONTENTS
(CONTINUED)

	PAGE -----
SECTION 4.5.	COMPANY TO PROVIDE STOCK..... 30
SECTION 4.6.	ADJUSTMENT OF CONVERSION PRICE..... 30
SECTION 4.7.	NO ADJUSTMENT..... 35
SECTION 4.8.	ADJUSTMENT FOR TAX PURPOSES..... 35
SECTION 4.9.	NOTICE OF ADJUSTMENT..... 35
SECTION 4.10.	NOTICE OF CERTAIN TRANSACTIONS..... 35
SECTION 4.11.	EFFECT OF RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE ON CONVERSION PRIVILEGE..... 36
SECTION 4.12.	TRUSTEE'S DISCLAIMER..... 37
SECTION 4.13.	VOLUNTARY REDUCTION..... 37
ARTICLE 5 COVENANTS.....	37
SECTION 5.1.	PAYMENT OF SECURITIES..... 37
SECTION 5.2.	SEC REPORTS..... 38
SECTION 5.3.	COMPLIANCE CERTIFICATES..... 38
SECTION 5.4.	FURTHER INSTRUMENTS AND ACTS..... 38
SECTION 5.5.	MAINTENANCE OF CORPORATE EXISTENCE..... 38
SECTION 5.6.	RULE 144A INFORMATION REQUIREMENT..... 38
SECTION 5.7.	STAY, EXTENSION AND USURY LAWS..... 39
SECTION 5.8.	PAYMENT OF ADDITIONAL INTEREST..... 39
ARTICLE 6 CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE.....	39
SECTION 6.1.	COMPANY MAY CONSOLIDATE, ETC, ONLY ON CERTAIN TERMS..... 39
SECTION 6.2.	SUCCESSOR SUBSTITUTED..... 40
ARTICLE 7 DEFAULT AND REMEDIES.....	40
SECTION 7.1.	EVENTS OF DEFAULT..... 40
SECTION 7.2.	ACCELERATION..... 42
SECTION 7.3.	OTHER REMEDIES..... 42
SECTION 7.4.	WAIVER OF DEFAULTS AND EVENTS OF DEFAULT..... 43
SECTION 7.5.	CONTROL BY MAJORITY..... 43
SECTION 7.6.	LIMITATIONS ON SUITS..... 43
SECTION 7.7.	RIGHTS OF HOLDERS TO RECEIVE PAYMENT AND TO CONVERT..... 44
SECTION 7.8.	COLLECTION SUIT BY TRUSTEE..... 44
SECTION 7.9.	TRUSTEE MAY FILE PROOFS OF CLAIM..... 44
SECTION 7.10.	PRIORITIES..... 44
SECTION 7.11.	UNDERTAKING FOR COSTS..... 45
ARTICLE 8 TRUSTEE.....	45
SECTION 8.1.	DUTIES OF TRUSTEE..... 45
SECTION 8.2.	RIGHTS OF TRUSTEE..... 46
SECTION 8.3.	INDIVIDUAL RIGHTS OF TRUSTEE..... 47

TABLE OF CONTENTS
(CONTINUED)

	PAGE

SECTION 8.4.	TRUSTEE'S DISCLAIMER..... 47
SECTION 8.5.	NOTICE OF DEFAULT OR EVENTS OF DEFAULT..... 47
SECTION 8.6.	REPORTS BY TRUSTEE TO HOLDERS..... 47
SECTION 8.7.	COMPENSATION AND INDEMNITY..... 48
SECTION 8.8.	REPLACEMENT OF TRUSTEE..... 48
SECTION 8.9.	SUCCESSOR TRUSTEE BY MERGER, ETC..... 49
SECTION 8.10.	ELIGIBILITY; DISQUALIFICATION..... 49
SECTION 8.11.	PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY..... 49
ARTICLE 9	SATISFACTION AND DISCHARGE OF INDENTURE..... 50
SECTION 9.1.	SATISFACTION AND DISCHARGE OF INDENTURE..... 50
SECTION 9.2.	APPLICATION OF TRUST MONEY..... 51
SECTION 9.3.	REPAYMENT TO COMPANY..... 51
SECTION 9.4.	REINSTATEMENT..... 51
ARTICLE 10	AMENDMENTS, SUPPLEMENTS AND WAIVERS..... 51
SECTION 10.1.	WITHOUT CONSENT OF HOLDERS..... 51
SECTION 10.2.	WITH CONSENT OF HOLDERS..... 52
SECTION 10.3.	COMPLIANCE WITH TRUST INDENTURE ACT..... 53
SECTION 10.4.	REVOCATION AND EFFECT OF CONSENTS..... 53
SECTION 10.5.	NOTATION ON OR EXCHANGE OF SECURITIES..... 53
SECTION 10.6.	TRUSTEE TO SIGN AMENDMENTS, ETC..... 53
SECTION 10.7.	EFFECT OF SUPPLEMENTAL INDENTURES..... 54
ARTICLE 11	MISCELLANEOUS..... 54
SECTION 11.1.	TRUST INDENTURE ACT CONTROLS..... 54
SECTION 11.2.	NOTICES..... 54
SECTION 11.3.	COMMUNICATIONS BY HOLDERS WITH OTHER HOLDERS..... 55
SECTION 11.4.	CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT..... 55
SECTION 11.5.	RECORD DATE FOR VOTE OR CONSENT OF SECURITYHOLDERS..... 55
SECTION 11.6.	RULES BY TRUSTEE, PAYING AGENT, REGISTRAR AND CONVERSION AGENT..... 56
SECTION 11.7.	LEGAL HOLIDAYS..... 56
SECTION 11.8.	GOVERNING LAW..... 56
SECTION 11.9.	NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS..... 56
SECTION 11.10.	NO RECOURSE AGAINST OTHERS..... 56
SECTION 11.11.	SUCCESSORS..... 56
SECTION 11.12.	MULTIPLE COUNTERPARTS..... 56
SECTION 11.13.	SEPARABILITY..... 56
SECTION 11.14.	TABLE OF CONTENTS, HEADINGS, ETC..... 57

CROSS-REFERENCE TABLE*

TIA SECTION -----	INDENTURE SECTION -----
Section 310(a)(1).....	8.10
(a)(2).....	8.10
(a)(3).....	N.A. **
(a)(4).....	N.A.
(a)(5).....	8.10
(b).....	8.8; 8.10
(c).....	N.A.
Section 311(a).....	8.11
(b).....	8.11
(c).....	N.A.
Section 312(a).....	2.5
(b).....	11.3
(c).....	11.3
Section 313(a).....	8.6
(b)(1).....	N.A.
(b)(2).....	8.6
(c).....	8.6; 11.2
(d).....	8.6
Section 314(a).....	5.2; 5.4; 11.2
(b).....	N.A.
(c)(1).....	11.4(a)
(c)(2).....	11.4(a)
(c)(3).....	N.A.
(d).....	N.A.
(e).....	11.4(b)
(f).....	N.A.
Section 315(a).....	8.1(b)
(b).....	8.5; 11.2
(c).....	8.1(a)
(d).....	8.1(c)
(e).....	7.11
Section 316(a)(last sentence).....	2.9
(a)(1)(A).....	7.5
(a)(1)(B).....	7.4
(a)(2).....	N.A.
(b).....	7.7
(c).....	11.5
Section 317(a)(1).....	7.8
(a)(2).....	7.9
(b).....	2.4

* This Cross-Reference Table shall not, for any purpose, be deemed a part of this Indenture.

** N.A. means Not Applicable.

THIS INDENTURE dated as of August 6, 2003 is between Fair Isaac Corporation, a corporation duly organized under the laws of the State of Delaware (the "Company"), and Wells Fargo Bank Minnesota, N.A. a national banking association organized and existing under the laws of the United States, as Trustee (the "Trustee").

In consideration of the premises and the purchase of the Securities by the Holders thereof, both parties agree as follows for the benefit of the other and for the equal and ratable benefit of the registered Holders of the Company's 1.5% Senior Convertible Notes due August 15, 2023.

ARTICLE 1
DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.1 DEFINITIONS.

"Additional Interest" has the meaning specified in Section 5(a) of the Registration Rights Agreement. All references herein to interest accrued or payable as of any date shall include any Additional Interest accrued or payable as of such date as provided in the Registration Rights Agreement.

"Affiliate" means, with respect to any specified person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent" means any Registrar, Paying Agent or Conversion Agent.

"Applicable Procedures" means, with respect to any transfer or exchange of beneficial ownership interests in a Global Security, the rules and procedures of the Depositary that are applicable to such transfer or exchange.

"Board of Directors" means either the board of directors of the Company or any committee of the Board of Directors authorized to act for it with respect to this Indenture.

"Business Day" means each day that is not a Legal Holiday.

"Capital Stock" or "capital stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, but excluding any debt securities convertible into such equity.

"cash" means such coin or currency of the United States as at any time of payment is legal tender for the payment of public and private debts.

"Certificated Security" means a Security that is in substantially the form attached hereto as Exhibit A and that does not include the information or the schedule called for by footnotes 1 and 3 thereof.

"Closing Sale Price" means, with respect to the Company's Common Stock on any date, the last reported per share sale price (or, if no last sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such date as reported in composite transactions for the principal U.S. securities exchange on which the Company's Common Stock then is listed, or if the Company's Common Stock is not listed on a U.S. national or regional exchange, as reported on the National Association of Securities Dealers Automated Quotation System, or if the Company's Common Stock is not quoted on the National Association of Securities Dealers Automated Quotation System, as reported on the principal other market on which the Common Stock is then traded. In the absence of such quotations, the Board of Directors will make a good faith determination of the Closing Sale Price.

"Common Stock" means the common stock of the Company, \$0.01 par value, as it exists on the date of this Indenture and any shares of any class or classes of capital stock of the Company resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which are not subject to redemption by the Company; provided, however, that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable on conversion of Securities shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the party named as such in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture, and thereafter Company means the successor Company.

"Contingent Interest" means interest payable with respect to the Securities for any six-month period from February 15 through August 14 and from August 15 through February 14, commencing with the six-month period beginning on August 15, 2008, if the average of the Trading Prices of a Security for the five consecutive 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 Security. The amount of contingent interest payable per Security in respect of any six-month period will equal 0.25% per annum of the average of the Trading Prices of the Securities for the five Trading Day period immediately preceding such six-month period.

"Conversion Rate" means, with respect to each \$1,000 principal amount of Securities, \$1,000 divided by the Conversion Price.

"Corporate Trust Office" means the office of the Trustee at which at any particular time the trust created by this Indenture shall be administered which office at the date of the execution of this Indenture is located at Sixth and Marquette, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services (Fair Isaac Corporation -- 1.5% Senior Convertible Notes due August 15, 2023) or at any other time at such other address as the Trustee may designate from time to time by notice to the Company.

"Default" or "default" means, when used with respect to the Securities, any event that is or, after notice or passage of time or both, would be an Event of Default.

"Exchange Act" means the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"Final Maturity Date" means August 15, 2023

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the date of this Indenture, including those set forth in (1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, (2) the statements and pronouncements of the Financial Accounting Standards Board, (3) such other statements by such other entity as approved by a significant segment of the accounting profession and (4) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in registration statements filed under the Securities Act and periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

"Global Security" means a permanent Global Security that is in substantially the form attached hereto as Exhibit A and that includes the information and schedule called for by footnotes 1 and 3 thereof and which is deposited with the Depository or its custodian and registered in the name of the Depository or its nominee.

"Holder" or "Securityholder" means the person in whose name a Security is registered on the Primary Registrar's books.

"Indenture" means this Indenture as amended or supplemented from time to time pursuant to the terms of this Indenture.

"Initial Purchasers" means Credit Suisse First Boston LLC, Goldman, Sachs & Co. and Thomas Weisel Partners LLC.

"Officer" means the Chairman or any Co-Chairman of the Board, any Vice Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Controller, Assistant Controller, the Secretary or any Assistant Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers; provided, however, that for purposes of Sections 4.11 and 5.3, "Officers' Certificate" means a certificate signed by the principal executive officer, principal financial officer or principal accounting officer of the Company and by one other Officer.

"Opinion of Counsel" means a written opinion from legal counsel. The counsel may be an employee of or counsel to the Company or the Trustee.

"Person" or "person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Principal" or "principal" of a debt security, including the Securities, means the principal of the security plus, when appropriate, the premium, if any, on the security.

"Registration Rights Agreement" means the Registration Rights Agreement, dated as of August 6, 2003, between the Company and the Initial Purchasers.

"Restricted Global Security" means a Global Security that is a Restricted Security.

"Restricted Security" means a Security required to bear the restricted legend set forth in the form of Security set forth in Exhibit A of this Indenture.

"Rule 144" means Rule 144 under the Securities Act or any successor to such Rule.

"Rule 144A" means Rule 144A under the Securities Act or any successor to such Rule.

"SEC" means the Securities and Exchange Commission.

"Securities" means the 1.5% Senior Convertible Notes due August 15, 2023 or any of them (each, a "Security"), as amended or supplemented from time to time, that are issued under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"Securities Custodian" means the Trustee, as custodian with respect to the Securities in global form, or any successor thereto.

"Significant Subsidiary" means, in respect of any Person, a Subsidiary of such Person that would constitute a "significant subsidiary" as such term is defined under Rule 1-02 of Regulation S-X under the Securities Act and the Exchange Act.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"TIA" means the Trust Indenture Act of 1939, as amended, and the rules and regulations thereunder as in effect on the date of this Indenture, except as provided in Section 10.3, and except to the extent any amendment to the Trust Indenture Act expressly provides for application of the Trust Indenture Act as in effect on another date.

"Trading Day" means a day during which trading in securities generally occurs on The New York Stock Exchange, or, if the Common Stock is not quoted on The New York Stock Exchange, on the principal other market on which the Common Stock is then traded, other than a day on which a material suspension of or limitation on trading is imposed that affects either The New York Stock Exchange (or, if applicable, such other market) in its entirety or only the shares of Common Stock, by reason of movements in price exceeding limits permitted by the relevant market on which the shares are traded or otherwise, or on which The New York Stock Exchange (or, if applicable, such other market) cannot clear the transfer of the Company's securities due to an event beyond the Company's control.

"Trading Price" means, with respect to the Securities on any date of determination, the average of the secondary market bid quotations per Security obtained by the Trustee for \$5,000,000 principal amount of the Securities at approximately 3:30 p.m., New York City time, on such determination date from two independent nationally recognized securities dealers select by the Company, which may include any of the Initial Purchasers, provided that if at least two such bids cannot reasonably be obtained by the Trustee, but one such

bid can reasonably be obtained by the Trustee, this one bid shall be used. If the Trustee cannot reasonably obtain at least one bid for \$5,000,000 principal amount of the Securities from a nationally recognized securities dealer or in the Company's reasonable judgment, the bid quotations are not indicative of the secondary market value of the Securities, then the Trading Price of the Securities will equal (a) the applicable Conversion Rate of the Securities multiplied by (b) the sale price of the Common Stock on such determination date.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture, and thereafter means the successor.

"Trust Officer" or "Authorized Officer" means, with respect to the Trustee, any officer assigned to the Corporate Trust Office, and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"Vice President" when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president."

"Voting Stock" of a Person means any class or classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

SECTION 1.2. OTHER DEFINITIONS.

TERM	DEFINED IN SECTION

"Agent Members".....	2.1
"Average Sale Price"	4.1(a)
"Bankruptcy Law".....	7.1
"Capital Stock Determination Date"	4.6(a)
"Change in Control".....	3.8(a)
"Change in Control Purchase Date".....	3.8(a)
"Change in Control Purchase Notice".....	3.8(c)
"Change in Control Purchase Price".....	3.8(a)
"Company Order".....	2.2
"Conversion Agent".....	2.3
"Conversion Date".....	4.2
"Conversion Price".....	4.6
"Current Market Price".....	4.6(b)
"Custodian".....	7.1
"Depository".....	2.1(a)
"Determination Date"	4.6(a)
"Dividend Determination Date".....	4.6(a)
"Event of Default".....	7.1
"Expiration Date".....	4.6(a)
"Expiration Time".....	4.6(a)
"Instrument"	7.1
"Legal Holiday".....	11.7

TERM

DEFINED IN SECTION

"Legend"	2.12
"Minimum Conversion Price"	4.6(b)
"Notice of Default"	7.1
"Notice of Redemption"	3.3
"Paying Agent".....	2.3
"Primary Registrar".....	2.3
"Purchase Agreement".....	2.1
"Purchased Shares".....	4.6(a)
"QIB".....	2.1(a)
"Redemption Date"	3.1
"Redemption Price"	3.1
"Registrar".....	2.3
"Repurchase Date"	3.11(a)
"Repurchase Election Notice"	3.11(b)
"Repurchase Notice"	3.11(b)
"Repurchase Price"	3.11(a)
"Rights Determination Date"	4.6(a)
"Rights Plan"	4.6(c)
"Trigger Event"	4.6(c)
"Unissued Shares"	3.8(a)

SECTION 1.3. TRUST INDENTURE ACT PROVISIONS.

Whenever this Indenture refers to a provision of the TIA, that provision is incorporated by reference in and made a part of this Indenture. The Indenture shall also include those provisions of the TIA required to be included herein by the provisions of the Trust Indenture Reform Act of 1990. The following TIA terms used in this Indenture have the following meanings:

"indenture securities" means the Securities;

"indenture security holder" means a Securityholder;

"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee; and "obligor" on the indenture securities means the Company or any other obligor on the Securities.

All other terms used in this Indenture that are defined in the TIA, defined by TIA reference to another statute or defined by any SEC rule and not otherwise defined herein have the meanings assigned to them therein.

SECTION 1.4. RULES OF CONSTRUCTION.

Unless the context otherwise requires:

- (A) a term has the meaning assigned to it;

(B) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(C) words in the singular include the plural, and words in the plural include the singular;

(D) provisions apply to successive events and transactions;

(E) the term "merger" includes a statutory share exchange and the term "merged" has a correlative meaning;

(F) the masculine gender includes the feminine and the neuter;

(G) references to agreements and other instruments include subsequent amendments thereto; and

(H) "herein," "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

ARTICLE 2 THE SECURITIES

SECTION 2.1. FORM AND DATING

The Securities and the Trustee's certificate of authentication shall be substantially in the respective forms set forth in Exhibit A, which Exhibit is incorporated in and made part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. Each Security shall be dated the date of its authentication. The Securities are being offered and sold by the Company pursuant to a Purchase Agreement, dated July 31, 2003 (the "Purchase Agreement"), between the Company and the Initial Purchasers, in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

(a) Restricted Global Securities. All of the Securities are initially being offered and sold to qualified institutional buyers as defined in Rule 144A (collectively, "QIBs" or individually, each a "QIB") in reliance on Rule 144A under the Securities Act and shall be issued initially in the form of one or more Restricted Global Securities, duly executed by the Company and authenticated by the Trustee as hereinafter provided, which shall be deposited on behalf of the purchasers of the Securities represented thereby with the Trustee, at its Corporate Trust Office, as custodian for the depository, The Depository Trust Company (such depository, or any successor thereto, being hereinafter referred to as the "Depository"), and registered in the name of its nominee, Cede & Co. The aggregate principal amount of the Restricted Global Securities may from time to time be increased or decreased by adjustments made on the records of the Securities Custodian as hereinafter provided, subject in each case to compliance with the Applicable Procedures.

(b) Global Securities In General. Each Global Security shall represent such of the outstanding Securities as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon and that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect replacements, exchanges, redemptions, purchases or conversions of such Securities. Any adjustment of the

aggregate principal amount of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Trustee in accordance with instructions given by the Holder thereof as required by Section 2.12 hereof and shall be made on the records of the Trustee and the Depositary.

Members of, or participants in, the Depositary ("Agent Members") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depositary or under the Global Security, and the Depositary or its nominee (including, for this purpose, its nominee) may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and Holder of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall (A) prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or (B) impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Security.

(c) Book Entry Provisions. The Company shall execute and the Trustee shall, in accordance with this Section 2.1(c), authenticate and deliver initially one or more Global Securities that (i) shall be registered in the name of the Depositary or its nominee, (ii) shall be delivered by the Trustee to the Depositary or held by the Trustee as custodian for the Depositary, or otherwise pursuant to the Depositary's instructions and (iii) shall bear legends substantially to the following effect:

"UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY TO FAIR ISAAC CORPORATION (THE "COMPANY") OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND, UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A SUCCESSOR DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY."

SECTION 2.2. EXECUTION AND AUTHENTICATION.

An Officer shall sign the Securities for the Company by manual or facsimile signature attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the Company. Typographic and other minor errors or defects in any such facsimile signature shall not affect the validity or enforceability of any Security that has been authenticated and delivered by the Trustee.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee shall authenticate and make available for delivery Securities for original issue in the aggregate principal amount of up to \$400,000,000 upon receipt of a written order or orders of the Company signed by two Officers of the Company (a "Company Order"). The Company Order shall specify the amount of Securities to be authenticated, shall provide that all such Securities will be represented by a Restricted Global Security and the date on which each original issue of Securities is to be authenticated. The aggregate principal amount of Securities outstanding at any time may not exceed \$400,000,000 except as provided in Section 2.7.

The Trustee shall act as the initial authenticating agent. Thereafter, the Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent shall have the same rights as an Agent to deal with the Company or an Affiliate of the Company.

The Securities shall be issuable only in registered form without coupons and only in denominations of \$1,000 and any integral multiple thereof.

SECTION 2.3. REGISTRAR, PAYING AGENT AND CONVERSION AGENT.

The Company shall maintain one or more offices or agencies where Securities may be presented for registration of transfer or for exchange (each, a "Registrar"), one or more offices or agencies where Securities may be presented for payment (each, a "Paying Agent"), one or more offices or agencies where Securities may be presented for conversion (each, a "Conversion Agent") and one or more offices or agencies where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will at all times maintain a Paying Agent, Conversion Agent, Registrar and an office or agency where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served in the Borough of Manhattan, The City of New York. One of the Registrars (the "Primary Registrar") shall keep a register of the Securities and of their transfer and exchange.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company fails to maintain a Registrar, Paying Agent, Conversion Agent or agent for service of notices and demands in any place required by this Indenture, or fails to give the foregoing notice, the Trustee shall act as such. The Company or any Affiliate of the Company may act as Paying Agent (except for the purposes of Section 5.1 and Article 9).

The Company hereby initially designates the Trustee as Paying Agent, Registrar, Primary Registrar, Securities Custodian and Conversion Agent, and each of the Corporate Trust Office of the Trustee and the office or agency of the Trustee or any affiliate of the Trustee in the Borough of Manhattan, The City of New York, New York (which shall initially be Wells Fargo Bank Minnesota, N.A., 45 Broadway, 12th Floor, MAC

N2666-120, New York, New York 10002, Attention: Corporate Trust Services (Fair Isaac Corporation - 1.5% Senior Convertible Notes due August 15, 2023)), one such office or agency of the Company for each of the aforesaid purposes.

SECTION 2.4. PAYING AGENT TO HOLD MONEY IN TRUST.

Prior to 12:00 p.m., New York City time, on each due date of the principal of or interest, if any, on any Securities, the Company shall deposit with a Paying Agent a sum sufficient to pay such principal or interest, if any, so becoming due. A Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest, if any, on the Securities, and shall notify the Trustee of any default by the Company (or any other obligor on the Securities) in making any such payment. If the Company or an Affiliate of the Company acts as Paying Agent, it shall, before 12:00 p.m., New York City time, on each due date of the principal of or interest on any Securities, segregate the money and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee, and the Trustee may at any time during the continuance of any default, upon written request to a Paying Agent, require such Paying Agent to pay forthwith to the Trustee all sums so held in trust by such Paying Agent. Upon doing so, the Paying Agent (other than the Company) shall have no further liability for the money.

SECTION 2.5. SECURITYHOLDER LISTS.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Primary Registrar, the Company shall furnish to the Trustee on or before each semi-annual interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

SECTION 2.6. TRANSFER AND EXCHANGE.

(a) Subject to compliance with any applicable additional requirements contained in Section 2.12, when a Security is presented to a Registrar with a request to register a transfer thereof or to exchange such Security for an equal principal amount of Securities of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested; provided, however, that every Security presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by an assignment form and, if applicable, a transfer certificate each in the form included in Exhibit A, and in form satisfactory to the Registrar duly executed by the Holder thereof or its attorney duly authorized in writing. To permit registration of transfers and exchanges, upon surrender of any Security for registration of transfer or exchange at an office or agency maintained pursuant to Section 2.3, the Company shall execute and the Trustee shall authenticate Securities of a like aggregate principal amount at the Registrar's request. Any exchange or transfer shall be without charge, except that the Company or the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto, and provided, that this sentence shall not apply to any exchange pursuant to Section 2.7, 2.10, 2.12(a), 3.6, 3.12, 4.2(f) or 10.5.

Neither the Company, any Registrar nor the Trustee shall be required to exchange or register a transfer of (i) any Securities for a period of 15 days next preceding any mailing of a notice of Securities to be redeemed, (ii) any Securities or portions thereof selected or called for redemption (except, in the case of redemption of a Security in part, the portion thereof not to be redeemed) or (iii) any Securities or portions

thereof in respect of which a Change in Control Purchase Notice has been delivered and not withdrawn by the Holder thereof (except, in the case of the purchase of a Security in part, the portion thereof not to be purchased).

All Securities issued upon any transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture, as the Securities surrendered upon such transfer or exchange.

(b) Any Registrar appointed pursuant to Section 2.3 hereof shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Securities upon transfer or exchange of Securities.

(c) Each Holder of a Security agrees to indemnify the Company and the Trustee against any liability that may result from the transfer, exchange or assignment of such Holder's Security in violation of any provision of this Indenture and/or applicable United States federal or state securities law.

The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Agent Members or other beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 2.7. REPLACEMENT SECURITIES.

If any mutilated Security is surrendered to the Company, a Registrar or the Trustee, or the Company, a Registrar and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company, the applicable Registrar and the Trustee such security or indemnity as will be required by them to save each of them harmless, then, in the absence of notice to the Company, such Registrar or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be redeemed, purchased or repurchased by the Company pursuant to Article 3, the Company in its discretion may, instead of issuing a new Security, pay, redeem, purchase or repurchase such Security, as the case may be.

Upon the issuance of any new Securities under this Section 2.7, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the reasonable fees and expenses of the Trustee or the Registrar) in connection therewith.

Every new Security issued pursuant to this Section 2.7 in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be

entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section 2.7 are (to the extent lawful) exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 2.8. OUTSTANDING SECURITIES.

Securities outstanding at any time are all Securities authenticated by the Trustee, except for those canceled by it, those delivered to it for cancellation and those described in this Section 2.8 as not outstanding.

If a Security is replaced pursuant to Section 2.7, it ceases to be outstanding unless the Company receives, subsequent to the new Security's authentication, proof satisfactory to the Company that the replaced Security is held by a bona fide purchaser.

If a Paying Agent (other than the Company or an Affiliate of the Company) holds on a Redemption Date, Repurchase Date, a Change in Control Purchase Date or the Final Maturity Date money sufficient to pay the principal of (including premium, if any) and accrued interest on Securities (or portions thereof) payable on that date, then on and after that date such Securities (or portions thereof, as the case may be) cease to be outstanding and interest on them ceases to accrue; provided that any notice of such redemption, repurchase or purchase has been given pursuant to this Indenture.

Subject to the restrictions contained in Section 2.9, a Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

SECTION 2.9. TREASURY SECURITIES.

In determining whether the Holders of the required principal amount of Securities have concurred in any notice, direction, waiver or consent, Securities owned by the Company or any other obligor on the Securities or by any Affiliate of the Company or of such other obligor shall be disregarded, except that, for purposes of determining whether the Trustee shall be protected in relying on any such notice, direction, waiver or consent, only Securities which a Trust Officer of the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to the Securities and that the pledgee is not the Company or any other obligor on the Securities or any Affiliate of the Company or of such other obligor.

SECTION 2.10. TEMPORARY SECURITIES.

Until definitive Securities are ready for delivery, the Company may prepare and execute, and, upon receipt of a Company Order, the Trustee shall authenticate and deliver, temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company with the consent of the Trustee considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate and deliver definitive Securities in exchange for temporary Securities.

SECTION 2.11. CANCELLATION.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar, the Paying Agent and the Conversion Agent shall forward to the Trustee or its agent any Securities surrendered to them for transfer, exchange, redemption, purchase, repurchase, payment or conversion. The Trustee and no one else shall promptly cancel, in accordance with its standard procedures, all Securities surrendered for transfer, exchange, redemption, payment, conversion or cancellation and shall deliver the canceled Securities to the Company. All Securities that are redeemed, purchased, repurchased or otherwise acquired by the Company or any of its Subsidiaries prior to the Final Maturity Date may be delivered to the Trustee for cancellation, or the Company may hold or resell such Securities; provided that all Securities delivered to the Trustee for cancellation may not be reissued or resold and shall be cancelled promptly by the Trustee. Without limitation to the foregoing, any Securities acquired by any investment banks or other purchasers pursuant to Section 3.7 shall be surrendered for conversion and thereafter cancelled, and may not be reoffered, sold or otherwise transferred.

SECTION 2.12. LEGEND; ADDITIONAL TRANSFER AND EXCHANGE REQUIREMENTS.

(a) If Securities are issued upon the transfer, exchange or replacement of Securities subject to restrictions on transfer and bearing the legends set forth on the forms of Securities attached hereto as Exhibit A setting forth such restrictions (collectively, the "Legend"), or if a request is made to remove the Legend on a Security, the Securities so issued shall bear the Legend, or the Legend shall not be removed, as the case may be, unless there is delivered to the Company and the Registrar such satisfactory evidence, which shall include an Opinion of Counsel if requested by the Company or such Registrar, as may be reasonably required by the Company and the Registrar, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A or Rule 144 under the Securities Act or that such Securities are not "restricted" within the meaning of Rule 144 under the Securities Act; provided that no such evidence need be supplied in connection with the sale of such Security pursuant to a registration statement that is effective at the time of such sale. Upon (i) provision of such satisfactory evidence if requested, or (ii) notification by the Company to the Trustee and registrar of the sale of such Security pursuant to a registration statement that is effective at the time of such sale, the Trustee, at the written direction of the Company, shall authenticate and deliver a Security that does not bear the Legend. If the Legend is removed from the face of a Security and the Security is subsequently held by an Affiliate of the Company, the Legend shall be reinstated.

(b) A Global Security may not be transferred, in whole or in part, to any Person other than the Depositary or a nominee or any successor thereof, and no such transfer to any such other Person may be registered; provided that the foregoing shall not prohibit any transfer of a Security that is issued in exchange for a Global Security but is not itself a Global Security. No transfer of a Security to any Person shall be effective under this Indenture or the Securities unless and until such Security has been registered in the name of such Person. Notwithstanding any other provisions of this Indenture or the Securities, transfers of a Global Security, in whole or in part, shall be made only in accordance with this Section 2.12.

(c) Subject to the succeeding paragraph, every Security shall be subject to the restrictions on transfer provided in the Legend other than a Restricted Global Security. Whenever any Restricted Security other than a Restricted Global Security is presented or surrendered for registration of transfer or for exchange for a Security registered in a name other than that of the Holder, such Security must be accompanied by a certificate in substantially the form set forth in Exhibit A, dated the date of such surrender and signed by the

Holder of such Security, as to compliance with such restrictions on transfer. The Registrar shall not be required to accept for such registration of transfer or exchange any Security not so accompanied by a properly completed certificate.

(d) The restrictions imposed by the Legend upon the transferability of any Security shall cease and terminate when such Security has been sold pursuant to an effective registration statement under the Securities Act or transferred in compliance with Rule 144 under the Securities Act (or any successor provision thereto) or, if earlier, upon the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision). Any Security as to which such restrictions on transfer shall have expired in accordance with their terms or shall have terminated may, upon a surrender of such Security for exchange to the Registrar in accordance with the provisions of this Section 2.12 (accompanied, in the event that such restrictions on transfer have terminated by reason of a transfer in compliance with Rule 144 or any successor provision, by, if requested by the Company or the Registrar, an Opinion of Counsel reasonably acceptable to the Company, addressed to the Company and in form acceptable to the Company, to the effect that the transfer of such Security has been made in compliance with Rule 144 or such successor provision), be exchanged for a new Security, of like tenor and aggregate principal amount, which shall not bear the restrictive Legend. The Company shall inform the Trustee of the effective date of any registration statement registering the Securities under the Securities Act. The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the aforementioned opinion of counsel or registration statement.

(e) As used in the preceding two paragraphs of this Section 2.12, the term "transfer" encompasses any sale, pledge, transfer, hypothecation or other disposition of any Security.

(f) The provisions of clauses (i), (ii), (iii), (iv) and (v) below shall apply only to Global Securities:

(i) Notwithstanding any other provisions of this Indenture or the Securities, a Global Security shall not be exchanged in whole or in part for a Security registered in the name of any Person other than the Depository or one or more nominees thereof, provided that a Global Security may be exchanged for Securities registered in the names of any person designated by the Depository in the event that (A) the Depository has notified the Company that it is unwilling or unable to continue as Depository for such Global Security or such Depository has ceased to be a "clearing agency" registered under the Exchange Act, and a successor Depository is not appointed by the Company within 90 days, (B) the Company has provided the Depository with written notice that it has decided to discontinue use of the system of book entry transfer through the Depository or any successor Depository or (C) an Event of Default has occurred and is continuing with respect to the Securities. Any Global Security exchanged pursuant to clauses (A) or (B) above shall be so exchanged in whole and not in part, and any Global Security exchanged pursuant to clause (C) above may be exchanged in whole or from time to time in part as directed by the Depository. Any Security issued in exchange for a Global Security or any portion thereof shall be a Global Security; provided that any such Security so issued that is registered in the name of a Person other than the Depository or a nominee thereof shall not be a Global Security.

(ii) Securities issued in exchange for a Global Security or any portion thereof shall be issued in definitive, fully registered form, without interest coupons, shall have an aggregate principal amount equal to that of such Global Security or portion thereof to be so

exchanged, shall be registered in such names and be in such authorized denominations as the Depositary shall designate and shall bear the applicable legends provided for herein. Any Global Security to be exchanged in whole shall be surrendered by the Depositary to the Trustee, as Registrar. With regard to any Global Security to be exchanged in part, either such Global Security shall be so surrendered for exchange or, if the Trustee is acting as custodian for the Depositary or its nominee with respect to such Global Security, the principal amount thereof shall be reduced, by an amount equal to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Trustee. Upon any such surrender or adjustment, the Trustee shall authenticate and deliver the Security issuable on such exchange to or upon the order of the Depositary or an authorized representative thereof.

(iii) Subject to the provisions of clause (v) below, the registered Holder may grant proxies and otherwise authorize any Person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a holder is entitled to take under this Indenture or the Securities.

(iv) In the event of the occurrence of any of the events specified in clause (i) above, the Company will promptly make available to the Trustee a reasonable supply of Certificated Securities in definitive, fully registered form, without interest coupons.

(v) Neither Agent Members nor any other Persons on whose behalf Agent Members may act shall have any rights under this Indenture with respect to any Global Security registered in the name of the Depositary or any nominee thereof, or under any such Global Security, and the Depositary or such nominee, as the case may be, may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and holder of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or such nominee, as the case may be, or impair, as between the Depositary, its Agent Members and any other Person on whose behalf an Agent Member may act, the operation of customary practices of such Persons governing the exercise of the rights of a holder of any Security.

SECTION 2.13. CUSIP NUMBERS.

The Company in issuing the Securities may use one or more "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption or purchase as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption or purchase and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption or purchase shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

ARTICLE 3
REDEMPTION, PURCHASE AND REPURCHASE

SECTION 3.1. RIGHT TO REDEEM; NOTICE TO TRUSTEE.

The Securities may be redeemed at the election of the Company, as a whole or from time to time in part, at any time on or after August 15, 2008, at a redemption price equal to 100% of the principal amount of the Securities being redeemed, together with accrued and unpaid interest up to, but not including, the date selected by the Company for redemption of the Securities (such price the "Redemption Price" and such date the "Redemption Date"); provided that if the Redemption Date is an interest payment date, interest will be payable to the Holders in whose name the Securities are registered at the close of business on the Redemption Date.

If the Company elects to redeem Securities pursuant to this Section 3.1 and paragraph 5 of the Securities, it shall notify the Trustee at least 30 days (but no fewer than 20 days) prior to the Redemption Date as fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee) of the Redemption Date and the principal amount of Securities to be redeemed. If fewer than all of the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall not be less than ten days after the date of notice to the Trustee.

SECTION 3.2. SELECTION OF SECURITIES TO BE REDEEMED.

If less than all of the Securities are to be redeemed, the Trustee shall, unless the procedures of the Depositary require otherwise, not fewer than 20 nor more than 60 days prior to the Redemption Date, select the Securities to be redeemed. The Trustee shall make the selection from the Securities outstanding and not previously called for redemption, by lot, on a pro rata basis, in such other manner as the Trustee deems appropriate or otherwise in accordance with the applicable procedures of the Depositary. Securities in denominations of \$1,000 may only be redeemed in whole. The Trustee may select for redemption portions (equal to \$1,000 or any integral multiple thereof) of the principal of Securities that have denominations larger than \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed to be the portion selected for redemption. Securities that have been converted during a selection of Securities to be redeemed shall be treated by the Trustee as outstanding for the purpose of such selection.

SECTION 3.3. NOTICE OF REDEMPTION.

At least 20 days but not more than 60 days before a Redemption Date, the Company shall mail or cause to be mailed a notice of redemption (a "Notice of Redemption") to each Holder of Securities to be redeemed at such Holder's address as it appears on the Primary Registrar's books.

The Notice of Redemption shall identify the Securities (including CUSIP numbers) to be redeemed and shall state:

- (1) the Redemption Date;

- (2) the Redemption Price;
- (3) the then current Conversion Price;
- (4) the name and address of each Paying Agent and Conversion Agent;
- (5) that Securities called for redemption must be presented and surrendered to a Paying Agent to collect the Redemption Price;
- (6) that Holders who wish to convert Securities must surrender such Securities for conversion no later than the close of business on the Business Day immediately preceding the Redemption Date and must satisfy the other requirements in paragraph 9 of the Securities;
- (7) that, unless the Company defaults in making the redemption payment, interest on Securities called for redemption shall cease accruing on and after the Redemption Date and the only remaining right of the Holder shall be to receive payment of the Redemption Price, plus accrued interest, if any upon presentation and surrender to a Paying Agent of the Securities; and
- (8) if any Security is being redeemed in part, the portion of the principal amount of such Security to be redeemed and that, after the Redemption Date, upon presentation and surrender of such Security, a new Security or Securities in aggregate principal amount equal to the unredeemed portion thereof will be issued.

If any of the Securities to be redeemed is in the form of a Global Security, then the Company shall modify such notice to the extent necessary to accord with the procedures of the Depository applicable to redemptions. At the Company's written request, which request shall (i) be irrevocable once given and (ii) set forth all relevant information required by clauses (1) through (8) of the preceding paragraph, the Trustee shall give the Notice of Redemption to each Holder in the Company's name and at the Company's expense.

SECTION 3.4. EFFECT OF NOTICE OF REDEMPTION.

Once the Notice of Redemption is mailed, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price stated in the notice, except for Securities that are converted in accordance with the provisions of Article 4. Upon presentation and surrender to a Paying Agent, Securities called for redemption shall be paid at the Redemption Price, plus accrued interest up to but not including the Redemption Date; provided that if the Redemption Date is an interest payment date, interest will be payable to the Holders in whose names the Securities are registered on the Redemption Date.

SECTION 3.5. DEPOSIT OF REDEMPTION PRICE.

Prior to 12:00 p.m. New York City time, on the Redemption Date, the Company shall deposit with a Paying Agent (or, if the Company acts as Paying Agent, shall segregate and hold in trust) money sufficient to pay the Redemption Price of all Securities to be redeemed on that date, other than Securities or portions thereof called for redemption on that date which have been delivered by the Company to the Trustee for cancellation or have been converted. The Paying Agent shall return to the Company any money not required for that purpose because of the conversion of Securities pursuant to Article 4 or, if such money is then held by the Company in trust and is not required for such purpose, it shall be discharged from the trust.

SECTION 3.6. SECURITIES REDEEMED IN PART.

Upon presentation and surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Security equal in principal amount to the unredeemed portion of the Security surrendered.

SECTION 3.7. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION.

In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment banks or other purchasers to purchase such Securities by paying to a Paying Agent (other than the Company or any of its Affiliates) in trust for the Holders, on or before 12:00 p.m. New York City time on the Redemption Date, an amount that, together with any amounts deposited with such Paying Agent by the Company for the redemption of such Securities, is not less than the Redemption Price of such Securities. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Price of such Securities, shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers; provided, however, that nothing in this Section 3.7 shall relieve the Company of its obligation to pay the Redemption Price on Securities called for redemption. If such an agreement with one or more investment banks or other purchasers is entered into, any Securities called for redemption and not surrendered for conversion by the Holders thereof prior to the relevant Redemption Date may, at the option of the Company upon written notice to the Trustee, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and (notwithstanding anything to the contrary contained in Article 4) surrendered by such purchasers for conversion, all as of 12:00 p.m. New York City time on the Redemption Date, subject to payment of the above amount as aforesaid. The Paying Agent shall hold and pay to the Holders whose Securities are selected for redemption any such amount paid to it for purchase in the same manner as it would money deposited with it by the Company for the redemption of Securities. Without the Paying Agent's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Paying Agent as set forth in this Indenture, and the Company agrees to indemnify the Paying Agent from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Paying Agent in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

SECTION 3.8. PURCHASE OF SECURITIES AT OPTION OF THE HOLDER UPON CHANGE IN CONTROL.

(a) If at any time that Securities remain outstanding there shall occur a Change in Control, Securities shall be purchased by the Company at the option of the Holders, as of the date that is 30 Business Days after the occurrence of the Change in Control (the "Change in Control Purchase Date") at a purchase price equal to 100% of the principal amount of the Securities, plus accrued and unpaid interest to, but excluding, the Change in Control Purchase Date (the "Change in Control Purchase Price"), subject to satisfaction by or on behalf of any Holder of the requirements set forth in subsection (c) of this Section 3.8.

A "Change in Control" shall be deemed to have occurred if any of the following occurs after the date hereof:

(1) any "person" or "group" (as such terms are defined below) is or becomes the "beneficial owner" (as defined below), directly or indirectly, of shares of Voting Stock of the Company representing 50% or more of the total voting power of all outstanding classes of Voting Stock of the Company or has the power, directly or indirectly, to elect a majority of the members of the Board of Directors of the Company; or

(2) the Company consolidates with, or merges with or into, another Person or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, or any Person consolidates with, or merges with or into, the Company, in any such event other than pursuant to a transaction in which the Persons that "beneficially owned" (as defined below), directly or indirectly, shares of Voting Stock of the Company immediately prior to such transaction "beneficially own" (as defined below), directly or indirectly, shares of Voting Stock of the Company representing at least a majority of the total voting power of all outstanding classes of Voting Stock of the surviving or transferee Person; or

(3) the holders of capital stock of the Company approve any plan or proposal for the liquidation or dissolution of the Company (whether or not otherwise in compliance with the terms hereof).

For the purpose of the definition of "Change in Control", (i) "person" and "group" have the meanings given such terms under Section 13(d) and 14(d) of the Exchange Act or any successor provisions, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act (or any successor provision thereto), (ii) a "beneficial owner" shall be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of this Indenture, except that the number of shares of Voting Stock of the Company shall be deemed to include, in addition to all outstanding shares of Voting Stock of the Company and Unissued Shares (as defined below) deemed to be held by the "person" or "group" (as such terms are defined above) or other person with respect to which the Change in Control determination is being made, all Unissued Shares (as defined below) deemed to be held by all other persons, and (iii) the terms "beneficially owned" and "beneficially own" shall have meanings correlative to that of "beneficial owner." The term "Unissued Shares" means shares of Voting Stock not outstanding that are subject to options, warrants, rights to purchase or conversion privileges exercisable within 60 days of the date of determination of a Change in Control.

Notwithstanding anything to the contrary set forth in this Section 3.8, a Change in Control will not be deemed to have occurred if either:

(X) the Closing Sale Price of the Common Stock for any five Trading Days during the ten Trading Days immediately preceding the Change in Control is at least equal to 105% of the Conversion Price in effect on such Trading Day; or

(Y) in the case of a merger or consolidation, all of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters' appraisal rights in the merger or consolidation) in the merger or consolidation otherwise constituting the Change in Control consists of common stock, depositary receipts or other certificates representing common equity interests, traded on a United States national securities exchange or quoted on the Nasdaq National Market (or which will be so traded or quoted when issued or exchanged in connection with such Change in Control) and as a result of such transaction or transactions the Securities become convertible solely into such common stock, depositary receipts or other certificates representing common equity interests.

(b) Within 10 Business Days after the occurrence of a Change in Control, the Company shall mail a written notice of the Change in Control to the Trustee and to each Holder (and to beneficial owners as required by applicable law). The notice shall include the form of a Change in Control Purchase Notice to be completed by the Holder and shall state:

- (1) the date of such Change in Control and, briefly, the events causing such Change in Control and the terms and conditions thereof;
- (2) the date by which the Change in Control Purchase Notice pursuant to this Section 3.8 must be given;
- (3) the Change in Control Purchase Date;
- (4) the Change in Control Purchase Price;
- (5) the Holder's right to require the Company to purchase the Securities;
- (6) briefly, the conversion rights of the Securities;
- (7) the name and address of each Paying Agent and Conversion Agent;
- (8) the Conversion Price and any adjustments thereto;
- (9) that Securities as to which a Change in Control Purchase Notice has been given may be converted into Common Stock pursuant to Article 4 of this Indenture only to the extent that the Change in Control Purchase Notice has been withdrawn in accordance with the terms of this Indenture;
- (10) the procedures that the Holder must follow to exercise rights under this Section 3.8;
- (11) the procedures for withdrawing a Change in Control Purchase Notice, including a form of notice of withdrawal; and
- (12) that the Holder must satisfy the requirements set forth in the Securities in order to convert the Securities.

If any of the Securities is in the form of a Global Security, then the Company shall modify such notice to the extent necessary to accord with the procedures of the Depositary applicable to the repurchase of Global Securities. At the Company's request, the Trustee shall give notice of such Change in Control on behalf of the Company; provided, however, that in all cases the text of such notice shall be prepared by the Company.

(c) A Holder may exercise its rights specified in subsection (a) of this Section 3.8 upon delivery of a written notice (which shall be in substantially the form included in Exhibit A hereto and which may be delivered by letter, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depositary's customary procedures) of the exercise of such rights (a "Change in Control Purchase Notice") to any Paying Agent at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date.

The delivery of such Security to any Paying Agent (together with all necessary endorsements) at the office of such Paying Agent shall be a condition to the receipt by the Holder of the Change in Control Purchase Price therefor.

The Company shall purchase from the Holder thereof, pursuant to this Section 3.8, a portion of a Security if the principal amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of the Indenture that apply to the purchase of all of a Security pursuant to Sections 3.8 through 3.14 also apply to the purchase of such portion of such Security.

Notwithstanding anything herein to the contrary, any Holder delivering to a Paying Agent the Change in Control Purchase Notice contemplated by this subsection (c) shall have the right to withdraw such Change in Control Purchase Notice in whole or in a portion thereof that is a principal amount of \$1,000 or in an integral multiple thereof at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 3.9.

A Paying Agent shall promptly notify the Company of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

Anything herein to the contrary notwithstanding, in the case of Global Securities, any Change in Control Purchase Notice may be delivered or withdrawn and such Securities may be surrendered or delivered for purchase in accordance with the Applicable Procedures as in effect from time to time.

SECTION 3.9. EFFECT OF CHANGE IN CONTROL PURCHASE NOTICE.

Upon receipt by any Paying Agent of the Change in Control Purchase Notice specified in Section 3.8(c), the Holder of the Security in respect of which such Change in Control Purchase Notice was given shall (unless such Change in Control Purchase Notice is withdrawn as specified below) thereafter be entitled to receive the Change in Control Purchase Price with respect to such Security. Such Change in Control Purchase Price shall be paid to such Holder promptly following the later of (a) the Change in Control Purchase Date with respect to such Security (provided the conditions in Section 3.8(c) have been satisfied) and (b) the time of delivery of such Security to a Paying Agent by the Holder thereof in the manner required by Section 3.8(c). Securities in respect of which a Change in Control Purchase Notice has been given by the Holder thereof may not be converted into shares of Common Stock on or after the date of the delivery of such Change in Control Purchase Notice unless such Change in Control Purchase Notice has first been validly withdrawn.

A Change in Control Purchase Notice may be withdrawn by means of a written notice (which may be delivered by mail, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depository's customary procedures) of withdrawal delivered by the Holder to a Paying Agent at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date, specifying the principal amount of the Security or portion thereof (which must be a principal amount of \$1,000 or an integral multiple of \$1,000 in excess thereof) with respect to which such notice of withdrawal is being submitted.

SECTION 3.10. DEPOSIT OF CHANGE IN CONTROL PURCHASE PRICE.

On or before 12:00 p.m. New York City time on the Change in Control Purchase Date, the Company shall deposit with the Trustee or with a Paying Agent (other than the Company or an Affiliate of the Company) an amount of money (in immediately available funds if deposited on such Business Day) sufficient to pay the aggregate Change in Control Purchase Price of all the Securities or portions thereof that are to be purchased as of such Change in Control Purchase Date. The manner in which the deposit required by this Section 3.10 is made by the Company shall be at the option of the Company, provided that such deposit shall be made in a manner such that the Trustee or a Paying Agent shall have immediately available funds on the Change in Control Purchase Date.

If a Paying Agent holds, in accordance with the terms hereof, money sufficient to pay the Change in Control Purchase Price of any Security for which a Change in Control Purchase Notice has been tendered and not withdrawn in accordance with this Indenture then, on the Change in Control Purchase Date, such Security will cease to be outstanding and the rights of the Holder in respect thereof shall terminate (other than the right to receive the Change in Control Purchase Price as aforesaid). The Company shall publicly announce the principal amount of Securities purchased as a result of such Change in Control on or as soon as practicable after the Change in Control Purchase Date.

SECTION 3.11. REPURCHASE OF SECURITIES AT OPTION OF THE HOLDER ON SPECIFIED DATES.

(a) The Holders may require the Company to repurchase any outstanding Securities for cash, in accordance with the provisions of paragraph 7 of the Securities, on August 15, 2007, August 15, 2008, August 15, 2013 or August 15, 2018 (each a "Repurchase Date") at a purchase price per Security equal to 100% of the aggregate principal amount of the Security, together with any accrued and unpaid interest, to but not including the applicable Repurchase Date (the "Repurchase Price"); provided that if such Repurchase Date is an interest payment date, interest on the Securities will be payable to the Holders in whose names the Securities are registered at the close of business on such Repurchase Date.

(b) The Company shall give written notice of the applicable Repurchase Date by notice sent by first-class mail to the Trustee and to each Holder (at its address shown in the register of the Registrar) and to beneficial owners as required by applicable law, not less than 20 Business Days prior to each Repurchase Date (the "Repurchase Notice"). Each Repurchase Notice shall include a repurchase election notice, in substantially the form included in Exhibit A, attached hereto (a "Repurchase Election Notice") to be completed by a Securityholder. Each Repurchase Notice shall state:

(1) the Repurchase Price, the Repurchase Date and the Conversion Price in effect;

(2) the name and address of the Paying Agent and the Conversion Agent;

(3) that Securities as to which a Repurchase Notice has been given may be converted if they are otherwise convertible in accordance with Article 4 hereof and paragraph 9 of the Securities only to the extent that the Repurchase Election Notice has been withdrawn in accordance with the terms of this Indenture;

(4) that Securities must be surrendered to the Paying Agent to collect payment;

(5) that the Repurchase Price for any Security as to which a Repurchase Notice has been given and not withdrawn will be paid promptly following the later of the Repurchase Date and the time of surrender of such Security as described in subclause (4) above;

(6) the procedures the Holder must follow to exercise rights under this Section and a brief description of those rights;

(7) briefly, the conversion rights of the Securities;

(8) the procedures for withdrawing a Repurchase Election Notice (including pursuant to the terms of Section 3.11(d));

(9) that, unless the Company defaults in making payment on Securities for which a Repurchase Election Notice has been submitted, interest, if any, on such Securities will cease to accrue on and after the Repurchase Date; and

(10) the CUSIP number of the Securities.

If any of the Securities are to be redeemed in the form of a Global Security, the Company shall modify such notice to the extent necessary to accord with the procedures of the Depository applicable to redemptions.

At the Company's request, the Trustee shall give such Repurchase Notice on behalf of the Company and at the Company's expense; provided, however, that, in all cases, the text of such Repurchase Notice shall be prepared by the Company.

(c) Repurchases of Securities by the Company pursuant to this Section 3.11 shall be made, at the option of the Holder thereof, upon:

(1) delivery to the Paying Agent by the Holder of the Repurchase Election Notice at any time from the opening of business on the date that is 20 Business Days prior to the applicable Repurchase Date until the close of business on the fifth Business Day prior to such Repurchase Date stating:

(A) the certificate number of the Security which the Holder will deliver to be purchased,

(B) the portion (which may be 100%) of the principal amount of the Security which the Holder will deliver to be purchased, which portion must be in a principal amount of \$1,000 or an integral multiple thereof, and

(C) that such Security shall be purchased as of the applicable Repurchase Date pursuant to the terms and conditions specified in paragraph 7 of the Securities and in this Section 3.11 of this Indenture.

(2) delivery of such Security to the Paying Agent at any time after delivery Repurchase Notice (together with all necessary endorsements) at the offices of the Paying Agent. Delivery of such Security shall be a condition to receipt by the Holder of the Repurchase Price therefor. The Repurchase Price shall be paid pursuant to this Section 3.11 only if the Security delivered to the Paying Agent shall conform in

all respects to the description thereof in the related Repurchase Election Notice, as determined by the Company.

(d) Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Repurchase Election Notice contemplated by this Section 3.11 shall have the right to withdraw such Repurchase Election Notice at any time prior to the close of business on the second Business Day immediately preceding the Repurchase Date by delivery of a written notice of withdrawal to the Paying Agent specifying:

(1) the certificate number, if any, of the Security in respect of which such notice of withdrawal is being submitted,

(2) the aggregate principal amount of the Security with respect to which such notice of withdrawal is being submitted, and

(3) the aggregate principal amount, if any, of such Security which remains subject to the original Repurchase Election Notice and which has been or will be delivered for purchase by the Company.

The Paying Agent shall promptly notify the Company of the receipt by it of any Repurchase Election Notice or written notice of withdrawal thereof.

(e) On or before 12:00 p.m. (local time in The City of New York) on the applicable Repurchase Date, the Company shall deposit with the Trustee or with the Paying Agent (or if the Company or an Affiliate of the Company is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 2.4) an amount of money (in immediately available funds if deposited on such Repurchase Date) sufficient to pay the aggregate Repurchase Price of all the Securities or portions thereof which are to be purchased as of the applicable Repurchase Date. The manner in which the deposit required by this Section 3.11(e) is made by the Company shall be at the option of the Company; provided that such deposit shall be made in a manner such that the Trustee or a Paying Agent shall have immediately available funds on the applicable Repurchase Date.

If a Paying Agent holds, in accordance with the terms hereof, money sufficient to pay the Repurchase Price of any Security for which a Repurchase Election Notice has been tendered and not withdrawn on the applicable Repurchase Date, then, on the applicable Repurchase Date, such Security will cease to be outstanding, whether or not the Security is delivered to the Paying Agent, and the rights of the Holder in respect thereof shall terminate (other than the right to receive the Repurchase Price as aforesaid) and interest will cease to accrue on such Security.

The Repurchase Price shall be paid to such Holder with respect to Securities for which a Repurchase Election Notice has been tendered and not withdrawn, subject to receipt of funds by the Paying Agent, promptly following the later of (x) the Repurchase Date with respect to such Security (provided the conditions in Section 3.11(c) have been satisfied) and (y) the time of delivery of such Security to the Paying Agent by the Holder thereof in the manner required by Section 3.11(c). Securities in respect of which a Repurchase Election Notice has been given by the Holder thereof may not be converted pursuant to Article 4 hereof on or after the date of the delivery of such Repurchase Election Notice, unless the Securities are otherwise then convertible in accordance with Article 4 and such Repurchase Election Notice has first been validly withdrawn as specified in Section 3.11(d).

The Company shall purchase from the Holder thereof, pursuant to this Section 3.11, a portion of a Security if the principal amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

(f) There shall be no purchase of any Securities pursuant to this Section 3.11 if there has occurred (prior to, on or after as the case may be, the giving, by the Holders of such Securities, of the required Repurchase Election Notice) and is continuing an Event of Default (other than a default in the payment of the Repurchase Price). The Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which a Repurchase Election Notice has been withdrawn in compliance with this Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Repurchase Price) in which case, upon such return, the Repurchase Election Notice with respect thereto shall be deemed to have been withdrawn.

SECTION 3.12. SECURITIES PURCHASED IN PART.

Any Security that is to be purchased or repurchased only in part shall be surrendered at the office of a Paying Agent and promptly after the Change in Control Purchase Date or the Repurchase Date, as the case may be, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of such authorized denomination or denominations as may be requested by such Holder, in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not purchased or repurchased.

SECTION 3.13. COMPLIANCE WITH SECURITIES LAWS UPON PURCHASE OF SECURITIES.

In connection with any offer to purchase or repurchase or any purchase or repurchase of Securities under Section 3.8 or 3.11, the Company shall (a) comply with Rule 13e-4 and Rule 14e-1 (or any successor to either such Rule), if applicable, under the Exchange Act, (b) file the related Schedule TO (or any successor or similar schedule, form or report) if required under the Exchange Act, and (c) otherwise comply with all federal and state securities laws in connection with such offer to purchase or purchase of Securities, all so as to permit the rights of the Holders and obligations of the Company under Sections 3.8 through 3.12 and 3.14 to be exercised in the time and in the manner specified therein.

SECTION 3.14. REPAYMENT TO THE COMPANY.

To the extent that the aggregate amount of cash deposited by the Company pursuant to Section 3.10 or 3.11 exceeds the aggregate Change in Control Purchase Price or Repurchase Price, as applicable, together, in each case with interest, if any, thereon of the Securities or portions thereof that the Company is obligated to purchase or repurchase, then promptly after the Change in Control Purchase Date or Repurchase Date, the Trustee or a Paying Agent, as the case may be, shall return any such excess cash to the Company.

ARTICLE 4
CONVERSION

SECTION 4.1. CONVERSION PRIVILEGE.

(a) Subject to the further provisions of this Section 4.1, a Holder of a Security may convert the principal amount of such Security (or any portion thereof equal to \$1,000 or any integral multiple of \$1,000 in excess thereof) into Common Stock, upon the occurrence of the conditions set forth in (1), (2), (3) or (4), below, at any time prior to the close of business on the last Business Day preceding the Final Maturity Date, at the Conversion Price then in effect:

(1) Closing Sale Price Condition.

(A) A Holder may surrender any Securities held by such Holder for conversion into Common Stock (x) prior to August 15, 2021, during any fiscal quarter, if the Closing Sale Price of the Common Stock, for at least 20 Trading Days in the period of 30 consecutive Trading Days ending on the last day of the immediately preceding fiscal quarter, is more than 120% of the Conversion Price on each corresponding Trading Day or (y) at any time after the Closing Sale Price of the Common Stock on any date after August 15, 2021 through the Business Day immediately prior to the Final Maturity Date, is more than 120% of the then current Conversion Price; provided that for the purpose of Section 4.1(a)(1)(A)(x), the period from the first day of the fiscal quarter that includes August 15, 2021 to August 15, 2021 shall be deemed to be a fiscal quarter prior to August 15, 2021.

(B) The Conversion Agent, will, on behalf of the Company, determine daily if the Securities are convertible as a result of the Closing Sale Price of the Common Stock and notify the Company and the Trustee.

(2) Trading Price Condition.

(A) A Holder may surrender its Securities for conversion, during the five consecutive Business Day period following any 10 consecutive Trading Day period in which the average of the Trading Prices for a Security was less than 98% of the average of the Closing Sale Prices of the Common Stock for such 10 Trading-Day period (the "Average Sale Price") multiplied by the applicable Conversion Rate. If, however, on the Trading Day immediately preceding the Conversion Date, the Closing Sale Price of the Common Stock is greater than 100% of the Conversion Price but less than or equal to 120% of the Conversion Price, then Holders converting their Securities may receive, in lieu of Common Stock based on the applicable Conversion Rate, at the Company's option, cash or Common Stock with a value equal to 100% of the principal amount of the Securities being converted on Conversion Date; in such case, the Common Stock will be valued at 100% of the average Closing Sale Price for the five consecutive Trading Days ending on the third Trading Day preceding the Conversion Date.

(B) If a Holder surrenders its Securities for conversion pursuant to this subsection (2), and the Company may pay in cash or Common Stock pursuant to the immediately preceding paragraph (A), the Company will notify such Holder by the second Trading Day following the Conversion Date whether the Company will pay such Holder in cash or Common Stock. If the Company elects to pay the principal amount of such Holder's Securities so surrendered in cash, the payment will be made on the third Trading Day following the Conversion Date. If the Company elects to pay the principal amount of such

Holder's Securities so surrendered in Common Stock, the Company will deliver Common Stock to such Holder on the fourth Trading Day following the Conversion Date.

(C) The Trustee will determine the Trading Price after being requested to do so by the Company. However, the Company will have no obligation to make that request unless a Holder provides the Company with reasonable evidence that the Trading Price may be less than 98% of the Average Sale Price of the Common Stock multiplied by the applicable Conversion Rate for the applicable period. If a Holder provides such evidence, the Company will instruct the Trustee to determine the Trading Price of the Securities for the applicable period.

(3) Call for Redemption. A Holder may surrender for conversion any Securities called for redemption at any time prior to the close of business one Business Day prior to the Redemption Date, even if the Securities are not otherwise convertible at such time. If a Holder has already delivered Repurchase Notice or a Change in Control Purchase Notice with respect to a Security at the time the call for redemption is made, however, the Holder may not surrender such Security for conversion until the Holder has withdrawn such notice in accordance herewith.

(4) Specified Corporate Transactions.

(A) Even if none of the conditions described in subsections (1), (2) and (3), above has occurred, if the Company elects to: (i) distribute to all holders of Common Stock rights or warrants entitling such holders to purchase, for a period expiring within 60 days, Common Stock at less than the Current Market Price (as determined in accordance with subsection 4.6(b)) at the time, or (ii) distribute to all holders of Common Stock, assets or debt securities of the Company, or rights or warrants to purchase the Company's securities, which distribution has a per share value exceeding 10.0% of the Closing Sale Price of the Common Stock on the Trading Day preceding the declaration date for such distribution, then in either case (i) and (ii), the Company must notify the Holders at least 20 days prior to the ex-dividend date for such distribution. Once the Company has given such notice, Holders may surrender their securities for conversion at any time until the earlier of the close of business on the Business Day prior to the ex-dividend date or the Company's announcement that such distribution will not take place. No adjustment to the ability of a Holder to convert will be made if the Holder will otherwise participate in the distribution without conversion.

(B) In addition, if the Company is a party to a consolidation, merger or binding share exchange pursuant to which all or substantially all of the Common Stock would be converted into cash, securities or other property, a Holder may surrender Securities for conversion at any time from and after the date that is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual date of such transaction. If the transaction also constitutes a Change in Control, the Holder can require the Company to purchase all or a portion of such Holder's Securities, as described in Section 3.8

(b) The number of shares of Common Stock issuable upon conversion of a Security shall be determined by dividing the principal amount of the Security or portion thereof surrendered for conversion by the Conversion Price in effect on the Conversion Date. The initial Conversion Price is set forth in paragraph 9 of the Securities and is subject to adjustment as provided in this Article 4.

Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of a Security.

A Holder of Securities is not entitled to any rights of a holder of Common Stock until such Holder has converted its Securities to Common Stock, and only to the extent such Securities are deemed to have been converted into Common Stock pursuant to this Article 4.

If a Security is called for redemption or submitted for purchase upon a Change in Control pursuant to Article 3, such conversion right shall terminate at the close of business on the Business Day immediately preceding the Redemption Date or Change in Control Purchase Date, as the case may be, for such Security or such earlier date as the Holder presents such Security for redemption or purchase (unless the Company shall default in making the redemption payment or Change in Control Purchase Price payment when due, in which case the conversion right shall terminate at the close of business on the date such default is cured and such Security is redeemed or purchased, as the case may be).

The Company will provide written notice to the Conversion Agent upon the occurrence of any of the conversion events specified in paragraph (a) of this Section 4.1 (other than Section 4.1(a)(1) and 4.1(a)(2)).

SECTION 4.2. CONVERSION PROCEDURE.

(a) To convert a Security, a Holder must (i) complete and manually sign the conversion notice on the back of the Security and deliver such notice to a Conversion Agent, (ii) surrender the Security (if in certificated form) to a Conversion Agent, (iii) furnish appropriate endorsements and transfer documents if required by a Registrar or a Conversion Agent, and (iv) pay any transfer or similar tax, if required. The date on which the Holder satisfies all of those requirements is the "Conversion Date."

(b) As soon as practicable after the Conversion Date, the Company shall deliver to the Holder through a Conversion Agent a certificate for the number of whole shares of Common Stock issuable upon the conversion and cash in lieu of any fractional shares pursuant to Section 4.3, or (or shall deliver only cash to the extent the Company elects to pay the principal amount in accordance with subsection 4.1(a)(2) in cash). Anything herein to the contrary notwithstanding, in the case of Global Securities, conversion notices may be delivered and such Securities may be surrendered for conversion in accordance with the Applicable Procedures as in effect from time to time.

(c) The person in whose name the Common Stock certificate is registered shall be deemed to be a stockholder of record on the Conversion Date; provided, however, that no surrender of a Security on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person or persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided, further, that such conversion shall be at the Conversion Price in effect on the Conversion Date as if the stock transfer books of the Company had not been closed. Upon conversion of a Security, such person shall no longer be a Holder of such Security and the delivery by the Company of the Common Stock issuable upon such conversion will be deemed to satisfy the Company's obligation to pay the principal amount of, plus accrued and unpaid interest on, the Security. Upon conversion, accrued and unpaid interest will be deemed paid in full rather than canceled, extinguished or forfeited. No payment or adjustment will be made for dividends or distributions on shares of Common Stock issued upon conversion of a Security.

(d) Securities so surrendered for conversion (in whole or in part) during the period from the close of business on any regular record date to the opening of business on the next succeeding interest payment date

(excluding Securities or portions thereof called for redemption on a Redemption Date, presented for purchase upon a Change in Control on a Change in Control Purchase Date or presented for repurchase on a Repurchase Date, as the case may be, during the period beginning at the close of business on a regular record date and ending at the opening of business on the first Business Day after the next succeeding interest payment date, or if such interest payment date is not a Business Day, the second such Business Day) shall also be accompanied by payment in funds acceptable to the Company of an amount equal to the interest payable on such interest payment date on the principal amount of such Security then being converted, and such interest shall be payable to such registered Holder notwithstanding the conversion of such Security, subject to the provisions of this Indenture relating to the payment of defaulted interest by the Company. Except as otherwise provided in this Section 4.2, no payment or adjustment will be made for accrued interest on a converted Security, which will be deemed paid upon conversion. If the Company defaults in the payment of interest payable on such interest payment date, the Company shall promptly repay such funds to such Holder.

(e) Nothing in this Section shall affect the right of a Holder in whose name any Security is registered at the close of business on a record date to receive the interest payable on such Security on the related interest payment date in accordance with the terms of this Indenture and the Securities. If a Holder converts more than one Security at the same time, the number of shares of Common Stock issuable upon the conversion shall be based on the aggregate principal amount of Securities converted.

(f) Upon surrender of a Security that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security equal in principal amount to the unconverted portion of the Security surrendered.

(g) If an Event of Default has occurred and is continuing (other than an Event of Default in a cash payment upon conversion of the Securities), the Company may not pay cash upon conversion of any Security or a portion of a Security (other than cash for fractional shares).

(h) Anything herein to the contrary notwithstanding, in the case of Global Securities, conversion notices may be delivered and such Global Securities may be surrendered for conversion in accordance with the Applicable Procedures as in effect from time to time.

(i) The delivery to the Holder of Common Stock of the Company issuable upon conversion of a Security will be treated as a payment (in an amount equal to the sum of the then fair market value of such Common Stock and cash payment in lieu of fractional shares, if any) on the Security for purposes of the U.S. Treasury regulations governing contingent payment debt instruments.

SECTION 4.3. FRACTIONAL SHARES.

The Company will not issue fractional shares of Common Stock upon conversion of Securities. In lieu thereof, the Company will pay an amount in cash based upon the Closing Sale Price of the Common Stock on the Trading Day immediately prior to the Conversion Date.

SECTION 4.4. TAXES ON CONVERSION.

If a Holder converts a Security, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon such conversion. However, the Holder shall pay any such tax which is due because the Holder requests the shares to be issued in a name other than the Holder's name. The Conversion Agent may refuse to deliver the certificate representing the Common Stock

being issued in a name other than the Holder's name until the Conversion Agent receives a sum sufficient to pay any tax which will be due because the shares are to be issued in a name other than the Holder's name. Nothing herein shall preclude any tax withholding required by law or regulation.

SECTION 4.5. COMPANY TO PROVIDE STOCK.

The Company shall, prior to issuance of any Securities hereunder, and from time to time as may be necessary, reserve, out of its authorized but unissued Common Stock, a sufficient number of shares of Common Stock to permit the conversion of all outstanding Securities into shares of Common Stock.

All shares of Common Stock delivered upon conversion of the Securities shall be newly issued shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company will endeavor promptly to comply with all federal and state securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Securities, if any, and will list or cause to have quoted such shares of Common Stock on each national securities exchange or on the Nasdaq National Market or other over-the-counter market or such other market on which the Common Stock is then listed or quoted; provided, however, that if rules of such automated quotation system or exchange permit the Company to defer the listing of such Common Stock until the first conversion of the Securities into Common Stock in accordance with the provisions of this Indenture, the Company covenants to list such Common Stock issuable upon conversion of the Securities in accordance with the requirements of such automated quotation system or exchange at such time. Any Common Stock issued upon conversion of a Security hereunder which at the time of conversion was a Restricted Security will also be a Restricted Security.

SECTION 4.6. ADJUSTMENT OF CONVERSION PRICE.

(a) The conversion price as stated in paragraph 9 of the Securities (the "Conversion Price") shall be adjusted from time to time by the Company as follows:

(1) Dividends, Distributions, Subdivisions and Combinations. In case the Company shall: (i) pay a dividend on its Common Stock in shares of Common Stock or make a distribution on its Common Stock in shares of Common Stock; or (ii) subdivide its outstanding Common Stock into a greater number of shares, or combine its outstanding Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior thereto shall be adjusted so that the Holder of any Security thereafter surrendered for conversion shall be entitled to receive that number of shares of Common Stock which it would have owned had such Security been converted immediately prior to the happening of such event. An adjustment made pursuant to this subsection (1) shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of subdivision or combination.

(2) Issuance of Rights or Warrants. In case the Company shall issue rights or warrants to all or substantially all holders of its Common Stock entitling them (for a period of not more than 60 days following such issuance) to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price per share (or having a conversion price per share) less than the Current Market Price per share of Common Stock (as determined in accordance with subsection (b) of this Section 4.6) on the record date for the determination of stockholders (the "Rights Determination Date") entitled to receive such rights or warrants, the Conversion Price in effect immediately prior thereto shall be adjusted so that the same

shall equal the price determined by multiplying the Conversion Price in effect immediately prior to such Rights Determination Date by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on such Rights Determination Date plus the number of shares which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion price of the convertible securities so offered, which shall be determined by multiplying the number of shares of Common Stock issuable upon conversion of such convertible securities by the conversion price per share of Common Stock pursuant to the terms of such convertible securities) would purchase at the Current Market Price per share (as defined in subsection (b) of this Section 4.6) of Common Stock on such Rights Determination Date, and of which the denominator shall be the number of shares of Common Stock outstanding on such Rights Determination Date plus the number of additional shares of Common Stock offered (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever any such rights or warrants are issued, and shall become effective immediately after such Rights Determination Date. If at the end of the period during which such rights or warrants are exercisable not all rights or warrants shall have been exercised, the adjusted Conversion Price shall be immediately readjusted to what it would have been based upon the number of additional shares of Common Stock actually issued (or the number of shares of Common Stock issuable upon conversion of convertible securities actually issued).

(3) Distributions of Capital Stock, Indebtedness or Other Assets.

(A) In case the Company shall distribute to all or substantially all holders of its Common Stock any shares of capital stock of the Company (other than Common Stock), evidences of indebtedness or other non-cash assets, or rights or warrants (including securities of any person other than the Company but excluding:

(i) dividends or distributions referred to in subsection 4.6(a)(1), above;

(ii) rights and warrants referred to in subsection 4.6(a)(2), above;

(iii) dividends and distributions referred to in subsection 4.6(a)(4) below; and

(iv) distribution of rights to all holders of Common Stock pursuant to the a Rights Plan or the detachment of such rights under the terms of such Rights Plan),

then in such case the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the current Conversion Price by a fraction of which the numerator shall be the Current Market Price per share (as defined in subsection (b) of this Section 4.6) of the Common Stock on the record date for the determination of stockholders entitled to receive such capital stock, evidences of indebtedness or other non-cash assets (the "Capital Stock Determination Date"), less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence of such fair market value and which shall be evidenced by an Officer's Certificate delivered to the Trustee) on such Capital Stock Determination Date, of the portion of the capital stock, evidences of indebtedness or other non-cash assets so distributed or of such rights or warrants applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the Capital Stock Determination Date), and of which the denominator shall be the Current Market Price per share (as defined in subsection (b) of this Section 4.6) of the Common Stock on such Capital Stock Determination Date. Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the Capital Stock Determination Date.

(B) In the event the then fair market value (as so determined) of the portion of the capital stock, evidences of indebtedness or other non-cash assets so distributed or of such rights or warrants applicable to one share of Common Stock is equal to or greater than the Current Market Price per share of the Common Stock on such Capital Stock Determination Date, in lieu of the foregoing adjustment, adequate provision shall be made so that each holder of a Security shall have the right to receive upon conversion the amount of capital stock, evidences of indebtedness or other non-cash assets so distributed or of such rights or warrants such holder would have received had such holder converted each Security on such Capital Stock Determination Date. In the event that such distribution is not so paid or made, the Conversion Price shall again be adjusted to be the Conversion Price that would then be in effect if such dividend or distribution had not been declared. If the Board of Directors determines the fair market value of any distribution for purposes of this Section 4.6(a)(3) by reference to the actual or when issued trading market for any securities, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price of the Common Stock.

(4) Cash Dividends or Distributions.

(A) If the Company shall, by dividend or otherwise, make one or more dividends or distributions in cash during any fiscal quarter of the Company to all or substantially all holders of its Common Stock, in an aggregate amount that, together with the aggregate amount of all other cash dividends or distributions made during such fiscal quarter to all or substantially all holders of its Common Stock exceeds the product of \$0.02 (appropriately adjusted from time to time for any stock dividends on or subdivisions or combinations of the Common Stock) multiplied by the number of shares of Common Stock outstanding on the record date for determination of stockholders entitled to receive the dividend or distribution (the "Dividend Determination Date" and together with the Rights Determination Date and Capital Stock Determination Date, each a "Determination Date") (excluding shares held in the treasury of the Company), then in such case the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying such Conversion Price in effect immediately prior to the Dividend Determination Date by a fraction of which the numerator shall be the Current Market Price per share of the Common Stock and the denominator of which shall be the Current Market Price per share of the Common Stock plus the amount per share of such dividend or distribution, to the extent it exceeds \$0.02 per share (appropriately adjusted from time to time for any stock dividends on or subdivisions or combinations of Common Stock). The adjustment will be made successively whenever any such event occurs.

(5) Tender Offer.

(A) In case any tender offer made by the Company or any of its Subsidiaries for Common Stock shall expire and such tender offer (as amended upon the expiration thereof) shall involve the payment of aggregate consideration in an amount (determined as the sum of the aggregate amount of cash consideration and the aggregate fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee thereof) of any other consideration) that, together with the aggregate amount of:

(i) any cash and the fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of any other consideration payable in respect of any other tender offers by the Company or any Subsidiary of the Company for Common Stock consummated within the 12 months preceding the date of the Expiration Date (as defined below) and in respect of which no Conversion Price adjustment pursuant to this Section 4.6 has been made; and

(ii) all cash distributions to all or substantially all holders of its Common Stock made within the 12 months preceding the Expiration Date and in respect of which no Conversion Price adjustment pursuant to this Section 4.6 has been made,

exceeds an amount equal to 10.0% of the product of the Current Market Price per share of Common Stock (as determined in accordance with subsection (b) of this Section 4.6) as of the last date (the "Expiration Date") tenders could have been made pursuant to such tender offer (as it may be amended) (the last time at which such tenders could have been made on the Expiration Date is hereinafter sometimes called the "Expiration Time") multiplied by the number of shares of Common Stock outstanding (including tendered shares but excluding any shares held in the treasury of the Company) at the Expiration Time, then, immediately prior to the opening of business on the day after the Expiration Date, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to close of business on the Expiration Date by a fraction of which the numerator shall be the product of the number of shares of Common Stock outstanding (including tendered shares but excluding any shares held in the treasury of the Company) at the Expiration Time multiplied by the Current Market Price per share of the Common Stock (as determined in accordance with subsection (b) of this Section 4.6) on the Trading Day next succeeding the Expiration Date and the denominator shall be the sum of (x) the aggregate consideration (determined as aforesaid) payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender offer) of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares and excluding any shares held in the treasury of the Company) at the Expiration Time and the Current Market Price per share of Common Stock (as determined in accordance with subsection (b) of this Section 4.6) on the Trading Day next succeeding the Expiration Date, such reduction to become effective immediately prior to the opening of business on the day following the Expiration Date. In the event that the Company is obligated to purchase shares pursuant to any such tender offer, but the Company is permanently prevented by applicable law from effecting any or all such purchases or any or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price which would have been in effect based upon the number of shares actually purchased. If the application of this Section 4.6(a)(5) to any tender offer would result in an increase in the Conversion Price, no adjustment shall be made for such tender offer under this Section 4.6(a)(5).

(B) For purposes of this Section 4.6(a)(5), the term "tender offer" shall mean and include both tender offers and exchange offers, all references to "purchases" of shares in tender offers (and all similar references) shall mean and include both the purchase of shares in tender offers and the acquisition of shares pursuant to exchange offers, and all references to "tendered shares" (and all similar references) shall mean and include shares tendered in both tender offers and exchange offers.

(b) The term "Current Market Price" shall mean (i) for the purpose of any computation under subsection 4.1(a)(4), 4.6(a)(2), 4.6(a)(3) or 4.6(a)(5), the Current Market Price per share of Common Stock on any date shall be deemed to be the average of the daily Closing Sale Prices for the 30 consecutive Trading Days commencing 45 Trading Days before the Determination Date or Expiration Date, as the case may be, and (ii) for the purpose of any computation under subsection 4.6(a)(4), the Current Market Price per share of Common Stock shall be deemed to be the average of the daily Closing Sales Prices per share of Common Stock for the first ten Trading Days from and including the date that the Common Stock trades ex-dividend.

In the event of a Conversion Price adjustment pursuant to subsections 4.6(a)(3) or (4), above, the Conversion Price may not be adjusted to be less than \$54.04 (the "Minimum Conversion Price");

notwithstanding the foregoing, in the event of a Conversion Price adjustment pursuant to subsections 4.6(a)(1), (2) or (5), above, the Minimum Conversion Price will be adjusted in proportion to such adjustment in the Conversion Price.

(c) Rights Plans.

(1) In the event that the Company implements a new preferred shares rights plan or any similar plan (a "Rights Plan"), or the Company's current Rights Plan is still in effect, upon conversion of the Securities into Common Stock, to the extent that any such Rights Plan has been implemented and is still in effect upon such conversion, the holders of Securities will receive, in addition to the Common Stock, the rights described therein (whether or not the rights have separated from the Common Stock at the time of conversion), subject to the limitations set forth in the Rights Plan. Any distribution of rights or warrants pursuant to a Rights Plan complying with the requirements set forth in the immediately preceding sentence of this paragraph shall not constitute a distribution of rights or warrants pursuant to this Section 4.6.

(2) Rights or warrants (or other rights issued pursuant to a Rights Plan) distributed by the Company to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Company's Capital Stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("Trigger Event"): (i) are deemed to be transferred with such shares of Common Stock; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of Common Stock, shall be deemed not to have been distributed for purposes of this Section 4.6 (and no adjustment to the Conversion Price under this Section 4.6 will be required) until the occurrence of the earliest Trigger Event, whereupon such rights and warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Price shall be made under this Section 4.6. If any such right or warrant, including any such existing rights or warrants distributed prior to the date of this Indenture, are subject to events, upon the occurrence of which such rights or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and record date with respect to new rights or warrants with such rights (and a termination or expiration of the existing rights or warrants without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights or warrants, or any Trigger Event or other event (of the type described in the preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Price under this Section 4.6 was made, (1) in the case of any such rights or warrants which shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a holder or holders of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of such rights or warrants which shall have expired or been terminated without exercise by any holders thereof, the Conversion Price shall be readjusted as if such rights and warrants had not been issued.

(d) In any case in which this Section 4.6 shall require that an adjustment be made following a record date or a Determination Date or Expiration Date, as the case may be, established for purposes of this Section 4.6, the Company may elect to defer (but only until five Business Days following the filing by the Company with the Trustee of the certificate described in Section 4.9) issuing to the Holder of any Security converted after such record date or Determination Date or Expiration Date the shares of Common Stock and other capital stock of the Company issuable upon such conversion over and above the shares of Common

Stock and other capital stock of the Company issuable upon such conversion only on the basis of the Conversion Price prior to adjustment; and, in lieu of the shares the issuance of which is so deferred, the Company shall issue or cause its transfer agents to issue due bills or other appropriate evidence prepared by the Company of the right to receive such shares. If any distribution in respect of which an adjustment to the Conversion Price is required to be made as of the record date or Determination Date or Expiration Date therefor is not thereafter made or paid by the Company for any reason, the Conversion Price shall be readjusted to the Conversion Price which would then be in effect if such record date had not been fixed or such effective date or Determination Date or Expiration Date had not occurred.

SECTION 4.7. NO ADJUSTMENT.

No adjustment in the Conversion Price shall be required unless the adjustment would require an increase or decrease of at least 1% in the Conversion Price as last adjusted; provided, however, that any adjustments which by reason of this Section 4.7 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article 4 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

Except pursuant to Section 4.6 and 4.7, no adjustment need be made for issuances of Common Stock or any securities convertible or exchangeable for Common Stock or the right to purchase Common Stock or such convertible or exchangeable securities, including pursuant to a Company plan for reinvestment of dividends or interest or for a change in the par value or a change to no par value of the Common Stock.

To the extent that the Securities become convertible into the right to receive cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

SECTION 4.8. ADJUSTMENT FOR TAX PURPOSES.

The Company shall be entitled to make such reductions in the Conversion Price, in addition to those required by Section 4.6, as it in its discretion shall determine to be advisable in order that any stock dividends, subdivisions of shares, distributions of rights to purchase stock or securities or distributions of securities convertible into or exchangeable for stock hereafter made by the Company to its stockholders shall not be taxable.

SECTION 4.9. NOTICE OF ADJUSTMENT.

Whenever the Conversion Price or conversion privilege is adjusted, the Company shall promptly mail to Securityholders a notice of the adjustment and file with the Trustee an Officers' Certificate briefly stating the facts requiring the adjustment and the manner of computing it. Unless and until the Trustee shall receive an Officers' Certificate setting forth an adjustment of the Conversion Price, the Trustee may assume without inquiry that the Conversion Price has not been adjusted and that the last Conversion Price of which it has knowledge remains in effect.

SECTION 4.10. NOTICE OF CERTAIN TRANSACTIONS.

In the event that:

(1) the Company takes any action which would require an adjustment in the Conversion Price;

(2) the Company consolidates or merges with, or transfers all or substantially all of its property and assets to, another corporation and shareholders of the Company must approve the transaction; or

(3) there is a dissolution or liquidation of the Company, the Company shall mail to Holders and file with the Trustee a notice stating the proposed record or effective date, as the case may be. The Company shall mail the notice at least ten days before such date. Failure to mail such notice or any defect therein shall not affect the validity of any transaction referred to in clause (1), (2) or (3) of this Section 4.10.

SECTION 4.11. EFFECT OF RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE ON CONVERSION PRIVILEGE.

If any of the following shall occur, namely: (a) any reclassification or change of shares of Common Stock issuable upon conversion of the Securities (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination, or any other change for which an adjustment is provided in Section 4.6); (b) any consolidation or merger or combination to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination) in, outstanding shares of Common Stock; or (c) any sale or conveyance as an entirety or substantially as an entirety of the property and assets of the Company, directly or indirectly, to any Person, then the Company, or such successor, purchasing or transferee Person, as the case may be, shall, as a condition precedent to such reclassification, change, combination, consolidation, merger, sale or conveyance, execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then outstanding shall have the right to convert such Security into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification, change, combination, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock deliverable upon conversion of such Security immediately prior to such reclassification, change, combination, consolidation, merger, sale or conveyance. Such supplemental indenture shall provide for adjustments of the Conversion Price, which shall be as nearly equivalent as may be practicable to the adjustments of the Conversion Price provided for in this Article 4. If, in the case of any such consolidation, merger, combination, sale or conveyance, the stock or other securities and property (including cash) receivable thereupon by a holder of Common Stock include shares of stock or other securities and property of a Person other than the successor, purchasing or transferee Person, as the case may be, in such consolidation, merger, combination, sale or conveyance, then such supplemental indenture shall also be executed by such other Person and shall contain such additional provisions to protect the interests of the Holders of the Securities as the Board of Directors shall reasonably consider necessary by reason of the foregoing. The provisions of this Section 4.11 shall similarly apply to successive reclassifications, changes, combinations, consolidations, mergers, sales or conveyances.

In the event the Company shall execute a supplemental indenture pursuant to this Section 4.11, the Company shall promptly file with the Trustee (x) an Officers' Certificate briefly stating the reasons therefor, the kind or amount of shares of stock or other securities or property (including cash) receivable by Holders of the Securities upon the conversion of their Securities after any such reclassification, change, combination, consolidation, merger, sale or conveyance, any adjustment to be made with respect thereto and that all conditions precedent have been complied with and (y) an Opinion of Counsel that all conditions precedent have been complied with, and shall promptly mail notice thereof to all Holders.

SECTION 4.12. TRUSTEE'S DISCLAIMER.

The Trustee shall have no duty to determine when an adjustment under this Article 4 should be made, how it should be made or what such adjustment should be, but may accept as conclusive evidence of that fact or the correctness of any such adjustment, and shall be protected in relying upon, an Officers' Certificate including the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.9. The Trustee makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities, and the Trustee shall not be responsible for the Company's failure to comply with any provisions of this Article 4.

The Trustee shall not be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture executed pursuant to Section 4.11, but may accept as conclusive evidence of the correctness thereof, and shall be fully protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.11.

SECTION 4.13. VOLUNTARY REDUCTION.

The Company from time to time may reduce the Conversion Price by any amount for any period of time if the period is at least 20 days and if the reduction is irrevocable during such period (i) if the Board of Directors determines that such reduction would be in the best interest of the Company or to avoid or diminish income tax to holders of shares of Common Stock in connection with a dividend or distribution of stock or similar event, and (ii) the Company provides 15 days prior notice of any reduction in the Conversion Price; provided, however, that in no event may the Company reduce the Conversion Price to be less than the par value of a share of Common Stock.

ARTICLE 5
COVENANTS

SECTION 5.1. PAYMENT OF SECURITIES.

The Company shall promptly make all payments in respect of the Securities on the dates and in the manner provided in the Securities and this Indenture. An installment of principal or interest (including Contingent Interest) or Additional Interest, if any, shall be considered paid on the date it is due if the Paying Agent (other than the Company) holds by 12:00 p.m., New York City time, on that date money, deposited by the Company or an Affiliate thereof, sufficient to pay the installment. The Company shall, to the fullest extent permitted by law, pay interest on overdue principal (including premium, if any) and overdue installments of interest at the rate borne by the Securities per annum.

The Company will not be required to make any payment in respect of the Securities on any day that is not a Business Day and any such payment will be due on the next succeeding Business Day and be treated as though it were paid on the original due date and additional interest will not accrue for the additional period of time.

Payment of the principal of (and premium, if any) and any interest on the Securities shall be made at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which shall initially be Wells Fargo Bank Minnesota, N.A., 45 Broadway, 12th Floor, MAC N2666-120, New York, New York, 10002) or at the Corporate Trust Office of the Trustee in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and

private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address appears in the Register; provided further that a Holder with an aggregate principal amount in excess of \$2,000,000 will be paid by wire transfer in immediately available funds at the election of such Holder if such Holder has provided wire transfer instructions to the Company at least 10 Business Days prior to the payment date.

SECTION 5.2. SEC REPORTS.

The Company shall file all reports and other information and documents that it is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, and within 15 days after it files them with the SEC, the Company shall file copies of all such reports, information and other documents with the Trustee.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 5.3. COMPLIANCE CERTIFICATES.

The Company shall deliver to the Trustee, within 90 days after the end of each fiscal year of the Company (beginning with the fiscal year ending September 30, 2003), an Officers' Certificate as to the signer's knowledge of the Company's compliance with all conditions and covenants on its part contained in this Indenture and stating whether or not the signer knows of any default or Event of Default. If such signer knows of such a default or Event of Default, the Officers' Certificate shall describe the default or Event of Default and the efforts to remedy the same. For the purposes of this Section 5.3, compliance shall be determined without regard to any grace period or requirement of notice provided pursuant to the terms of this Indenture.

SECTION 5.4. FURTHER INSTRUMENTS AND ACTS.

Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

SECTION 5.5. MAINTENANCE OF CORPORATE EXISTENCE.

Subject to Article 6, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

SECTION 5.6. RULE 144A INFORMATION REQUIREMENT.

Within the period prior to the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), the Company covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the Exchange Act, make available to any Holder or beneficial holder of Securities or any Common Stock issued upon conversion thereof which continue to be Restricted Securities in connection with any sale thereof and any prospective purchaser of Securities or such Common Stock designated by such Holder or beneficial holder, the information required pursuant to Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial holder of the Securities or such Common Stock and it will take such further action as any Holder or

beneficial holder of such Securities or such Common Stock may reasonably request, all to the extent required from time to time to enable such Holder or beneficial holder to sell its Securities or Common Stock without registration under the Securities Act within the limitation of the exemption provided by Rule 144A, as such Rule may be amended from time to time. Upon the request of any Holder or any beneficial holder of the Securities or such Common Stock, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

SECTION 5.7. STAY, EXTENSION AND USURY LAWS.

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of, premium, if any, or interest (including Additional Interest, if any) on the Securities as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 5.8. PAYMENT OF ADDITIONAL INTEREST OR CONTINGENT INTEREST

(a) If Additional Interest is payable by the Company pursuant to the Registration Rights Agreement, the Company shall deliver to the Trustee a certificate to that effect stating (i) the amount of such Additional Interest that is payable and (ii) the date on which such Additional Interest is payable. Unless and until a Trust Officer of the Trustee receives such a certificate, the Trustee may assume without inquiry that no such Additional Interest is payable. If the Company has paid Additional Interest directly to the Persons entitled to it, the Company shall deliver to the Trustee a certificate setting forth at the particulars of such payment.

(b) If Contingent Interest is payable by the Company for any semi-annual period, the Company shall deliver to the Trustee notice that the Company is required to pay Contingent Interest for such semi-annual period, on or prior to the interest payment date relating to such payment of Contingent Interest. The notice shall set forth the amount of Contingent Interest per \$1,000 principal amount of Securities.

(c) For the purposes of this Indenture, the Securities shall be treated as indebtedness subject to U.S. Treasury regulations governing contingent payment debt instruments. Each Holder, by its acceptance of a Security agrees to be bound by the Company's application of the U.S. Treasury regulations that govern contingent payment debt instruments including the Company's determination that the rate at which interest will be deemed to accrue for U.S. federal income tax purposes will be 5.65%.

ARTICLE 6

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 6.1. COMPANY MAY CONSOLIDATE, ETC, ONLY ON CERTAIN TERMS.

The Company shall not consolidate with or merge into any other Person (in a transaction in which the Company is not the surviving Person) or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(1) in case the Company shall consolidate with or merge into another Person (in a transaction in which the Company is not the surviving Person) or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, limited liability company, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia (provided that, if as of a result of such consolidation, merger, conveyance, transfer or lease, the Securities would become convertible into equity interests of a Person other than the Company pursuant to Section 4.11, then such Person shall not be a pass-through entity for U.S. federal income tax purposes) and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed and the conversion rights shall be provided for in accordance with Article 4, by supplemental indenture satisfactory in form to the Trustee, executed and delivered to the Trustee, by the Person (if other than the Company) formed by such consolidation or into which the Company shall have been merged or by the Person which shall have acquired the Company's assets;

(2) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 6.2. SUCCESSOR SUBSTITUTED.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of all or substantially all of the properties and assets of the Company substantially as an entirety in accordance with Section 6.1, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE 7 DEFAULT AND REMEDIES

SECTION 7.1. EVENTS OF DEFAULT.

An "Event of Default" shall occur if:

(1) the Company defaults in the payment of any interest or Additional Interest, if any, payable to all holders of Registrable Securities (as defined in the Registration Rights Agreement) on any Security when the same becomes due and payable and the default continues for a period of 30 days;

(2) the Company defaults in the payment of any principal of (including, without limitation, any premium, if any, on) any Security when the same becomes due and payable (whether at maturity, upon redemption, purchase or repurchase, on a Redemption Date, Repurchase Date, Change of Control Purchase Date or otherwise);

(3) the Company fails to comply with any of its other agreements contained in the Securities or this Indenture and the default continues for the period and after the notice specified below;

(4) the Company defaults in the payment of the purchase price of any Security when the same becomes due and payable; or

(5) the Company fails to provide a Change in Control Purchase Notice when required by Section 3.8; or

(6) any indebtedness under any bond, debenture, note or other evidence of indebtedness for money borrowed by the Company or any Significant Subsidiary or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any Significant Subsidiary (an "Instrument") with a principal amount then outstanding in excess of U.S. \$25,000,000 whether such indebtedness now exists or shall hereafter be created, is not paid at final maturity of the Instrument (either at its stated maturity or upon acceleration thereof), and such indebtedness is not discharged, or such acceleration is not cured, waived, rescinded or annulled, within a period of 30 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged or cause such default to be cured or waived or such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; or

(7) the Company or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

- (A) commences a voluntary case or proceeding;
- (B) consents to the entry of an order for relief against it in an involuntary case or proceeding;
- (C) consents to the appointment of a Custodian of it or for all or substantially all of its property; or
- (D) makes a general assignment for the benefit of its creditors; or

(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- (A) is for relief against the Company or any Significant Subsidiary in an involuntary case or proceeding;

- (B) appoints a Custodian of the Company or any Significant Subsidiary or for all or substantially all of the property of the Company or any Significant Subsidiary; or
- (C) orders the liquidation of the Company or any Significant Subsidiary;

and in each case the order or decree remains unstayed and in effect for 60 days.

The term "Bankruptcy Law" means Title 11 of the United States Code (or any successor thereto) or any similar federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

A default under clause (3) above is not an Event of Default until the Trustee notifies the Company in writing, or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding notify the Company and the Trustee in writing, of the default, and the Company does not cure the default within 60 days after receipt of such notice. The notice given pursuant to this Section 7.1 must specify the default, demand that it be remedied and state that the notice is a "Notice of Default." When any default under this Section 7.1 is cured, it ceases.

The Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to a Trust Officer at the Corporate Trust Office of the Trustee by the Company, a Paying Agent, any Holder or any agent of any Holder.

SECTION 7.2. ACCELERATION.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) of Section 7.1) occurs and is continuing, the Trustee may, by notice to the Company, or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding may, by notice to the Company and the Trustee, declare all unpaid principal to the date of acceleration on the Securities then outstanding (if not then due and payable) to be due and payable upon any such declaration, and the same shall become and be immediately due and payable. If an Event of Default specified in clause (7) or (8) of Section 7.1 occurs, all unpaid principal of the Securities then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Holders of a majority in aggregate principal amount of the Securities then outstanding by notice to the Trustee may rescind an acceleration and its consequences if (a) all existing Events of Default, other than the nonpayment of the principal of the Securities which has become due solely by such declaration of acceleration, have been cured or waived; (b) to the extent the payment of such interest is lawful, interest (calculated at the rate per annum borne by the Securities) on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; (c) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction; and (d) all payments due to the Trustee and any predecessor Trustee under Section 8.7 have been made. No such rescission shall affect any subsequent default or impair any right consequent thereto.

SECTION 7.3. OTHER REMEDIES.

If an Event of Default occurs and is continuing, the Trustee may, but shall not be obligated to, pursue any available remedy by proceeding at law or in equity to collect the payment of the principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the extent permitted by law.

SECTION 7.4. WAIVER OF DEFAULTS AND EVENTS OF DEFAULT.

Subject to Sections 7.7 and 10.2, the Holders of a majority in principal amount of the Securities then outstanding, by notice to the Trustee may waive an existing default or Event of Default and its consequences, except a default or Event of Default in the payment of the principal of, or premium or interest on any Security, a failure by the Company to convert any Securities into Common Stock or any failure to comply with any provision of this Indenture or the Securities which, under Section 10.2, cannot be modified or amended without the consent of the Holder of each Security affected. When a default or Event of Default is waived, it is cured and ceases.

SECTION 7.5. CONTROL BY MAJORITY.

The Holders of a majority in principal amount of the Securities then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture, that the Trustee determines may be unduly prejudicial to the rights of another Holder or the Trustee, or that may involve the Trustee in personal liability unless the Trustee is offered indemnity reasonably satisfactory to it; provided, however, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 7.6. LIMITATIONS ON SUITS.

A Holder may not pursue any remedy with respect to this Indenture or the Securities (except actions for payment of overdue principal or interest or for the conversion of the Securities pursuant to Article 4) unless:

- (1) the Holder gives to the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of the then outstanding Securities make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer to the Trustee reasonable indemnity to the Trustee against any loss, liability or expense;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- (5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Securities then outstanding.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over such other Securityholder.

SECTION 7.7. RIGHTS OF HOLDERS TO RECEIVE PAYMENT AND TO CONVERT.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Security to receive payment of the principal of and interest on the Security, on or after the respective due dates expressed in the Security and this Indenture, to convert such Security in accordance with Article 4 and to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, is absolute and unconditional and shall not be impaired or affected without the consent of the Holder.

SECTION 7.8. COLLECTION SUIT BY TRUSTEE.

If an Event of Default in the payment of principal or interest specified in clause (1) or (2) of Section 7.1 occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company or another obligor on the Securities for the whole amount of principal and accrued interest remaining unpaid, together with, to the extent that payment of such interest is lawful, interest on overdue principal and on overdue installments of interest, in each case at the rate per annum borne by the Securities and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 7.9. TRUSTEE MAY FILE PROOFS OF CLAIM.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Company (or any other obligor on the Securities), its creditors or its property and shall be entitled and empowered to collect and receive any money or other property payable or deliverable on any such claims and to distribute the same, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 8.7, and to the extent that such payment of the reasonable compensation, expenses, disbursements and advances in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other property which the Holders may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to, or, on behalf of any Holder, to authorize, accept or adopt any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 7.10. PRIORITIES.

If the Trustee collects any money pursuant to this Article 7, it shall pay out the money in the following order:

First, to the Trustee for amounts due under Section 8.7;

Second, to Holders for amounts due and unpaid on the Securities for principal and interest (including Additional Interest, if any), ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest (including Additional Interest, if any), respectively; and

Third, to the Company.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 7.10.

SECTION 7.11. UNDERTAKING FOR COSTS.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 7.11 does not apply to a suit made by the Trustee, a suit by a Holder pursuant to Section 7.7, or a suit by Holders of more than 10% in principal amount of the Securities then outstanding.

ARTICLE 8 TRUSTEE

SECTION 8.1. DUTIES OF TRUSTEE.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee need perform only those duties as are specifically set forth in this Indenture and no others; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. The Trustee, however, shall examine any certificates and opinions, which, by any provision hereof are specifically required to be delivered to the Trustee to determine whether or not on their face they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of subsection (b) of this Section 8.1;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 7.5.

(d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers unless the Trustee shall have received adequate indemnity in its opinion against potential costs and liabilities incurred by it relating thereto.

(e) Every provision of this Indenture that in any way relates to the Trustee is subject to subsections (a), (b), (c) and (d) of this Section 8.1.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

SECTION 8.2. RIGHTS OF TRUSTEE.

Subject to Section 8.1:

(a) The Trustee may rely conclusively on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Section 11.4(b). The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion.

(c) The Trustee may act through its agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers.

(e) The Trustee may consult with counsel of its selection, and the advice or opinion of such counsel as to matters of law shall be full and complete authorization and protection in respect of any such action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(g) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the

Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(h) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer of the Trustee has actual knowledge thereof or unless written notice of any event, which is in fact such a default, is received by the Trustee at the Corporate Trust Office, and such notice references the Securities and this Indenture.

(i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder.

SECTION 8.3. INDIVIDUAL RIGHTS OF TRUSTEE.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or an Affiliate of the Company with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Sections 8.10 and 8.11.

SECTION 8.4. TRUSTEE'S DISCLAIMER.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement in the Securities other than its certificate of authentication.

SECTION 8.5. NOTICE OF DEFAULT OR EVENTS OF DEFAULT.

If a default or an Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Securityholder notice of the default or Event of Default within 90 days after it becomes known to the Trustee. However, the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding notice is in the interests of Securityholders, except in the case of a default or an Event of Default in payment of the principal of or interest on any Security.

SECTION 8.6. REPORTS BY TRUSTEE TO HOLDERS.

If such report is required by TIA Section 313, within 60 days after each May 15, beginning with the May 15 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such May 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b)(2) and (c).

A copy of each report at the time of its mailing to Securityholders shall be mailed to the Company and filed with the SEC and each stock exchange, if any, on which the Securities are listed. The Company shall notify the Trustee whenever the Securities become listed on any stock exchange or listed or admitted to trading on any quotation system and any changes in the stock exchanges or quotation systems on which the Securities are listed or admitted to trading and of any delisting thereof.

SECTION 8.7. COMPENSATION AND INDEMNITY.

The Company shall pay to the Trustee from time to time such compensation (as agreed to from time to time by the Company and the Trustee in writing) for its services (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust). The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it. Such expenses may include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall indemnify the Trustee or any predecessor Trustee (which for purposes of this Section 8.7 shall include its officers, directors, employees and agents) for, and hold it harmless against, any and all loss, liability or expense including taxes (other than taxes based upon, measured by or determined by the income of the Trustee), (including reasonable legal fees and expenses) incurred by it in connection with the acceptance or administration of its duties under this Indenture or any action or failure to act as authorized or within the discretion or rights or powers conferred upon the Trustee hereunder including the reasonable costs and expenses of the Trustee and its counsel in defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. The Company need not pay for any settlement without its written consent, which shall not be unreasonably withheld.

The Company need not reimburse the Trustee for any expense or indemnify it against any loss or liability incurred by it resulting from its gross negligence, willful misconduct or bad faith.

To secure the Company's payment obligations in this Section 8.7, the Trustee shall have a senior claim to which the Securities are hereby made subordinate on all money or property held or collected by the Trustee, except such money or property held in trust to pay the principal of and interest on the Securities. The obligations of the Company under this Section 8.7 shall survive the satisfaction and discharge of this Indenture or the resignation or removal of the Trustee.

When the Trustee incurs expenses or renders services after an Event of Default specified in clause (7) or (8) of Section 7.1 occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law. The provisions of this Section shall survive the termination of this Indenture.

SECTION 8.8. REPLACEMENT OF TRUSTEE.

The Trustee may resign by so notifying the Company. The Holders of a majority in principal amount of the Securities then outstanding may remove the Trustee by so notifying the Trustee and may, with the Company's written consent, appoint a successor Trustee. The Company may remove the Trustee if:

- (1) the Trustee fails to comply with Section 8.10;
- (2) the Trustee is adjudged a bankrupt or an insolvent;
- (3) a receiver or other public officer takes charge of the Trustee or its property; or
- (4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. The resignation or removal of a Trustee shall not be effective until a successor Trustee shall have delivered the written acceptance of its appointment as described below.

If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of 10% in principal amount of the Securities then outstanding may petition any court of competent jurisdiction for the appointment of a successor Trustee at the expense of the Company.

If the Trustee fails to comply with Section 8.10, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee and be released from its obligations (exclusive of any liabilities that the retiring Trustee may have incurred while acting as Trustee) hereunder, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Holder.

A retiring Trustee shall not be liable for the acts or omissions of any successor Trustee after its succession.

Notwithstanding replacement of the Trustee pursuant to this Section 8.8, the Company's obligations under Section 8.7 shall continue for the benefit of the retiring Trustee.

SECTION 8.9. SUCCESSOR TRUSTEE BY MERGER, ETC.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust assets (including the administration of this Indenture) to, another corporation, the resulting, surviving or transferee corporation, without any further act, shall be the successor Trustee, provided such transferee corporation shall qualify and be eligible under Section 8.10. Such successor Trustee shall promptly mail notice of its succession to the Company and each Holder.

SECTION 8.10. ELIGIBILITY; DISQUALIFICATION.

The Trustee shall always satisfy the requirements of paragraphs (1), (2) and (5) of TIA Section 310(a). The Trustee (or its parent holding company) shall have a combined capital and surplus of at least \$50,000,000. If at any time the Trustee shall cease to satisfy any such requirements, it shall resign immediately in the manner and with the effect specified in this Article 8. The Trustee shall be subject to the provisions of TIA Section 310(b). Nothing herein shall prevent the Trustee from filing with the SEC the application referred to in the penultimate paragraph of TIA Section 310(b).

SECTION 8.11. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

ARTICLE 9
SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 9.1. SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall cease to be of further effect (except as to any surviving rights of conversion, registration of transfer or exchange of Securities herein expressly provided for and except as further provided below), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.7 and (ii) Securities for whose payment money has theretofore been deposited in trust and thereafter repaid to the Company as provided in Section 9.3) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at the Final Maturity Date within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of clause (i), (ii) or (iii) above, has irrevocably deposited or caused to be irrevocably deposited with the Trustee or a Paying Agent (other than the Company or any of its Affiliates) as trust funds in trust for the purpose cash in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and interest (including Additional Interest, if any) to the date of such deposit (in the case of Securities which have become due and payable) or to the Final Maturity Date or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 8.7 shall survive and, the provisions of Sections 2.3, 2.4, 2.5, 2.6, 2.7, 2.12, 3.8, 3.9, 3.10, 3.12, 3.13, 3.14, the last paragraph of 5.1 and 11.5, Article 4, and this Article 9, shall survive until the Securities have been paid in full.

SECTION 9.2. APPLICATION OF TRUST MONEY.

Subject to the provisions of Section 9.3, the Trustee or a Paying Agent shall hold in trust, for the benefit of the Holders, all money deposited with it pursuant to Section 9.1 and shall apply the deposited money in accordance with this Indenture and the Securities to the payment of the principal of and interest on the Securities.

SECTION 9.3. REPAYMENT TO COMPANY.

The Trustee and each Paying Agent shall promptly pay to the Company upon request any excess money (i) deposited with them pursuant to Section 9.1 and (ii) held by them at any time.

The Trustee and each Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years after a right to such money has matured; provided, however, that the Trustee or such Paying Agent, before being required to make any such payment, may at the expense of the Company cause to be mailed to each Holder entitled to such money notice that such money remains unclaimed and that after a date specified therein, which shall be at least 30 days from the date of such mailing, any unclaimed balance of such money then remaining will be repaid to the Company. After payment to the Company, Holders entitled to money must look to the Company for payment as general creditors.

SECTION 9.4. REINSTATEMENT.

(a) If the Trustee or any Paying Agent is unable to apply any money in accordance with Section 9.2 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 9.1 until such time as the Trustee or such Paying Agent is permitted to apply all such money in accordance with Section 9.2; provided, however, that if the Company has made any payment of the principal of or interest on any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive any such payment from the money held by the Trustee or such Paying Agent.

(b) In the event that the Company exercises its right to redeem the Securities as provided in Article 3, the Company shall have the right to withdraw its funds previously deposited with the Trustee or Paying Agent pursuant to Section 9.1(1)(B)(iii). In such case, the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit has occurred pursuant to Section 9.1(1)(B)(iii).

ARTICLE 10
AMENDMENTS, SUPPLEMENTS AND WAIVERS

SECTION 10.1. WITHOUT CONSENT OF HOLDERS.

The Company and the Trustee may amend or supplement this Indenture or the Securities without notice to or consent of any Securityholder:

(a) to comply with Sections 4.11 and 6.1;

- (b) to cure any ambiguity, defect or inconsistency;
- (c) to make any other change that does not adversely effect the rights of any Securityholder;
- (d) to comply with the provisions of the TIA; or
- (e) to appoint a successor Trustee.

SECTION 10.2. WITH CONSENT OF HOLDERS.

The Company and the Trustee may amend or supplement this Indenture or the Securities with the written consent of the Holders of at least a majority in aggregate principal amount of the Securities then outstanding. The Holders of at least a majority in aggregate principal amount of the Securities then outstanding may waive compliance in a particular instance by the Company with any provision of this Indenture or the Securities without notice to any Securityholder. However, notwithstanding the foregoing but subject to Section 10.4, without the written consent of each Securityholder affected, an amendment, supplement or waiver, including a waiver pursuant to Section 7.4, may not:

- (a) change the stated maturity of the principal of, or interest on, any Security;
- (b) reduce the principal amount of, or any premium or interest on, any Security;
- (c) reduce the amount of principal payable upon acceleration of the maturity of any Security;
- (d) change the place or currency of payment of principal of, or any premium or interest on, any Security;
- (e) impair the right to institute suit for the enforcement of any payment on, or with respect to, any Security;
- (f) modify the provisions with respect to the purchase right of Holders pursuant to Article 3 upon a Change in Control in a manner adverse to Holders;
- (g) adversely affect the right of Holders to convert Securities other than as provided in or under Article 4 of this Indenture;
- (h) reduce the percentage of the aggregate principal amount of the outstanding Securities whose Holders must consent to a modification or amendment;
- (i) reduce the percentage of the aggregate principal amount of the outstanding Securities necessary for the waiver of compliance with certain provisions of this Indenture or the waiver of certain defaults under this Indenture; and
- (j) modify any of the provisions of this Section or Section 7.4, except to increase any such percentage or to provide that certain provisions of this Indenture cannot be modified or waived without the consent of the Holder of each outstanding Security affected thereby.

It shall not be necessary for the consent of the Holders under this Section 10.2 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 10.2 becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amendment, supplement or waiver.

SECTION 10.3. COMPLIANCE WITH TRUST INDENTURE ACT.

Every amendment to or supplement of this Indenture or the Securities shall comply with the TIA as in effect at the date of such amendment or supplement.

SECTION 10.4. REVOCATION AND EFFECT OF CONSENTS.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to its Security or portion of a Security if the Trustee receives the notice of revocation before the date the amendment, supplement or waiver becomes effective.

After an amendment, supplement or waiver becomes effective, it shall bind every Securityholder, unless it makes a change described in any of clauses (a) through (j) of Section 10.2. In that case the amendment, supplement or waiver shall bind each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security.

SECTION 10.5. NOTATION ON OR EXCHANGE OF SECURITIES.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms.

SECTION 10.6. TRUSTEE TO SIGN AMENDMENTS, ETC.

The Trustee shall sign any amendment or supplemental indenture authorized pursuant to this Article 10 if the amendment or supplemental indenture does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, in its sole discretion, but need not sign it. In signing or refusing to sign such amendment or supplemental indenture, the Trustee shall be entitled to receive and, subject to Section 8.1, shall be fully protected in relying upon, an Opinion of Counsel stating that such amendment or supplemental indenture is authorized or permitted by this Indenture. The Company may not sign an amendment or supplement indenture until the Board of Directors approves it.

SECTION 10.7. EFFECT OF SUPPLEMENTAL INDENTURES.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

ARTICLE 11
MISCELLANEOUS

SECTION 11.1. TRUST INDENTURE ACT CONTROLS.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by any of Sections 310 to 317, inclusive, of the TIA through operation of Section 318(c) thereof, such imposed duties shall control.

SECTION 11.2. NOTICES.

Any notice, request or communication shall be given in writing and delivered in person or mailed by first-class mail, postage prepaid, addressed as follows: If to the Company:

Fair Isaac Corporation
200 Smith Ranch Road
San Rafael, California 94903
Attn: General Counsel

If to the Trustee:
Wells Fargo Bank Minnesota, N.A.
MAC N9303-110
Sixth and Marquette Avenue
Minneapolis, MN 55479
Attention: Corporate Trust Services (Fair Isaac Corporation-- 1.5%
Senior Convertible Notes Due August 15, 2023)

Such notices or communications shall be effective when received.

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed by first-class mail or delivered by an overnight delivery service to it at its address shown on the register kept by the Primary Registrar. Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication to a Securityholder is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 11.3. COMMUNICATIONS BY HOLDERS WITH OTHER HOLDERS.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and any other person shall have the protection of TIA Section 312(c).

SECTION 11.4. CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT.

(a) Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee at the request of the Trustee:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent (including any covenants, compliance with which constitutes a condition precedent), if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent (including any covenants, compliance with which constitutes a condition precedent) have been complied with.

(b) Each Officers' Certificate and Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with;

provided however, that with respect to matters of fact an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

SECTION 11.5. RECORD DATE FOR VOTE OR CONSENT OF SECURITYHOLDERS.

The Company (or, in the event deposits have been made pursuant to Section 9.1, the Trustee) may set a record date for purposes of determining the identity of Holders entitled to vote, waive or consent to any action by vote, waiver or consent authorized or permitted under this Indenture, which record date shall not be more than thirty (30) days prior to the date of the commencement of solicitation of such action. Notwithstanding the provisions of Section 10.4, if a record date is fixed, those persons who were Holders of Securities at the close of business on such record date (or their duly designated proxies), and only those persons, shall be entitled to take such action by vote or consent or to revoke any vote or consent previously given, whether or not such persons continue to be Holders after such record date.

SECTION 11.6. RULES BY TRUSTEE, PAYING AGENT, REGISTRAR AND CONVERSION AGENT.

The Trustee may make reasonable rules (not inconsistent with the terms of this Indenture) for action by or at a meeting of Holders. Any Registrar, Paying Agent or Conversion Agent may make reasonable rules for its functions.

SECTION 11.7. LEGAL HOLIDAYS.

A "Legal Holiday" is a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York and the state in which the Corporate Trust Office is located are not required to be open. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

SECTION 11.8. GOVERNING LAW.

This Indenture and the Securities shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 11.9. NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or a Subsidiary of the Company. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 11.10. NO RECOURSE AGAINST OTHERS.

All liability described in paragraph 17 of the Securities of any director, officer, employee or shareholder, as such, of the Company is waived and released.

SECTION 11.11. SUCCESSORS.

All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 11.12. MULTIPLE COUNTERPARTS.

The parties may sign multiple counterparts of this Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

SECTION 11.13. SEPARABILITY.

In case any provisions in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 11.14. TABLE OF CONTENTS, HEADINGS, ETC.

The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands as of the date and year first above written.

FAIR ISAAC CORPORATION

By: /s/ Russell C. Clark

Name: Russell C. Clark

Title: Vice President, Finance and Corporate
Controller

WELLS FARGO BANK MINNESOTA, N.A., AS TRUSTEE

By: /s/ Michael T. Lechner

Name: Michael T. Lechner

Title: Assistant Vice President

EXHIBIT A

[FORM OF FACE OF SECURITY]

[UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO FAIR ISAAC CORPORATION (THE "COMPANY") OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND, UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY TO A SUCCESSOR DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.](1)

[THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY AND THE SHARES ISSUABLE UPON CONVERSION THEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.](2)

[THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY AND THE SHARES ISSUABLE UPON CONVERSION THEREOF MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED

- - - - -

- (1) These paragraphs to be included only if the Security is a Global Security.
- (2) These paragraphs to be included only if the Security is a Restricted Security.

INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.](2)

[THE HOLDER OF THIS SECURITY IS ENTITLED TO THE BENEFITS OF A REGISTRATION RIGHTS AGREEMENT (AS SUCH TERM IS DEFINED IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF) AND, BY ITS ACCEPTANCE HEREOF, AGREES TO BE BOUND BY AND TO COMPLY WITH THE PROVISIONS OF SUCH REGISTRATION RIGHTS AGREEMENT.](2)

FAIR ISAAC CORPORATION

CUSIP: 303250 AA2

R-1

1.5% SENIOR CONVERTIBLE NOTES DUE AUGUST 15, 2023

Fair Isaac Corporation, a Delaware corporation (the "Company", which term shall include any successor corporation under the Indenture referred to on the reverse hereof), promises to pay to Cede & Co., or registered assigns, the principal sum of Four Hundred Million Dollars (\$400,000,000) on August 15, 2023 [or such greater or lesser amount as is indicated on the Schedule of Exchanges of Securities on the other side of this Security].(1)

Interest Payment Dates: August 15 and February 15

Record Dates: August 1 and February 1

This Security is convertible as specified on the other side of this Security. Additional provisions of this Security are set forth on the other side of this Security.

SIGNATURE PAGE FOLLOWS

A-3

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

FAIR ISAAC CORPORATION

By: _____

Name: _____

Title: _____

Attest:

By: _____

Name: _____

Title: _____

Dated: August 6, 2003

Trustee's Certificate of Authentication: This is one of the Securities referred to in the within-mentioned Indenture.

WELLS FARGO BANK MINNESOTA, N.A.,
as Trustee

By: Authorized Signatory

[FORM OF REVERSE SIDE OF SECURITY]

FAIR ISAAC CORPORATION
1.5% SENIOR CONVERTIBLE NOTES DUE AUGUST 15, 2023

1. INTEREST

(a) Regular Interest. Fair Isaac Corporation, a Delaware corporation (the "Company", which term shall include any successor corporation under the Indenture hereinafter referred to), promises to pay interest on the principal amount of this Security at the rate of 1.5% per annum ("Regular Interest"), from August 6, 2003 through August 15, 2008. After August 15, 2008 the Company will not pay Regular Interest on this Security semi-annually as provided in clause (c), below, prior to maturity, but Regular Interest will continue to accrue and will be compounded semi-annually and be payable upon redemption, purchase, repurchase or on the Final Maturity Date.

(b) Contingent Interest. The Company shall pay Contingent Interest on the Securities as provided in the Indenture.

(c) Procedure. The Company shall pay interest semi-annually on August 15 and February 15 of each year, with the first Regular Interest payment date to be February 15, 2004 and the first Contingent Interest payment date, if any, to be February 15, 2009. Interest on the Securities shall accrue from the most recent date to which interest has been paid or, in the case of Regular Interest, if no interest has been paid, from August 6, 2003 and in the case of Contingent Interest, if any, from August 15, 2008. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Any reference herein to interest accrued or payable as of any date shall include any Additional Interest accrued or payable on such date as provided in the Registration Rights Agreement and any Regular Interest or Contingent Interest accrued or payable on such date as provided herein.

2. METHOD OF PAYMENT

The Company shall pay interest on this Security (except defaulted interest) to the person who is the Holder of this Security at the close of business on February 1 or August 1, as the case may be, next preceding the related interest payment date. The Holder must surrender this Security to a Paying Agent to collect payment of principal. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. The Company may, however, pay principal and interest in respect of any Certificated Security by check or wire payable in such money; provided, however, that a Holder with an aggregate principal amount in excess of \$2,000,000 will be paid by wire transfer in immediately available funds at the election of such Holder, if such Holder has provided wire transfer instructions to the Company. The Company may mail an interest check to the Holder's registered address. Notwithstanding the foregoing, so long as this Security is registered in the name of a Depository or its nominee, all payments hereon shall be made by wire transfer of immediately available funds to the account of the Depository or its nominee. The Company will not be required to make any payment in respect of the Securities on any day that is not a Business Day and any such payment will be due on the next succeeding Business Day and be treated as though it were paid on the original due date and additional interest will not accrue for the additional period of time.

3. PAYING AGENT, REGISTRAR AND CONVERSION AGENT

Initially, Wells Fargo Bank Minnesota, N.A. (the "Trustee", which term shall include any successor trustee under the Indenture hereinafter referred to) will act as Paying Agent, Registrar and Conversion Agent. The Company may change any Paying Agent, Registrar or Conversion Agent without notice to the Holder. The Company or any of its Subsidiaries may, subject to certain limitations set forth in the Indenture, act as Paying Agent or Registrar.

4. INDENTURE, LIMITATIONS

This Security is one of a duly authorized issue of Securities of the Company designated as its 1.5% Senior Convertible Notes Due August 15, 2023 (the "Securities"), issued under an Indenture dated as of August 6, 2003 (together with any supplemental indentures thereto, the "Indenture"), between the Company and the Trustee. The terms of this Security include those stated in the Indenture and those required by or made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended, as in effect on the date of the Indenture. This Security is subject to all such terms, and the Holder of this Security is referred to the Indenture and said Act for a statement of them.

The Securities are senior unsecured obligations of the Company limited to \$400,000,000 aggregate principal amount, subject to Section 2.2 of the Indenture. The Indenture does not limit other debt of the Company, secured or unsecured.

5. OPTIONAL REDEMPTION

(a) The Securities are subject to redemption, as a whole or in part, at any time on or after August 15, 2008, at 100% of the principal amount of the Securities being redeemed, together with accrued and unpaid interest up to, but not including, the Redemption Date; provided that if the Redemption Date is an interest payment date, interest will be payable to the Holders in whose name the Securities are registered at the close of business on the Redemption Date.

(b) Notice of redemption will be mailed by first-class mail at least 20 but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at its registered address. Securities in denominations larger than \$1,000 may be redeemed in part, but only in whole multiples of \$1,000. On and after the Redemption Date, subject to the deposit with the Paying Agent of funds sufficient to pay the Redemption Price plus accrued interest, if any, accrued to, but excluding, the Redemption Date, interest shall cease to accrue on Securities or portions of them called for redemption.

6. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION

Any Securities called for redemption, unless surrendered for conversion before the close of business on the Business Day immediately preceding the Redemption Date, may be deemed to be purchased from the Holders of such Securities at an amount not less than the Redemption Price, together with accrued interest, if any, to, but not including, the Redemption Date, by one or more investment banks or other purchasers who may agree with the Company to purchase such Securities from the Holders, to convert them into Common Stock of the Company and to make payment for such Securities to the Paying Agent in trust for such Holders.

7. REPURCHASE AT THE OPTION OF THE HOLDERS

(a) The Holders may require the Company to repurchase any outstanding Securities for cash, on August 15, 2007, August 15, 2008, August 15, 2013 or August 15, 2018 (each a "Repurchase Date") at a purchase price per Security equal to 100% of the aggregate principal amount of the Security, together with any accrued and unpaid interest, to but not including the applicable Repurchase Date; provided that if such Repurchase Date is an interest payment date, interest on the Securities will be payable to the Holders in whose names the Securities are registered at the close of business on such Repurchase Date.

(b) The Company shall give written notice of the applicable Repurchase Date by delivery of the Repurchase Notice as provided in the Indenture, to each Holder (at its address shown in the register of the Registrar) and to beneficial owners as required by applicable law, not less than 20 Business Days prior to each Repurchase Date .

8. PURCHASE OF SECURITIES AT OPTION OF HOLDER UPON A CHANGE IN CONTROL

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase all or any part specified by the Holder (so long as the principal amount of such part is \$1,000 or an integral multiple of \$1,000 in excess thereof) of the Securities held by such Holder on the date that is 30 Business Days after the occurrence of a Change in Control, at a purchase price equal to 100% of the principal amount thereof together with accrued and unpaid interest up to, but excluding, the Change in Control Purchase Date. The Holder shall have the right to withdraw any Change in Control Purchase Notice (in whole or in a portion thereof that is \$1,000 or an integral multiple of \$1,000 in excess thereof) at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date by delivering a written notice of withdrawal to the Paying Agent in accordance with the terms of the Indenture.

9. CONVERSION

(a) A Holder of a Security may convert the principal amount of such Security (or any portion thereof equal to \$1,000 or any integral multiple of \$1,000 in excess thereof) into shares of Common Stock upon the occurrence of the conditions set forth in Article 4 of the Indenture; provided, however, that if the Security is called for redemption, the conversion right will terminate at the close of business on the Business Day immediately preceding the Redemption Date for such Security or such earlier date as the Holder presents such Security for redemption (unless the Company shall default in making the redemption payment when due, in which case the conversion right shall terminate at the close of business on the date such default is cured and such Security is redeemed).

(b) The initial Conversion Price is \$65.9288 per share, subject to adjustment under certain circumstances. The number of shares of Common Stock issuable upon conversion of a Security is determined by dividing the principal amount of the Security or portion thereof converted by the Conversion Price in effect on the Conversion Date. No fractional shares will be issued upon conversion; in lieu thereof, an amount will be paid in cash based upon the Closing Sale Price (as defined in the Indenture) of the Common Stock on the Trading Day immediately prior to the Conversion Date.

(c) To convert a Security, a Holder must (a) complete and manually sign the conversion notice set forth below and deliver such notice to a Conversion Agent, (b) surrender the Security to a Conversion Agent, (c) furnish appropriate endorsements and transfer documents if required by a Registrar or a

Conversion Agent, and (d) pay any transfer or similar tax, if required. Securities so surrendered for conversion (in whole or in part) during the period from the close of business on any regular record date to the opening of business on the next succeeding interest payment date (excluding Securities or portions thereof called for redemption or subject to purchase upon a Change in Control on a Redemption Date or Change in Control Purchase Date, as the case may be, during the period beginning at the close of business on a regular record date and ending at the opening of business on the first Business Day after the next succeeding interest payment date, or if such interest payment date is not a Business Day, the second such Business Day) shall also be accompanied by payment in funds acceptable to the Company of an amount equal to the interest payable on such interest payment date on the principal amount of such Security then being converted, and such interest shall be payable to such registered Holder notwithstanding the conversion of such Security, subject to the provisions of this Indenture relating to the payment of defaulted interest by the Company. If the Company defaults in the payment of interest payable on such interest payment date, the Company shall promptly repay such funds to such Holder. A Holder may convert a portion of a Security equal to \$1,000 or any integral multiple thereof.

(d) A Security in respect of which a Holder had delivered a Change in Control Purchase Notice or Repurchase Election Notice, exercising the option of such Holder to require the Company to purchase or repurchase such Security may be converted only if the Change in Control Purchase Notice or Repurchase Election Notice is withdrawn in accordance with the terms of the Indenture and in the case of the Repurchase Election Notice, the Securities are otherwise convertible in accordance herewith and the terms of the Indenture.

10. DENOMINATIONS, TRANSFER, EXCHANGE

The Securities are in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000. A Holder may register the transfer of or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes or other governmental charges that may be imposed in relation thereto by law or permitted by the Indenture.

11. PERSONS DEEMED OWNERS

The Holder of a Security may be treated as the owner of it for all purposes.

12. UNCLAIMED MONEY

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent will pay the money back to the Company at its written request. After that, Holders entitled to money must look to the Company for payment.

13. AMENDMENT, SUPPLEMENT AND WAIVER

Subject to certain exceptions, the Indenture or the Securities may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Securities then outstanding, and an existing default or Event of Default and its consequence or compliance with any provision of the Indenture or the Securities may be waived in a particular instance with the consent of the Holders of a majority in principal amount of the Securities then outstanding. Without the consent of or notice to any Holder, the Company and the Trustee may amend or supplement the Indenture or the Securities to, among other things, cure any

ambiguity, defect or inconsistency or make any other change that does not adversely affect the rights of any Holder.

14. SUCCESSOR ENTITY

When a successor corporation, limited liability company, partnership or trust assumes all the obligations of its predecessor under the Securities and the Indenture in accordance with the terms and conditions of the Indenture, the predecessor corporation, limited liability company, partnership or trust will (except in certain circumstances specified in the Indenture) be released from those obligations.

15. DEFAULTS AND REMEDIES

The Indenture sets forth the applicable Events of Default with respect to the Securities. If an Event of Default (other than as a result of certain events of bankruptcy, insolvency or reorganization of the Company) occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding may declare all unpaid principal to the date of acceleration on the Securities then outstanding to be due and payable immediately, all as and to the extent provided in the Indenture. If an Event of Default occurs as a result of certain events of bankruptcy, insolvency or reorganization of the Company, unpaid principal of the Securities then outstanding shall become due and payable immediately without any declaration or other act on the part of the Trustee or any Holder, all as and to the extent provided in the Indenture. Holders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Securities. Subject to certain limitations, Holders of a majority in principal amount of the Securities then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding notice is in their interests. The Company is required to file periodic reports with the Trustee as to the absence of default.

16. TRUSTEE DEALINGS WITH THE COMPANY

Wells Fargo Bank Minnesota, N.A., the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from and perform services for the Company or an Affiliate of the Company, and may otherwise deal with the Company or an Affiliate of the Company, as if it were not the Trustee.

17. NO RECOURSE AGAINST OTHERS

A director, officer, employee or shareholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture nor for any claim based on, in respect of or by reason of such obligations or their creation. The Holder of this Security by accepting this Security waives and releases all such liability. The waiver and release are part of the consideration for the issuance of this Security.

18. AUTHENTICATION

This Security shall not be valid until the Trustee or an authenticating agent manually signs the certificate of authentication on the other side of this Security.

19. ABBREVIATIONS AND DEFINITIONS

Customary abbreviations may be used in the name of the Holder or an assignee, such as:

TEN COM	=	tenants in common,
TEN ENT	=	tenants by the entireties,
JT TEN	=	joint tenants with right of survivorship and not as tenants in common,
CUST	=	Custodian, and
UGMA	=	Uniform Gifts to Minors Act.

All terms defined in the Indenture and used in this Security but not specifically defined herein are defined in the Indenture and are used herein as so defined.

20. CONTINGENT INSTRUMENT

This Security shall be treated as indebtedness subject to U.S. treasury regulations governing contingent payment debt instruments.

21. INDENTURE TO CONTROL

In the case of any conflict between the provisions of this Security and the Indenture, the provisions of the Indenture shall control. The Company will furnish to any Holder, upon written request and without charge, a copy of the Indenture. Requests may be made to: Fair Isaac Corporation, 200 Smith Ranch Road, San Rafael, California 94903, Attention: Chief Financial Officer.

22. GOVERNING LAW

This Security shall be governed by, and construed in accordance with, the laws of the State of New York.

ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint

agent to transfer this Security on the books of the Company. The agent may substitute another to act for him or her.

Your Signature:

Date: _____

(Sign exactly as your name appears on the other side of this Security)

*Signature guaranteed by:

By: _____

* The signature must be guaranteed by an institution that is a member of one of the following recognized signature guaranty programs: (i) the Securities Transfer Agent Medallion Program (STAMP); (ii) the New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) such other guaranty program acceptable to the Trustee.

CONVERSION NOTICE

To convert this Security into Common Stock of the Company, check the box: []

To convert only part of this Security, state the principal amount to be converted (must be \$1,000 or a multiple of \$1,000): \$_____.

If you want the stock certificate made out in another person's name, fill in the form below:

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

Your Signature:

Date: _____

(Sign exactly as your name appears on the other side of this Security)

*Signature guaranteed by:

By: _____

* The signature must be guaranteed by an institution that is a member of one of the following recognized signature guaranty programs: (i) the Securities Transfer Agent Medallion Program (STAMP); (ii) the New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) such other guaranty program acceptable to the Trustee.

CHANGE OF CONTROL PURCHASE NOTICE

To: Fair Isaac Corporation

The undersigned registered owner of this Security hereby irrevocably acknowledges receipt of a notice from Fair Isaac Corporation (the "Company") as to the occurrence of a Change in Control with respect to the Company and requests and instructs the Company to redeem the entire principal amount of this Security, or the portion thereof (which is \$1,000 or an integral multiple thereof) below designated, in accordance with the terms of the Indenture referred to in this Security at the Change in Control Purchase Price, together with accrued interest to, but excluding, such date, to the registered Holder hereof.

Dated: _____

Signature(s)

Signature(s) must be guaranteed by a qualified guarantor institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934.

Signature Guaranty

Principal amount to be redeemed
(in an integral multiple of \$1,000, if less than all):

NOTICE: The signature to the foregoing Election must correspond to the Name as written upon the face of this Security in every particular, without alteration or any change whatsoever.

REPURCHASE ELECTION NOTICE

TO: FAIR ISAAC CORPORATION

The undersigned registered owner of this Security hereby requests and instructs Fair Isaac Corporation (the "Company") to repurchase the entire principal amount of this Security, or the portion thereof (which is \$1,000 or an integral multiple thereof) below designated, in accordance with the terms of the Indenture referred to in this Security at the Repurchase Price on August 15, _____, together with accrued interest to, but excluding, such date, to the registered Holder hereof.

Dated: _____

Signature(s)

Signature(s) must be guaranteed by a qualified guarantor institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934.

Signature Guaranty

Principal amount to be redeemed

(in an integral multiple of \$1,000, if less than all):

NOTICE: The signature to the foregoing Election must correspond to the Name as written upon the face of this Security in every particular, without alteration or any change whatsoever.

SCHEDULE OF EXCHANGES OF SECURITIES(3)

The following exchanges, redemptions, repurchases or conversions of a part of this Global Security have been made:

PRINCIPAL AMOUNT OF THIS GLOBAL SECURITY FOLLOWING SUCH DECREASE DATE OF EXCHANGE (OR INCREASE)	AUTHORIZED SIGNATORY OF SECURITIES CUSTODIAN	AMOUNT OF DECREASE IN PRINCIPAL AMOUNT OF THIS GLOBAL SECURITY	AMOUNT OF INCREASE IN PRINCIPAL AMOUNT OF THIS GLOBAL SECURITY
-----	-----	-----	-----

(3) This schedule should be included only if the Security is a Global Security.

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION
OF TRANSFER OF TRANSFER RESTRICTED SECURITIES(2)

Re: 1.5% Senior Convertible Notes due August 15, 2023 (the "Securities") of
Fair Isaac Corporation.

This certificate relates to \$_____ principal amount of Securities
owned in (check applicable box)

book-entry or definitive form by _____ (the
"Transferor").

The Transferor has requested a Registrar or the Trustee to exchange or
register the transfer of such Securities.

In connection with such request and in respect of each such Security,
the Transferor does hereby certify that the Transferor is familiar with transfer
restrictions relating to the Securities as provided in Section 2.12 of the
Indenture dated as of August 6, 2003 between Fair Isaac Corporation and Wells
Fargo Bank Minnesota, N.A., as trustee (the "Indenture"), and the transfer of
such Security is being made pursuant to an effective registration statement
under the Securities Act of 1933, as amended (the "Securities Act") (check
applicable box) or the transfer or exchange, as the case may be, of such
Security does not require registration under the Securities Act because (check
applicable box):

- Such Security is being transferred pursuant to an effective
registration statement under the Securities Act.
- Such Security is being acquired for the Transferor's own
account, without transfer.
- Such Security is being transferred to the Company or a
Subsidiary (as defined in the Indenture) of the Company.
- Such Security is being transferred to a person the Transferor
reasonably believes is a "qualified institutional buyer" (as
defined in Rule 144A or any successor provision thereto ("Rule
144A") under the Securities Act) that is purchasing for its
own account or for the account of a "qualified institutional
buyer", in each case to whom notice has been given that the
transfer is being made in reliance on such Rule 144A, and in
each case in reliance on Rule 144A.
- Such Security is being transferred pursuant to and in
compliance with an exemption from the registration
requirements under the Securities Act in accordance with Rule
144 (or any successor thereto) ("Rule 144") under the
Securities Act.
- Such Security is being transferred pursuant to and in
compliance with an exemption from the registration
requirements of the Securities Act (other than an exemption
referred to above) and as a result of which such Security
will, upon such transfer, cease to be a "restricted security"
within the meaning of Rule 144 under the Securities Act.

The Transferor acknowledges and agrees that, if the transferee will
hold any such Securities in the form of beneficial interests in a Global
Security which is a "restricted security" within the meaning of

Rule 144 under the Securities Act, then such transfer can only be made pursuant to Rule 144A under the Securities Act and such transferee must be a "qualified institutional buyer" (as defined in Rule 144A).

Date: _____

_____ (Insert Name of Transferor)

\$400,000,000

FAIR ISAAC CORPORATION

1.5% SENIOR CONVERTIBLE NOTES DUE AUGUST 15, 2023

REGISTRATION RIGHTS AGREEMENT

Credit Suisse First Boston LLC
Goldman, Sachs & Co.
Thomas Weisel Partners LLC

August 6, 2003

c/o Credit Suisse First Boston LLC
Eleven Madison Avenue
New York, NY 10010-3629

and
c/o Goldman, Sachs & Co.
85 Broad Avenue
New York, NY 10004

Ladies and Gentlemen:

Fair Isaac Corporation, a Delaware corporation (the "COMPANY"), proposes to issue and sell to Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Thomas Weisel Partners LLC (collectively, the "INITIAL PURCHASERS"), upon the terms set forth in a purchase agreement dated July 31, 2003 (the "PURCHASE AGREEMENT"), \$400,000,000 aggregate principal amount of its 1.5% Senior Convertible Notes due August 15, 2023 (the "NOTES"). The Notes will be issued pursuant to an Indenture, dated as of August 6, 2003 (the "INDENTURE"), between the Company and Wells Fargo Bank Minnesota, N.A., as trustee (the "TRUSTEE"). As an inducement to the Initial Purchasers to enter into the Purchase Agreement, the Company agrees with the Initial Purchasers, for the benefit of (i) the Initial Purchasers as Initial Purchasers and (ii) the beneficial owners (including the Initial Purchasers) from time to time of the Notes and of the Underlying Common Stock (as defined herein) issued upon conversion of the Notes (each of the foregoing, a "HOLDER" and, collectively, the "HOLDERS"), as follows:

1. Shelf Registration.

(a) The Company shall prepare and file with the Securities and Exchange Commission (the "COMMISSION") as soon as practicable but in no event later than 150 days (such 150th day being a "FILING DEADLINE") after the latest date on which the Initial Purchasers purchase the Notes pursuant to the Purchase Agreement (the "CLOSING DATE"), a registration statement for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act of 1933, as amended (the "SECURITIES ACT") (a "SHELF REGISTRATION STATEMENT"), registering the resale from time to time by Holders thereof (who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement) of all of the Registrable Securities (defined herein) (the "INITIAL SHELF REGISTRATION STATEMENT"). The Initial Shelf Registration Statement shall be on an appropriate form under the Securities Act permitting registration of such Registrable Securities for resale by such Holders from time to time in accordance with the methods of distribution elected by the Holders and set forth in the Initial Shelf Registration Statement. The Company shall use its reasonable efforts to cause the Initial Shelf Registration Statement to be declared effective under the Securities Act as promptly as is practicable but in any event within two hundred and ten

(210) days after the Closing Date (the "EFFECTIVENESS DEADLINE DATE"), and to keep the Initial Shelf Registration Statement (or any Subsequent Shelf Registration Statement) continuously effective under the Securities Act to permit the prospectus included therein to be lawfully delivered by the Holders of the Registrable Securities, for a period of two years (or for such longer period if extended pursuant to Section 2(h) below) from the date the Company files the Initial Shelf Registration Statement or such shorter period that will terminate when all the Registrable Securities covered by the Shelf Registration Statement (i) have been sold pursuant thereto or (ii) are, with respect to such securities held by non-affiliates, eligible to be sold to the public pursuant to Rule 144(k) under the Securities Act, or any successor rule thereof (such period, the "EFFECTIVENESS PERIOD"). The Company shall be deemed not to have used its reasonable efforts to keep the Shelf Registration Statement effective during the requisite period if it voluntarily takes any action that would result in Holders of Registrable Securities covered thereby not being able to offer and sell such Registrable Securities during that period, unless such action is required by applicable law. At the time the Initial Shelf Registration Statement is declared effective, each Holder who has provided the Company with an appropriately completed Notice and Questionnaire (as defined herein) on or prior to the date five (5) Business Days prior to such time of effectiveness and who holds Registrable Securities, shall be named as a selling securityholder in the Initial Shelf Registration Statement and the related prospectus in such a manner as to permit such Holder to deliver such prospectus to purchasers of Registrable Securities in accordance with applicable law. None of the Company's security holders (other than the Holders of Registrable Securities) shall have the right to include any of the Company's securities in the Shelf Registration Statement.

(b) If the Initial Shelf Registration Statement or any Subsequent Shelf Registration Statement (defined below) ceases to be effective for any reason at any time during the Effectiveness Period (other than because all Registrable Securities registered thereunder have been resold pursuant thereto or have otherwise ceased to be Registrable Securities), the Company shall use its reasonable efforts to obtain the prompt withdrawal of any order suspending the effectiveness thereof, and in any event shall within thirty (30) days of such cessation of effectiveness amend the Shelf Registration Statement in a manner reasonably expected to obtain the withdrawal of the order suspending the effectiveness thereof, or file an additional Shelf Registration Statement covering all of the securities that as of the date of such filing are Registrable Securities (a "SUBSEQUENT SHELF REGISTRATION STATEMENT"). If a Subsequent Shelf Registration Statement is filed, the Company shall use its reasonable efforts to cause the Subsequent Shelf Registration Statement to become effective as promptly as is practicable after such filing and to keep such Subsequent Shelf Registration Statement continuously effective until the end of the Effectiveness Period.

(c) The Company shall supplement and amend the Shelf Registration Statement if required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration Statement, if required by the Securities Act or, to the extent to which the Company does not reasonably object, as reasonably requested by (i) the Initial Purchasers in the event that they are participating in the Shelf Registration Statement or (ii) the Trustee on behalf of a majority in interest of the registered Holders.

(d) Each Holder of Registrable Securities agrees that if such Holder wishes to sell Registrable Securities pursuant to a Shelf Registration Statement and related prospectus, it will do so only in accordance with this Section 1(d) and Section 2(h). Each Holder of Registrable Securities wishing to sell Registrable Securities pursuant to a Shelf Registration Statement and related prospectus agrees to deliver a Notice and Questionnaire to the Company at least five (5) Business Days prior to any intended distribution of Registrable Securities under the Shelf Registration Statement. From and after the date the Initial Shelf Registration Statement is declared effective, the Company shall, as promptly as practicable after the date a Notice and Questionnaire is delivered (i) if required by applicable law, file with the Commission a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable law, file a supplement to the related prospectus or a supplement or amendment to any document incorporated therein by reference or file any other document required under the Securities Act so that the Holder delivering such Notice and Questionnaire is named as a selling securityholder in the Shelf Registration Statement and the related prospectus in such a manner as to permit such Holder to deliver such prospectus to purchasers of the Registrable Securities in accordance with applicable law and, if the Company shall file a post-effective amendment to the Shelf Registration Statement, use reasonable efforts to cause such post-effective amendment to be declared effective under the Securities Act as promptly as is practicable, but in any event by the date (the "AMENDMENT EFFECTIVENESS DEADLINE DATE") that is forty-five (45) days after the date such post-effective amendment is required by this clause to be filed; (ii) provide such Holder copies of any documents filed pursuant to clause (i) of this Section 1(d); and (iii) notify such Holder as promptly as practicable after the effectiveness under the Securities Act of any

post-effective amendment filed pursuant to clause (i) of this Section 1(d); provided that if such Notice and Questionnaire is delivered during a Deferral Period (as defined in Section 2(h)), the Company shall so inform the Holder delivering such Notice and Questionnaire and shall take the actions set forth in clauses (i), (ii) and (iii) above upon expiration of the Deferral Period in accordance with Section 2(h). Notwithstanding anything contained herein to the contrary, (i) the Company shall be under no obligation to name any Holder that has not submitted a Notice and Questionnaire to the Company as a selling securityholder in any Registration Statement or related prospectus and (ii) the Amendment Effectiveness Deadline Date shall be extended by up to ten (10) days from the expiration of a Deferral Period (and the Company shall incur no obligation to pay Additional Interest during such extension) if such Deferral Period is in effect on the Amendment Effectiveness Deadline Date. Any Holder who, subsequent to the date the Initial Shelf Registration Statement is declared effective, provides a Notice and Questionnaire required by this Section 1(d) pursuant to the provisions of this Section (whether or not such Holder has supplied the Notice and Questionnaire at the time the Initial Shelf Registration Statement was declared effective) shall be named as a selling securityholder in the Shelf Registration Statement and related prospectus in accordance with the requirements of this Section 1(d).

(e) Notwithstanding any other provisions of this Agreement to the contrary, the Company shall cause the Shelf Registration Statement and the related prospectus and any amendment or supplement thereto, as of the effective date of the Shelf Registration Statement, amendment or supplement, (i) to comply in all material respects with the applicable requirements of the Securities Act and the rules and regulations of the Commission and (ii) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading.

(f) As used in this Agreement, the following terms shall have the following meanings:

"APPLICABLE CONVERSION PRICE" as of any date of determination means the Conversion Price in effect as of such date of determination or, if no Notes are then outstanding, the Conversion Price that would be in effect were Notes then outstanding.

"BUSINESS DAY" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in The City of New York are authorized or obligated by law or executive order to close.

"COMMON STOCK" means the shares of common stock, \$0.01 par value per share, of the Company and any other shares of common stock as may constitute "Common Stock" for purposes of the Indenture, including the Underlying Common Stock.

"CONVERSION PRICE" has the meaning assigned to such term in the Indenture.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"NOTICE AND QUESTIONNAIRE" means a written notice delivered to the Company by a Holder containing any information with respect to the Holder necessary to amend the Registration Statement or supplement the related prospectus with respect to the intended distribution of Registrable Securities by such Holder.

"NOTICE HOLDER" means, on any date, any Holder that has delivered a Notice and Questionnaire to the Company on or prior to such date and holds Registrable Securities as of such date.

"REGISTRABLE SECURITIES" means the Notes, until such Notes have been converted into or exchanged for the Underlying Common Stock and, at all times subsequent to any such conversion or exchange, the Underlying Common Stock and any securities into or for which such Underlying Common Stock have been converted or exchanged, and any security issued with respect thereto upon any stock dividend, split or similar event until, in the case of any such security, (A) the earliest of (i) its effective registration under the Securities Act and resale in accordance with the Registration Statement covering it,

(ii) expiration of the holding period that would be applicable thereto under Rule 144(k) under the Securities Act were it not held by an Affiliate of the Company or (iii) its sale to the public pursuant to Rule 144, and (B) as a result of the event or circumstance described in any of the foregoing clauses (i) through (iii), the legends with respect to transfer restrictions required under the Indenture are removed or removable in accordance with the terms of the Indenture or such legend, as the case may be.

"UNDERLYING COMMON STOCK" means the Common Stock into which the Notes are convertible or issued upon any such conversion.

2. Registration Procedures. In connection with the Shelf Registration contemplated by Section 1 hereof, the following provisions shall apply:

(a) The Company shall (i) furnish to the Initial Purchasers, prior to the filing thereof with the Commission, a copy of any Shelf Registration Statement and each amendment thereof and each supplement, if any, to the prospectus included therein and the Company shall use its reasonable best efforts to reflect in the Shelf Registration Statement, when so filed with the Commission, such comments as the Initial Purchasers reasonably may propose; and (ii) include the names of the Holders who have provided the Company with the information required by Section 2() below and who propose to sell Registrable Securities pursuant to the Shelf Registration Statement as selling securityholders.

(b) The Company shall give written notice to the Initial Purchasers and the Holders (which notice pursuant to clauses (ii) through (v) hereof shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made):

(i) when the Registration Statement or any amendment thereto has been filed with the Commission and when the Registration Statement or any post-effective amendment thereto has become effective;

(ii) of any request by the Commission for amendments or supplements to the Registration Statement or the prospectus included therein or for additional information;

(iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose;

(iv) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(v) of the happening of any event that requires the Company to make changes in the Registration Statement or the prospectus in order that the Registration Statement or the prospectus do not contain an untrue statement of a material fact nor omit to state a material fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus, in light of the circumstances under which they were made) not misleading.

(c) The Company shall make every reasonable effort to obtain the withdrawal at the earliest possible time, of any order suspending the effectiveness of the Registration Statement or the lifting of any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction in which they have been qualified for sale.

(d) The Company shall furnish to each Holder of Registrable Securities included within the coverage of the Shelf Registration Statement, without charge, at least one copy of the Shelf Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if the Holder so requests in writing, all exhibits thereto (including those, if any, incorporated by reference).

(e) The Company shall, during the Effectiveness Period, deliver to each Holder of Registrable Securities included within the coverage of the Shelf Registration, without charge, as many copies of the prospectus (including

each preliminary prospectus) included in the Shelf Registration Statement and any amendment or supplement thereto as such person may reasonably request. The Company consents, subject to the provisions of this Agreement, to the use of the prospectus or any amendment or supplement thereto by each of the selling Holders of the Registrable Securities in connection with the offering and sale of the Registrable Securities covered by the prospectus, or any amendment or supplement thereto, included in the Shelf Registration Statement.

(f) Prior to any public offering of the Registrable Securities pursuant to any Registration Statement the Company shall register or qualify or cooperate with the Holders of the Registrable Securities included therein and their respective counsel in connection with the registration or qualification of the Registrable Securities for offer and sale under the securities or "blue sky" laws of such states of the United States as any Holder of Registrable Securities reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the offer and sale in such jurisdictions of the Registrable Securities covered by such Registration Statement; provided, however, that the Company shall not be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified or (ii) take any action which would subject it to general service of process or to taxation in any jurisdiction where it is not then so subject.

(g) The Company shall cooperate with the Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing the Registrable Securities to be sold pursuant to any Registration Statement free of any restrictive legends and in such denominations and registered in such names as the Holders may request a reasonable period of time prior to sales of the Registrable Securities pursuant to such Registration Statement.

(h) Upon the occurrence of any event contemplated by paragraphs (ii) through (v) of Section 2(b) above during the period for which the Company is required to maintain an effective Registration Statement, the Company shall promptly prepare and file a post-effective amendment to the Registration Statement or a supplement to the related prospectus and any other required document so that, as thereafter delivered to Holders or purchasers of Registrable Securities, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Initial Purchasers and the Holders of Registrable Securities in accordance with paragraphs (ii) through (v) of Section 2(b) above to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Initial Purchasers and the Holders of Registrable Securities shall suspend use of such prospectus (such period during which the availability of the Registration Statement and any related prospectus is suspended being a "DEFERRAL PERIOD"), and the period of effectiveness of the Shelf Registration Statement provided for in Section 1(a) above shall each be extended by the number of days from and including the date of the giving of such notice to and including the date when the Initial Purchasers and the Holders of Registrable Securities shall have received such amended or supplemented prospectus pursuant to this Section 2(h). The Company will use its best efforts to ensure that the use of the prospectus may be resumed as promptly as is practicable. The Company shall be entitled to exercise its right under this Section 2(h) to suspend the availability of the Shelf Registration Statement or any prospectus, without incurring or accruing any obligation to pay Additional Interest pursuant to Section 5(a), for one or more periods not to exceed 60 days in any 90-day period and not to exceed, in the aggregate, 90 days in any 12-month period.

(i) Not later than the effective date of the Initial Shelf Registration Statement, the Company will provide a CUSIP number for the Registrable Securities and provide the applicable trustee with printed certificates for the Notes in a form eligible for deposit with The Depository Trust Company.

(j) The Company shall prepare and file with the Commission such amendments and post-effective amendments to each Registration Statement as may be necessary to keep such Registration Statement continuously effective for the applicable period specified in Section 1(a) and shall cause the related prospectus to be supplemented by any required prospectus supplement to be filed pursuant to Rule 424 (or any similar provisions then in force) under the Securities Act. The Company will comply with all rules and regulations of the Commission to the extent and so long as they are applicable to the Shelf Registration and will make generally available to its security holders (or otherwise provide in accordance with Section 11(a) of the Securities Act) an earnings statement satisfying the provisions of Section 11(a) of the Securities Act, no later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter

commencing after the effective date of the Registration Statement, which statement shall cover such 12-month period.

(k) The Company shall cause the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, in a timely manner and containing such changes, if any, as shall be necessary for such qualification. In the event that such qualification would require the appointment of a new trustee under the Indenture, the Company shall appoint a new trustee thereunder pursuant to the applicable provisions of the Indenture.

(l) The Company may require each Holder of Registrable Securities to be sold pursuant to the Shelf Registration Statement to furnish to the Company such information regarding the Holder and the distribution of the Registrable Securities as the Company may from time to time reasonably require for inclusion in the Shelf Registration Statement, and the Company may exclude from such registration the Registrable Securities of any Holder that unreasonably fails to furnish such information within a reasonable time after receiving such request.

(m) The Company shall enter into such customary agreements (including, if requested, an underwriting agreement in customary form) and take all such other action, if any, as any Holder shall reasonably request in order to facilitate the disposition of the Registrable Securities pursuant to any Shelf Registration.

(n) The Company shall (i) make available, at reasonable times and in a reasonable manner, for inspection by the Holders of Registrable Securities, any underwriter participating in any disposition pursuant to the Shelf Registration Statement and any attorney, accountant or other agent retained by the Holders of Registrable Securities or any such underwriter, all relevant financial and other records, pertinent corporate documents and properties of the Company and (ii) cause the Company's officers, directors, employees, accountants and auditors to supply all relevant information reasonably requested by the Holders of Registrable Securities or any such underwriter, attorney, accountant or agent in connection with the Shelf Registration Statement prior to its effectiveness, in each case, as shall be reasonably necessary to enable such persons, to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act; provided, however, that in the foregoing inspection and information gathering shall be coordinated on behalf of the Initial Purchasers by you and on behalf of the other parties, by one counsel designated by and on behalf of such other parties as described in Section 3 hereof; and provided further, that any information that is designated in writing by the Company, in good faith, as confidential at the time of delivery of such information shall be kept confidential by the Holders or any such underwriter, attorney, accountant or agent, unless such disclosure is made in connection with a court proceeding or required by law, or such information becomes available to the public generally or through a third party without an accompanying obligation of confidentiality.

(o) The Company, if requested by any Holder of Registrable Securities covered thereby, shall cause (i) its counsel to deliver an opinion and updates thereof relating to the Registrable Securities in customary form addressed to such Holders and the managing underwriters, if any, thereof and dated, in the case of the initial opinion, the effective date of such Shelf Registration Statement (it being agreed that the matters to be covered by such opinion shall include, without limitation, the due incorporation and good standing of the Company and its subsidiaries; the qualification of the Company and its subsidiaries to transact business as foreign corporations; the due authorization, execution and delivery of the relevant agreement of the type referred to in Section 2(m) hereof; the due authorization, execution, authentication and issuance, and the validity and enforceability, of the applicable Registrable Securities; the absence of material legal or governmental proceedings involving the Company and its subsidiaries; the absence of governmental approvals required to be obtained in connection with the Shelf Registration Statement, the offering and sale of the applicable Registrable Securities, or any agreement of the type referred to in Section 2(m) hereof; the compliance as to form of such Shelf Registration Statement and any documents incorporated by reference therein and of the Indenture with the requirements of the Securities Act and the Trust Indenture Act, respectively; and, as of the date of the opinion and as of the effective date of the Shelf Registration Statement or most recent post-effective amendment thereto, as the case may be, the absence from such Shelf Registration Statement and the prospectus included therein, as then amended or supplemented, and from any documents incorporated by reference therein of an untrue statement of a material fact or the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any such documents, in the light of the circumstances existing at the time that such documents were filed with the Commission under the Exchange Act); (ii) its officers to execute and deliver all customary documents and

certificates and updates thereof requested by any underwriters of the applicable Registrable Securities and (iii) its independent public accountants (and the independent public accountants with respect to any other entity for which financial information is provided in the Shelf Registration Statement) to provide to the selling Holders of the applicable Registrable Securities and any underwriter therefor a comfort letter in customary form and covering matters of the type customarily covered in comfort letters in connection with primary underwritten offerings, subject to receipt of appropriate documentation as contemplated, and only if permitted, by Statement of Auditing Standards No. 72.

(p) The Company will use its best efforts to (a) if the Notes have been rated prior to the initial sale of such Notes, confirm such ratings will apply to the Registrable Securities covered by a Registration Statement, or (b) if the Notes were not previously rated, cause the Registrable Securities covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by Holders of a majority in aggregate principal amount of Registrable Securities covered by such Registration Statement, or by the managing underwriters, if any.

(q) In the event that any broker-dealer registered under the Exchange Act shall underwrite any Registrable Securities or participate as a member of an underwriting syndicate or selling group or "assist in the distribution" (within the meaning of the Conduct Rules (the "RULES") of the National Association of Securities Dealers, Inc. ("NASD")) thereof, whether as a Holder of such Registrable Securities or as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise, the Company will assist such broker-dealer in complying with the requirements of such Rules, including, without limitation, by (i) if such Rules, including Rule 2720, shall so require, engaging a "qualified independent underwriter" (as defined in Rule 2720) to participate in the preparation of the Registration Statement relating to such Registrable Securities, to exercise usual standards of due diligence in respect thereto and, if any portion of the offering contemplated by such Registration Statement is an underwritten offering or is made through a placement or sales agent, to recommend the yield of such Registrable Securities, (ii) indemnifying any such qualified independent underwriter to the extent of the indemnification of underwriters provided in Section 5 hereof and (iii) providing such information to such broker-dealer as may be required in order for such broker-dealer to comply with the requirements of the Rules.

(r) The Company shall use its reasonable efforts to take all other steps necessary to effect the registration of the Registrable Securities covered by a Registration Statement contemplated hereby.

(s) The Company shall as promptly as practicable (if reasonably requested by any Holder who has delivered a Notice and Questionnaire and holds Registrable Securities or by any Initial Purchasers (with respect to any portion of an unsold allotment from the original offering if such Initial Purchaser is participating in the Shelf Registration Statement)), incorporate in a prospectus supplement or post-effective amendment to the Registration Statement such information as such Holder or Initial Purchaser shall, on the basis of an opinion of nationally recognized counsel experienced in such matters, determine to be required to be included therein and make any required filings of such prospectus supplement or such post-effective amendment; provided that the Company shall not be required to take any actions under this Section 2(s) that are not, in the reasonable opinion of counsel for the Company, in compliance with applicable law.

(t) The Company shall use its reasonable efforts to cause the Underlying Common Stock to be listed on any securities exchange or any automated quotation system on which similar securities issued by the Company are then listed, to the extent the Underlying Common Stock satisfies applicable listing requirements.

3. Registration Expenses.

(a) All expenses incident to the Company's performance of and compliance with this Agreement will be borne by the Company, regardless of whether a Registration Statement is ever filed or becomes effective, including without limitation:

(i) all registration and filing fees and expenses;

(ii) all fees and expenses of compliance with federal securities and state "blue sky" or securities laws;

(iii) all expenses of printing, messenger and delivery services and telephone;

(iv) all fees and disbursements of counsel for the Company;

(v) all application and filing fees in connection with listing the Underlying Common Stock on a national securities exchange or automated quotation system pursuant to the requirements thereof; and

(vi) all fees and disbursements of independent certified public accountants of the Company (including the expenses of any special audit and comfort letters required by or incident to such performance).

The Company will bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit and the fees and expenses of any person, including special experts, retained by the Company.

(b) In connection with any Registration Statement required by this Agreement, the Company will bear or reimburse the Notice Holders for the reasonable fees and disbursements of one firm of legal counsel, which shall initially be Shearman & Sterling LLP, but which may, with the written consent of the Credit Suisse First Boston Corporation (which consent shall not be unreasonably withheld), be another nationally recognized law firm experienced in securities law matters designated by the Company.

4. Indemnification.

(a) The Company agrees to indemnify and hold harmless each Holder of Registrable Securities and each person, if any, who controls such Holder within the meaning of the Securities Act or the Exchange Act (each Holder and such controlling persons are referred to collectively as the "INDEMNIFIED PARTIES") from and against any losses, claims, damages or liabilities, joint or several, or any actions in respect thereof (including, but not limited to, any losses, claims, damages, liabilities or actions relating to purchases and sales of the Registrable Securities) to which each Indemnified Party may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration, or arise out of, or are based upon, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse, as incurred, the Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action in respect thereof; provided, however, that (i) the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein and (ii) with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus relating to a Shelf Registration Statement, the indemnity agreement contained in this subsection (a) shall not inure to the benefit of any Holder from whom the person asserting any such losses, claims, damages or liabilities purchased the Registrable Securities concerned, to the extent that a prospectus relating to such Registrable Securities was required to be delivered by such Holder under the Securities Act in connection with such purchase and any such loss, claim, damage or liability of such Holder results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Registrable Securities to such person, a copy of the final prospectus if the Company had previously furnished copies thereof to such Holder; provided further, however, that this indemnity agreement will be in addition to any liability which the Company may otherwise have to such Indemnified Party. The Company shall also indemnify any underwriters, their officers and directors and each person who controls such underwriters within the meaning of the Securities Act or the Exchange Act to the same extent as provided above with respect to the indemnification of the Holders if requested by such Holders.

(b) Each Holder of Registrable Securities, severally and not jointly, will indemnify and hold harmless the Company and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act from and against any losses, claims, damages or liabilities or any actions in respect thereof, to which the Company or any such controlling person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in a Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to a Shelf Registration, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or omission or alleged untrue statement or omission was made in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein; and, subject to the limitation set forth immediately preceding this clause, shall reimburse, as incurred, the Company for any legal or other expenses reasonably incurred by the Company or any such controlling person in connection with investigating or defending any loss, claim, damage, liability or action in respect thereof. This indemnity agreement will be in addition to any liability which such Holder may otherwise have to the Company or any of its controlling persons.

(c) Promptly after receipt by an indemnified party under this Section 4 of notice of the commencement of any action or proceeding (including a governmental investigation), such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 4, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof the indemnifying party will not be liable to such indemnified party under this Section 4 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof. Notwithstanding the indemnifying party's election to assume the defense of the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel) and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel (and local counsel) if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action, and does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 4 is unavailable or insufficient to hold harmless an indemnified party under subsections (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in subsection (a) or (b) above: (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other, or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with

the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or such Holder or such other indemnified party, as the case may be, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding any other provision of this Section 4(d), the Holders of Registrable Securities shall not be required to contribute any amount in excess of the amount by which the net proceeds received by such Holders from the sale of the Registrable Securities pursuant to a Registration Statement exceeds the amount of damages which such Holders have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this subsection (d), each person, if any, who controls such indemnified party within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as such indemnified party and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as the Company.

(e) The agreements contained in this Section 4 shall survive the sale of the Registrable Securities pursuant to a Registration Statement and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any indemnified party.

5. Additional Interest Under Certain Circumstances.

(a) Additional interest (the "ADDITIONAL INTEREST") with respect to the Registrable Securities shall be assessed as follows if any of the following events occur (each such event in clauses (i) through (iv) below being herein called a "REGISTRATION DEFAULT"):

- (i) the Initial Shelf Registration Statement required by this Agreement is not filed with the Commission on or prior to the Filing Deadline;
- (ii) the Initial Shelf Registration Statement required by this Agreement is not declared effective by the Commission on or prior to the Effectiveness Deadline Date;
- (iii) the Company has failed to perform its obligations set forth in Section 1(d) within the time period required therein; or
- (iv) any Registration Statement required by this Agreement has been declared effective by the Commission but (A) such Registration Statement thereafter ceases to be effective or (B) such Registration Statement or the related prospectus ceases to be usable in connection with resales of Registrable Securities during the periods specified herein and, unless the Company has declared a Deferred Period to be in effect, the Company does not cure such events with respect to the Shelf Registration Statement within five (5) Business Days by a post-effective amendment, an additional Shelf Registration Statement being filed and declared effective or a report filed pursuant to the Exchange Act or, if applicable, the Company does not terminate any Deferral Period within the time required by Section 2(h).

Each of the foregoing will constitute a Registration Default whatever the reason for any such event and whether it is voluntary or involuntary or is beyond the control of the Company or pursuant to operation of law or as a result of any action or inaction by the Commission.

Additional Interest shall accrue on the Registrable Securities over and above the interest set forth in the title of the Registrable Securities from and including the date on which any such Registration Default shall occur to but

excluding the date on which all such Registration Defaults have been cured, at a rate of 0.50% per annum (the "ADDITIONAL INTEREST RATE") of the aggregate principal amount of the Notes that are Registrable Securities. In the case of Notes that have been converted into or exchanged for Underlying Common Stock, Additional Interest shall accrue at a per annum rate equal to 0.50% of the Applicable Conversion Price of such shares of Underlying Common Stock that are Registrable Securities. In the case of Additional Interest accruing solely as a result of a Registration Default of the type described in Section 5(a)(iii), such Additional Interest shall be paid only to the Holders that have delivered Notice and Questionnaires that caused the Company to incur the obligations set forth in Section 1(d) the non-performance of which is the basis of such Registration Default. Any Additional Interest accrued with respect to any Note or portion thereof called for redemption on a redemption date or converted into Underlying Common Stock on a conversion date prior to the interest payment date with respect to the Notes under the Indenture, shall, in any such event, be paid instead to the Holder who submitted such Note or portion thereof for redemption or conversion on the applicable redemption date or conversion date, as the case may be, on such date (or promptly following the conversion date, in the case of conversion). Notwithstanding the foregoing, no Additional Interest shall accrue as to any Registrable Security from and after the earlier of (x) the date such security is no longer a Registrable Security and (y) the expiration of the Effectiveness Period. The rate of accrual of the Additional Interest with respect to any period shall not exceed the rate provided for in this paragraph notwithstanding the occurrence of multiple concurrent Registration Defaults. Following the cure of all Registration Defaults requiring the payment by the Company of Additional Interest to the Holders of Registrable Securities pursuant to this Section, the accrual of Additional Interest will cease (without in any way limiting the effect of any subsequent Registration Default requiring the payment of Additional Interest by the Company).

The Trustee shall be entitled, on behalf of Holders of Notes or Underlying Common Stock, to seek any available remedy for the enforcement of this Agreement, including for the payment of any Additional Interest.

All of the Company's obligations set forth in this Section 5 that are outstanding with respect to any Registrable Security at the time such security ceases to be a Registrable Security shall survive until such time as all such obligations with respect to such security have been satisfied in full.

The parties hereto agree that the additional interest provided for in this Section 5 constitutes a reasonable estimate of the damages that may be incurred by Holders of Registrable Securities by reason of the failure of the Initial Shelf Registration Statement to be filed or declared effective or available for effecting resales of Registrable Securities in accordance with the provisions hereof.

(b) Any amounts of Additional Interest due pursuant to Section 5(a) will be payable in cash on the regular interest payment dates with respect to the Registrable Securities. The amount of Additional Interest will be determined by multiplying the applicable Additional Interest Rate by the principal amount of the Registrable Securities or the Applicable Conversion Price of the Registrable Securities, as applicable, and further multiplied by a fraction, the numerator of which is the number of days such Additional Interest Rate was applicable during such period (determined on the basis of a 360-day year comprised of twelve 30-day months), and the denominator of which is 360. The Registrable Securities entitled to payment of Additional Interest shall be determined as of the Business Day immediately preceding the next regular interest payment date with respect to the Registrable Securities.

6. Rules 144 and 144A. The Company shall use its reasonable best efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time the Company is not required to file such reports, it will, upon the request of any Holder, make publicly available other information so long as necessary to permit sales of their securities pursuant to Rules 144 and 144A. The Company covenants that it will take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rules 144 and 144A (including the requirements of Rule 144A(d)(4)). The Company will provide a copy of this Agreement to prospective purchasers of Notes identified to the Company by the Initial Purchasers upon request. Upon the request of any Holder of Notes, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements. Notwithstanding the foregoing, nothing in this Section 6 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

7. Underwritten Registrations. If any of the Registrable Securities covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering ("MANAGING UNDERWRITERS") will be selected by the Holders of a majority in aggregate principal amount of such Registrable Securities to be included in such offering, provided however, that such Managing Underwriters will be reasonably acceptable to the Company.

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Registrable Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

8. Miscellaneous.

(a) Remedies. The Company acknowledges and agrees that any failure by the Company to comply with its obligations under Section 1 and 2 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of any such failure, any Initial Purchaser or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 1 and 2 hereof. The Company further agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any agreement in effect on the date hereof.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, except by the Company and the written consent of the Holders of a majority in principal amount of the Registrable Securities affected by such amendment, modification, supplement, waiver or consents.

(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, first-class mail, facsimile transmission or air courier that guarantees overnight delivery:

(1) if to a Holder of the Registrable Securities, at the most current address given by such Holder to the Company.

(2) if to the Initial Purchasers:

Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, NY 10010-3629
Fax No.: (212) 325-8278
Attention: Transactions Advisory Group

Goldman, Sachs & Co.
85 Broad Street
11th Floor
New York, NY 10004
Fax: (212) 346-3594
Attention: Special Execution

Thomas Weisel Partners LLC
One Montgomery Street
Suite 3700
San Francisco, CA 94104
Fax:
Attention: Ted Johann

with a copy to:

Shearman & Sterling LLP
555 California Street
San Francisco, CA 94104
Fax: 415-616-1199
Attention: John D. Wilson, Esq.

(3) if to the Company, at its address as follows:

Fair Isaac Corporation
200 Smith Ranch Road
San Rafael, CA 94903
Fax: 415-492-5691
Attention: General Counsel

with a copy to:

Wilson Sonsini Goodrich & Rosati, P.C.
650 Page Mill Road
Palo Alto, CA 94304
Fax: 650-493-6811
Attention: John A. Fore, Esq.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; three business days after being deposited in the mail, postage prepaid, if mailed; when receipt is acknowledged by recipient's facsimile machine operator, if sent by facsimile transmission; and on the day delivered, if sent by overnight air courier guaranteeing next day delivery.

(e) Third Party Beneficiaries. The Holders shall be third party beneficiaries to the agreements made hereunder between the Company, on the one hand, and the Initial Purchasers, on the other hand, and shall have the right to enforce such agreements directly to the extent they may deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder.

(f) Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns.

(g) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

(j) Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) Securities Held by the Company. Whenever the consent or approval of Holders of a specified percentage of principal amount of Registrable Securities is required hereunder, Registrable Securities held by the Company or its affiliates (other than subsequent Holders of Registrable Securities if such subsequent Holders are deemed to be affiliates solely by reason of their holdings of such Registrable Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

[The remainder of this page is intentionally left blank]

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Initial Purchasers a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Initial Purchasers and the Company in accordance with its terms.

Very truly yours,

FAIR ISAAC CORPORATION

By: /s/ Russell C. Clark

Name: Russell Clark

Title: Vice President, Finance and Corporate
Controller

The foregoing Registration Rights Agreement is hereby confirmed and accepted as of the date first above written.

CREDIT SUISSE FIRST BOSTON LLC
GOLDMAN, SACHS & CO.
THOMAS WEISEL PARTNERS LLC

BY: CREDIT SUISSE FIRST BOSTON LLC
ON BEHALF OF THE PURCHASERS

By: /s/ Edward R. Smith

Name: /s/ Edward R. Smith
Title: /s/ Managing Director

BY: GOLDMAN, SACHS & CO.
ON BEHALF OF THE PURCHASERS

By: /s/ Goldman, Sachs & Co.

/s/ (Goldman, Sachs & Co.)

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of August 1, 2003, by and between FAIR ISAAC CORPORATION (FORMERLY KNOWN AS FAIR, ISAAC AND COMPANY, INCORPORATED), a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of November 1, 2002, as amended from time to time ("Credit Agreement");

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes;

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.1 (c) is hereby redesignated as Section 1.1 (d), and the following provision is hereby added as Section 1.1 (c):

"(c) Reservation of Foreign Exchange "Delivery Limit". The largest aggregate outstanding principal amount of Borrower's foreign exchange contracts (entered into by Bank as set forth in Section 1.2 below) which will mature during any single two (2) day period shall be reserved under the Line of Credit and shall not be available for borrowings thereunder."

2. The following provision is hereby added as Section 1.2 (c):

"(c) Limitation on Availability of Foreign Exchange Facility. Notwithstanding anything to the contrary contained herein, Bank shall not enter into foreign exchange contracts for the account of Borrower if and to the extent that the sum of the aggregate principal balance outstanding under the Line of Credit (including the undrawn amount of any Letters of Credit) plus the largest aggregate outstanding principal amount of foreign exchange contracts entered into by Bank hereunder which will mature during any single two (2) day period exceeds Fifteen Million Dollars (\$15,000,000.00)."

3. Section 3.1 (b)(v) is hereby redesignated as Section 3.1 (b)(vii), and the following is hereby added to the Credit Agreement as the new Sections 3.1 (b)(v) and (vi):

"(v) Foreign Exchange Agreement.

(vi) Authorization for Foreign Exchange Transactions."

4. Section 4.5 is hereby amended by adding after the phrase "at Bank's request" the following parenthetical phrase: "(which shall not be more frequent than annually)".

5. Section 4.8 is hereby deleted in its entirety, and the following substituted therefor:

" SECTION 4.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of \$500,000.00 (exclusive of any defense costs and net of any insurance contribution and/or third-party recovery)."

6. Section 4.10 is hereby amended by deleting subclause (d) thereof.

7. Section 4.9 (a) is hereby deleted in its entirety, and the following substituted therefor:

"(a) Total Liabilities divided by Tangible Net Worth not at any time greater than 1.30 to 1.0, with "Total Liabilities" defined as the aggregate of current liabilities and non-current liabilities less subordinated debt, and with "Tangible Net Worth" defined as the aggregate of total stockholders' equity plus subordinated debt less any intangible assets."

8. Section 5.4 is hereby amended by deleting the reference therein to "75% of Borrower's cash" and by substituting in its place "90% of Borrower's cash".

9. Section 5.6 is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 5.6. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof, and additional investments in treasury stock purchases in any fiscal year not to exceed an aggregate of \$450,000,000.00 for all such treasury stock purchases combined."

10. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

11. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as

of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

FAIR ISAAC CORPORATION

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Kenneth J. Saunders

By: /s/ Alva Diaz

Alva Diaz
Vice President

Title: Chief Financial Officer

FAIR ISAAC CORPORATION

1992 LONG-TERM INCENTIVE PLAN

As amended and restated effective August 26, 2003

TABLE OF CONTENTS

		Page
ARTICLE	1. INTRODUCTION.....	5
ARTICLE	2. ADMINISTRATION.....	5
	2.1 Committee Composition.....	5
	2.2 Committee Responsibilities.....	5
ARTICLE	3. SHARES AVAILABLE FOR GRANTS.....	6
	3.1 Basic Limitation.....	6
	3.2 Additional Shares.....	6
	3.3 Dividend Equivalents.....	6
	3.4 Outside Director Option Limitations.....	6
ARTICLE	4. ELIGIBILITY.....	6
	4.1 General Rules.....	6
	4.2 Outside Directors.....	6
	4.3 Ten-Percent Stockholders.....	8
	4.4 Limitation on Option Grants.....	8
ARTICLE	5. OPTIONS.....	8
	5.1 Stock Option Agreement.....	8
	5.2 Awards Nontransferable.....	8
	5.3 Number of Shares.....	8
	5.4 Exercise Price.....	8
	5.5 Exercisability and Term.....	8
	5.6 Effect of Change in Control.....	8
	5.7 Modification or Assumption of Options.....	9
ARTICLE	6. PAYMENT FOR OPTION SHARES.....	9
	6.1 General Rule.....	9
	6.2 Surrender of Stock.....	9
	6.3 Exercise/Sale.....	9
	6.4 Exercise/Pledge.....	9
	6.5 Promissory Note.....	10

	6.6	Other Forms of Payment.....	10
ARTICLE	7.	STOCK APPRECIATION RIGHTS.....	10
	7.1	Grant of SARs.....	10
	7.2	Exercise of SARs.....	10
ARTICLE	8.	RESTRICTED SHARES AND STOCK UNITS.....	10
	8.1	Time, Amount and Form of Awards.....	10
	8.2	Payment for Awards.....	11
	8.3	Vesting Conditions.....	11
	8.4	Form and Time of Settlement of Stock Units.....	11
	8.5	Death of Recipient.....	11
	8.6	Creditors' Rights.....	11
ARTICLE	9.	VOTING AND DIVIDEND RIGHTS.....	11
	9.1	Restricted Shares.....	11
	9.2	Stock Units.....	12
ARTICLE	10.	PROTECTION AGAINST DILUTION.....	12
	10.1	Adjustments.....	12
	10.2	Reorganizations.....	12
ARTICLE	11.	LONG-TERM PERFORMANCE AWARDS.....	12
ARTICLE	12.	LIMITATION ON RIGHTS.....	12
	12.1	Retention Rights.....	12
	12.2	Stockholders' Rights.....	13
	12.3	Regulatory Requirements.....	13
ARTICLE	13.	LIMITATION ON PAYMENTS.....	13
	13.1	Basic Rule.....	13
	13.2	Reduction of Payments.....	13
	13.3	Overpayments and Underpayments.....	14
	13.4	Related Corporations.....	14

ARTICLE 14. WITHHOLDING TAXES..... 14
14.1 General..... 14
14.2 Share Withholding..... 14
ARTICLE 15. ASSIGNMENT OR TRANSFER OF AWARDS..... 14
ARTICLE 16. FUTURE OF PLAN..... 15
16.1 Term of the Plan..... 15
16.2 Amendment or Termination..... 15
ARTICLE 17. DEFINITIONS..... 15
ARTICLE 18. EXECUTION..... 18

FAIR ISAAC CORPORATION 1992 LONG-TERM INCENTIVE PLAN
AS AMENDED AND RESTATED EFFECTIVE AUGUST 26, 2003

ARTICLE 1. INTRODUCTION.

The Plan was adopted by the Board on November 23, 1992, subject to approval by the Company's stockholders. The Board approved amendments to the Plan on November 21, 1995 and on November 16, 2001, subject to approval by the Company's stockholders. The Plan was also amended by either the Board or the Committee on December 23, 1996, on November 25, 1997, on November 19, 1999, on November 21, 2000, on April 1, 2003, and on August 26, 2003. All share amounts in this restatement have been adjusted to reflect stock splits on June 26, 1995, June 4, 2001, and June 5, 2002. The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Key Employees to focus on critical long-range objectives, (b) encouraging the attraction and retention of Key Employees with exceptional qualifications and (c) linking Key Employees directly to stockholder interests through increased stock ownership. 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.

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

ARTICLE 2. ADMINISTRATION.

2.1 COMMITTEE COMPOSITION. The Plan shall be administered by the Committee. The Committee shall consist of two or more Outside Directors who shall be appointed by the Board (although Committee functions may be delegated by the Committee to an officer or officers to the extent that the Awards relate to persons who are not subject to the reporting requirements of Section 16 of the Exchange Act)."

2.2 COMMITTEE RESPONSIBILITIES. The Committee shall (a) unless delegated to an officer or officers in accordance with Section 2.1, 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 2,100,000 plus the number of Common Shares remaining available for awards under the Company's 1987 Stock Option Plan and Stock Option Plan for Non-employee Directors (the "Prior Plans") at the time this Plan is first approved by the stockholders. (No additional grants shall be made under the Prior Plans after this Plan has been approved by the stockholders.) Effective October 1, 1997, and on each October 1 thereafter for the remaining term of the Plan, the aggregate number of Shares which may be issued under the Plan to individuals shall be increased by a number of Common Shares equal to 4 percent of the total number of Common Shares outstanding at the end of the most recently concluded fiscal year. Any Common Shares that have been reserved but not issued as Restricted Shares, Stock Units or Options during any fiscal year shall remain available for grant during any subsequent fiscal year. Notwithstanding the foregoing, no more than 3,375,000 Common Shares shall be available for the grant of ISOs for the remaining term of the Plan. 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. If any options under the Prior Plans are forfeited or terminate for any other reason before being exercised, then such options shall become available for additional Awards under this 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.

3.4 OUTSIDE DIRECTOR OPTION LIMITATIONS. Notwithstanding the limitations set forth in Section 3.1 above, effective February 1, 2000, there shall be an additional 337,500 aggregate number of Options available for awards under the Plan to Outside Directors as further described in Section 4.2 below.

ARTICLE 4. ELIGIBILITY.

4.1 GENERAL RULES. Only Key Employees shall be eligible for designation as Participants by the Committee. Key Employees who are Outside Directors shall only be eligible for the grant of the NSOs described in Section 4.2.

4.2 OUTSIDE DIRECTORS. Any other provision of the Plan notwithstanding, the participation of Outside Directors in the Plan shall be subject to the following restrictions:

(a) Outside Directors shall receive no Awards other than the NSOs described in this Section 4.2.

(b)(i) Each person who first becomes an Outside Director on or after the date of the Company's 2000 annual meeting of stockholders shall, upon becoming an Outside Director, receive an NSO covering 30,000 Common Shares (subject to adjustment under Article 10), hereinafter referred to as an "Initial Grant". Such Initial Grant shall become exercisable in increments of 6,000 shares (subject to adjustment under Article 10) on each of the first through fifth anniversaries of the date of grant.

(ii) Each Outside Director who was acting as an Outside Director prior to the Company's 2000 annual meeting of stockholders shall be entitled to receive an NSO grant of Common Shares in an amount sufficient to increase his or her Initial Grant to 30,000 Common Shares effective as of the date of such annual meeting.

(iii) On the date of each annual meeting of stockholders of the Company held on or after January 1, 2000, each Outside Director who has been an Outside Director at least since the prior annual meeting shall receive an NSO covering 11,250 Common Shares (subject to adjustment under Article 10), hereinafter referred to as an "Annual Grant." Such Annual Grants shall be exercisable in full on the date of grant.

(iv) On the date of each annual meeting of stockholders of the Company held on or after January 1, 2000, each Outside Director who chairs a standing committee at the direction of the Chairman of the Board shall receive an NSO covering an additional 1,500 Common Shares (subject to Adjustment under Article 10) hereinafter referred to as a "Committee Grant". Such Committee Grant shall be exercisable in full on the date of grant.

(v) On the date of each annual meeting of the stockholders of the Company held on or after January 1, 2002, each Outsider Director who has, prior to the date of such annual meeting, elected to receive an NSO in lieu of any cash paid to such Outside Director by virtue of such Outside Director serving as a member of the Company's Board of Directors (the "Annual Cash Retainer"), shall receive an NSO covering the number of Common Shares equal to the Annual Cash Retainer paid to Outside Directors, multiplied by two, divided by the Fair Market Value of a Common Share on the date of grant, such grant shall be hereinafter referred to as a "Retainer Grant." If the Annual Cash Retainer payable to an Outside Director is increased during the term for which such Outside Director has made an election to receive the Retainer Grant and such Outside Director continues to serve as a director of the Company on the date such Annual Cash Retainer is increased, an additional NSO shall be granted, calculated using the same formula as the Retainer Grant based on the increase in the Annual Cash Retainer with the date of grant being the date of the increase in the Annual Cash Retainer. Retainer Grants shall be exercisable in full on the date of grant.

(c) All NSOs granted to an Outside Director under this Section 4.2 shall also become exercisable in full in the event of the termination of such Outside Director's service for any reason.

(d) The Exercise Price under all NSOs granted to an Outside Director under this Section 4.2 shall be equal to 100% of the Fair Market Value of a Common Share on the date of grant, payable in one of the forms described in Sections 6.1, 6.2, 6.3 and 6.4.

(e) All NSOs granted to an Outside Director under this Section 4.2 shall terminate on the earliest of (i) the 10th anniversary of the date of grant or (ii) the date 12 months after the termination of such Outside Director's service for any reason.

4.3 TEN-PERCENT STOCKHOLDERS. A Key Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any of its Subsidiaries shall not be eligible for the grant of an ISO unless the requirements set forth in section 422(c)(6) of the Code are satisfied.

4.4 LIMITATION ON OPTION GRANTS. No person shall receive Options for more than 375,000 Common Shares (subject to adjustment under Article 10) in any single fiscal year of the Company.

ARTICLE 5. OPTIONS.

5.1 STOCK OPTION AGREEMENT. Each grant of an Option under the Plan 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 Stock Option Agreement shall specify whether the Option is an ISO or an NSO. 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 15(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; provided that the term of an ISO shall in no event exceed 10 years from the date of grant. 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. NSOs may also be awarded in combination with Restricted Shares or Stock Units, and such an Award may provide that the NSOs 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 as follows:

(a) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Article 6.

(b) In the case of an NSO, 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, other than the NSOs granted to Outside Directors under Section 4.2. 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 ISO only at the time of grant but may be included in an NSO at the time of grant or at any subsequent time, but not later than six months before the expiration of such NSO.

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 NSOs, and such an Award may provide that the

Restricted Shares or Stock Units will be forfeited in the event that the related NSOs 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 NSOs to be granted to Outside Directors under Section 4.2, (c) the number of Stock Units included in any prior Award which has not yet been settled, (d) the number of Common Shares covered by each outstanding Option or (e) 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. LONG-TERM PERFORMANCE AWARDS.

The Company may grant long-term performance awards under other plans or programs. Such awards may be settled in the form of Common Shares issued under this Plan. Such Common Shares shall be treated for all purposes under the Plan like Common Shares issued in settlement of Stock Units and shall reduce the number of Common Shares available under Article 3.

ARTICLE 12. LIMITATION ON RIGHTS.

12.1 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).

12.2 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.

12.3 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 13. LIMITATION ON PAYMENTS.

13.1 BASIC RULE. Any provision of the Plan to the contrary notwithstanding, in the event that the independent auditors most recently selected by 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 13. For purposes of this Article 13, 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.

13.2 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 13, present value shall be determined in accordance with section 280G(d)(4) of the Code. All determinations made by the Auditors under this

Article 13 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.

13.3 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.

13.4 RELATED CORPORATIONS. For purposes of this Article 13, 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 14. WITHHOLDING TAXES.

14.1 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.

14.2 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 15. ASSIGNMENT OR TRANSFER OF AWARDS.

(i) Except as provided in Article 14, 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 15 shall be void. However, this Article 15 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 15 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 NSO 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 16. FUTURE OF THE PLAN.

16.1 TERM OF THE PLAN. The Plan, as set forth herein, shall become effective upon approval by the Stockholders of the Company. The Plan shall remain in effect until February 4, 2012, unless terminated earlier pursuant to Section 16.2, except that no ISOs shall be granted after November 15, 2011.

16.2 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 17. DEFINITIONS.

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

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

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

17.4 "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.

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

17.6 "Committee" means a committee of the Board, as described in Article 2.

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

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

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

17.10 "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.

17.11 "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.

17.12 "ISO" means an incentive stock option described in section 422(b) of the Code.

17.13 "Key Employee" means (a) a key common-law employee of the Company or of a Subsidiary, as determined by the Committee, or (b) an Outside Director. Service as an Outside Director shall be considered employment for all purposes of the Plan, except as provided in Sections 4.1 and 4.2.

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

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

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

17.17 "Outside Director" shall mean a member of the Board who is not a common-law employee of the Company or of a Subsidiary.

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

17.19 "Plan" means this Fair Isaac Corporation 1992 Long-Term Incentive Plan, as it may be amended from time to time.

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

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

17.22 "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.

17.23 "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.

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

17.25 "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 18. EXECUTION.

To verify that this is the amended and restated 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

.

.

.

EXHIBIT 12.1

COMPUTATIONS OF RATIOS OF EARNINGS TO FIXED CHARGES - FAIR ISAAC CORPORATION
(IN THOUSANDS, EXCEPT RATIO DATA)

	YEAR ENDED SEPTEMBER 30,				
	1999	2000	2001	2002	2003
Earnings:					
Income before income taxes	\$ 50,600	\$ 47,070	\$ 76,853	\$ 53,098	\$172,140
Fixed charges:					
Interest expense	184	75	122	1,471	10,605
Rent expense (x 33.33%)	3,054	3,045	3,420	3,997	6,878
TOTAL FIXED CHARGES	3,238	3,120	3,542	5,468	17,483
EARNINGS AVAILABLE FOR FIXED CHARGES	\$ 53,838	\$ 50,190	\$ 80,395	\$ 58,566	\$189,623
Ratio of earnings to fixed charges (1)	16.63	16.09	22.70	10.71	10.85

(1) The ratio of earnings to fixed charges has been computed by dividing earnings available for fixed charges (earnings before income taxes plus fixed charges) by fixed charges (interest expense plus portion of rental expense that represents interest).

FAIR ISAAC CORPORATION

CODE OF ETHICS FOR SENIOR FINANCIAL MANAGEMENT

Fair Isaac Corporation (the "Company") has adopted this Code of Ethics for Senior Financial Management to promote honest and ethical conduct and to deter wrongdoing. This Code applies to the Company's Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions who have been identified by the Chief Executive Officer (the "Senior Financial Management"). The obligations of this Code supplement, but do not replace, the Company's Code of Business Conduct and Ethics and any other code of conduct or ethics policy applicable to employees of the Company generally.

Any person who has information concerning any violation of this Code by any member of the Senior Financial Management shall promptly bring such information to the attention of the General Counsel or Chief Executive Officer of the Company. If the General Counsel or Chief Executive Officer determines that a conflict of interest exists, he or she will refer the matter to the Audit Committee of the Board of Directors for resolution. Violations of this Code may subject the employee to appropriate actions, such as censure, suspension or termination. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to this Code. The Audit Committee of the Board of Directors shall consider any request for a waiver of this Code and any amendments to this Code and all such waivers or amendments shall be disclosed promptly as required by law or Securities and Exchange Commission ("SEC") regulation.

All members of the Senior Financial Management shall:

1. Act honestly and ethically in the performance of their duties at the Company.
2. Avoid actual or apparent conflicts of interest between personal and professional relationships.
3. Provide full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the SEC and in other public communications by the Company.
4. Comply with rules and regulations of federal, state and local governments and other private and public regulatory agencies that affect the conduct of the Company's business and the Company's financial reporting.
5. Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing the member's independent judgment to be subordinated.
6. Respect the confidentiality of information acquired in the course of work, except when authorized or legally obligated to disclose such information.

7. Share knowledge and maintain skills relevant to carrying out the member's duties within the Company.
8. Proactively promote ethical behavior as a responsible partner among peers and colleagues in the work environment and community.
9. Achieve responsible use of and control over all assets and resources of the Company entrusted to the member.
10. Promptly bring to the attention of the General Counsel or Chief Executive Officer any information concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.

Acknowledged:

[Employee]

.

.

.

EXHIBIT 21.1

SUBSIDIARIES OF
FAIR ISAAC CORPORATION

Name of company and name under which it does business -----	Jurisdiction of incorporation or organization -----
Data Research Technologies (1)	Minnesota
Diversified Healthcare Services, Inc. (1)	California
Fair, Isaac International Corporation (1)	California
HNC Software LLC (1)	Delaware
Lindaro Office Park, Inc. (1)	California
myFICO Consumer Services Inc. (1)	Delaware
Risk Management Technologies (1)	California
Rocky Mountain Merger Corp. (1)	Delaware
Fair Isaac Asia Pacific Corp. (2)	Delaware
Fair, Isaac Brazil, LLC (2)	Delaware
Fair, Isaac International Canada Corporation (2)	California
Fair, Isaac International France Corporation (2)	California
Fair, Isaac International Germany Corporation (2)	California
Fair, Isaac International Ltd (2)	England
Fair, Isaac International Mexico Corporation (2)	California
Fair, Isaac International Spain Corporation (2)	California
Fair, Isaac International UK Corporation (2)	California
Fair, Isaac Singapore Pte Ltd (2)	Singapore
Fair, Isaac UK Limited (2)	England
Fair, Isaac Do Brasil Ltda. (3)	Brazil
Innovent Technology Inc. (4)	Nevada

Footnotes:

- (1) 100% owned by Fair Isaac Corporation
- (2) 100% owned by Fair, Isaac International Corporation
- (3) 99% owned by Fair, Isaac International Corporation and 1% owned by Fair, Isaac Brazil, LLC
- (4) 100% owned by Diversified Healthcare Services, Inc.

INDEPENDENT AUDITORS' CONSENT

The Board of Directors and Stockholders
Fair Isaac Corporation:

We consent to the incorporation by reference in the registration statements (No. 333-102849, No. 333-102848, No. 333-97695, No. 333-66332, No. 333-66348, No. 333-32398, No. 333-32396, No. 333-95889, No. 333-83905, No. 333-65179, No. 333-02121, and No. 33-63426) on Form S-8 and in the registration statements (No. 333-101033 and No. 333-100061) on Form S-3 of Fair Isaac Corporation of our report dated October 31, 2003, with respect to the consolidated balance sheets of Fair Isaac Corporation and subsidiaries as of September 30, 2003 and 2002, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended September 30, 2003, which report appears in the September 30, 2003 Annual Report on Form 10-K of Fair Isaac Corporation. Our report refers to a change in the Company's method of accounting for goodwill in 2003.

/s/ KPMG LLP

Los Angeles, California
December 12, 2003

CERTIFICATIONS

I, Thomas G. Grudnowski, certify that:

1. I have reviewed this annual report on Form 10-K 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: December 11, 2003

/s/ Thomas G. Grudnowski

 Thomas G. Grudnowski
 Chief Executive Officer

CERTIFICATIONS

I, Kenneth J. Saunders, certify that:

1. I have reviewed this annual report on Form 10-K 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: December 11, 2003

/s/ Kenneth J. Saunders

Kenneth J. Saunders
Chief Financial Officer

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: December 11, 2003

/s/ Thomas G. Grudnowski

Thomas G. Grudnowski
Chief Executive Officer

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: December 11, 2003

/s/ Kenneth J. Saunders

Kenneth J. Saunders
Chief Financial Officer