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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2002

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

[NO FEE REQUIRED]

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-16439

**Fair, Isaac and Company, Incorporated**

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

**DELAWARE**

*(State or other jurisdiction of  
incorporation or organization)*

**94-1499887**

*(I.R.S. Employer  
Identification No.)*

**200 Smith Ranch Road, San Rafael, California 94903**

*(Address of principal executive offices) (Zip Code)*

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

**(415) 472-2211**

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

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

The number of shares of common stock outstanding on December 31, 2002 was 49,560,779 (excluding 6,738,255 shares held by the Company as treasury stock).

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**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****FAIR, ISAAC AND COMPANY, INCORPORATED**  
**CONSOLIDATED BALANCE SHEETS**  
**(In thousands)**

	December 31, 2002	September 30, 2002
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 59,809	\$ 96,834
Marketable securities available for sale	210,632	184,377
Receivables, net	110,196	121,456
Other current assets	18,051	17,498
Deferred income taxes	8,166	8,009
	406,854	428,174
Total current assets	406,854	428,174
Marketable securities available for sale	140,586	140,398
Other investments	8,403	9,804
Property and equipment, net	57,859	63,898
Goodwill	428,270	430,739
Intangibles, net	90,907	89,375
Deferred income taxes	45,383	45,384
Other assets	7,177	4,741
	\$1,185,439	\$1,212,513
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 10,185	\$ 7,603
Accrued compensation and employee benefits	24,973	28,153
Other accrued liabilities	44,506	36,532
Deferred revenue	20,943	17,921
	100,607	90,209
Total current liabilities	100,607	90,209
Convertible subordinated notes, net of discount	140,274	139,922
Other liabilities	7,956	8,910
	248,837	239,041
Total liabilities	248,837	239,041
Contingencies (Note 10)		
Stockholders' equity:		
Preferred stock (\$0.01 par value; 1,000 authorized; none issued and outstanding)	—	—
Common stock (\$0.01 par value; 100,000 shares authorized, 56,299 and 55,619 shares issued, and 49,561 and 50,665 shares outstanding at December 31, 2002 and September 30, 2002, respectively)	496	507
Paid in capital in excess of par value	944,084	927,169
Treasury stock, at cost	(236,737)	(163,038)
Unearned compensation	(5,963)	(7,128)
Retained earnings	234,819	216,041
Accumulated other comprehensive loss	(97)	(79)
	936,602	973,472
Total stockholders' equity	936,602	973,472
	\$1,185,439	\$1,212,513

See accompanying notes to consolidated financial statements.

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(In thousands, except per share data)**  
**(Unaudited)**

	Quarter Ended December 31,	
	2002	2001
Revenues	\$146,732	\$85,061
Operating expenses:		
Cost of revenues	60,654	38,585
Research and development	17,247	7,477
Sales, general and administrative	32,183	17,942
Amortization of intangibles	3,262	525
Merger-related expenses	2,010	—
Total operating expenses	115,356	64,529
Operating income	31,376	20,532
Interest income	2,596	1,764
Interest expense on convertible subordinated notes	(2,322)	—
Other income, net	528	95
Income before income taxes	32,178	22,391
Provision for income taxes	12,389	8,844
Net income	\$ 19,789	\$13,547
Earnings per share:		
Basic	\$ 0.39	\$ 0.40
Diluted	\$ 0.38	\$ 0.38
Shares used in computing earnings per share:		
Basic	50,162	34,190
Diluted	52,173	35,946

See accompanying notes to consolidated financial statements.

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE**  
**INCOME (LOSS)**  
**(In thousands)**  
**(Unaudited)**

	Common Stock		Paid In Capital in	Treasury Stock	Unearned Compensation	Retained Earnings	Accumulated	Total Stockholders' Equity	Comprehensive Income (Loss)
	Shares	Par Value	Excess of Par Value				Other Comprehensive Income (Loss)		
<b>Balance at September 30, 2002</b>	<b>50,665</b>	<b>\$507</b>	<b>\$927,169</b>	<b>\$(163,038)</b>	<b>\$(7,128)</b>	<b>\$216,041</b>	<b>\$ (79)</b>	<b>\$973,472</b>	
Exercise of stock options	680	7	13,376	—	—	—	—	13,383	
Tax benefit from exercised stock options	—	—	4,399	—	—	—	—	4,399	
Amortization of unearned compensation	—	—	—	—	810	—	—	810	
Forfeitures of stock options assumed in HNC acquisition	—	—	(355)	—	355	—	—	—	
Repurchases of common stock	(1,850)	(19)	—	(76,017)	—	—	—	(76,036)	
Issuance of ESPP and ESOP shares from treasury	66	1	(505)	2,318	—	—	—	1,814	
Net income	—	—	—	—	—	19,789	—	19,789	\$19,789
Dividends paid	—	—	—	—	—	(1,011)	—	(1,011)	
Unrealized losses on investments	—	—	—	—	—	—	(223)	(223)	(223)
Cumulative translation adjustments	—	—	—	—	—	—	205	205	205
<b>Balance at December 31, 2002</b>	<b>49,561</b>	<b>\$496</b>	<b>\$944,084</b>	<b>\$(236,737)</b>	<b>\$(5,963)</b>	<b>\$234,819</b>	<b>\$ (97)</b>	<b>\$936,602</b>	<b>\$19,771</b>

See accompanying notes to consolidated financial statements.

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

	Quarter Ended December 31,	
	2002	2001
<b>Cash flows from operating activities</b>		
Net income	\$ 19,789	\$ 13,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,645	6,706
Share of equity in (earnings) losses and write-off of equity investments	(32)	287
Gain on sale of marketable securities	(626)	(580)
Amortization of unearned compensation	810	249
Tax benefit from exercise of stock options	4,399	4,732
Net amortization of (discount) premium on marketable securities	(149)	198
Provision for doubtful accounts	975	110
Amortization of discount on convertible subordinated notes	352	—
Other	—	32
Changes in operating assets and liabilities:		
Receivables	9,379	(4,236)
Other assets	361	(720)
Accounts payable	2,583	6,707
Accrued compensation and employee benefits	(3,180)	(1,678)
Other accrued liabilities and other liabilities	3,238	(1,492)
Deferred revenue	3,106	(1,237)
Net cash provided by operating activities	<u>52,650</u>	<u>22,625</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(2,691)	(3,879)
Cash proceeds from sale of product line	3,000	—
Cash paid in acquisitions, net of cash acquired	(2,250)	(2,593)
Purchases of marketable securities	(108,995)	(34,926)
Proceeds from sales of marketable securities	64,566	24,352
Proceeds from maturities of marketable securities	18,545	6,760
Net cash used in investing activities	<u>(27,825)</u>	<u>(10,286)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuances of common stock	15,197	8,956
Dividends paid	(1,011)	(456)
Repurchases of common stock	(76,036)	—
Net cash (used in) provided by financing activities	<u>(61,850)</u>	<u>8,500</u>
(Decrease) increase in cash and cash equivalents	(37,025)	20,839
Cash and cash equivalents, beginning of period	96,834	24,608
Cash and cash equivalents, end of period	<u>\$ 59,809</u>	<u>\$ 45,447</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes	\$ 364	\$ 140
Cash paid for interest	\$ —	\$ —

See accompanying notes to consolidated financial statements.



**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except per share amounts)**

## 1. Nature of Business

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

Fair, Isaac and Company, Incorporated is a provider of analytic, software and data management products and services that enable businesses to automate and improve decisions. Fair, Isaac provides a range of analytical solutions, credit scoring and credit account management products and services to banks, credit reporting agencies, credit card processing agencies, insurers, retailers, telecommunications providers, healthcare organizations and government agencies. In this report, Fair, Isaac and Company, Incorporated is referred to as “we,” “us,” “our,” and “Fair, Isaac.” HNC Software Inc., which we acquired in August 2002, is referred to as “HNC.”

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

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

We have prepared the accompanying unaudited interim consolidated financial statements in accordance with the instructions to Form 10-Q. Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our financial position and results of operations. These consolidated financial statements and notes thereto should be read in conjunction with our audited financial statements and notes thereto presented in our Annual Report on Form 10-K, as amended, for the fiscal year ended September 30, 2002. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for any entire fiscal year.

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 the 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.

Certain prior period amounts have been reclassified to conform to current period presentation.

## 2. Acquisition and Pro Forma Results of Operations

### *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 (“Spectrum”), a wholly owned subsidiary of Ward North America Holding, Inc., for cash consideration of \$7,150. Of the total purchase price, \$2,250 was paid by us in December 2002 and the remainder was paid in January 2003. We placed \$250 of the purchase price into escrow to secure 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 consolidated results of operations beginning on December 31, 2002.

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

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

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(In thousands, except per share amounts)**

The acquired intangible assets 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. All of this goodwill is expected to be deductible for tax purposes.

**Unaudited Pro Forma Results of Operations**

During the prior fiscal year ended September 30, 2002, we acquired the following businesses in transactions that were accounted for using the purchase method of accounting: i) acquisition of substantially all of the assets of Nykamp Consulting Group, Inc. (“Nykamp”) in December 2001, and ii) acquisition of HNC in August 2002. The following table summarizes the unaudited pro forma results of our operations for the quarters ended December 31, 2002 and 2001 as if the Nykamp, HNC and Spectrum acquisitions had occurred on October 1, 2001, instead of their respective later acquisition dates:

	Quarter Ended December 31,			
	2002		2001	
	Historical	Pro Forma Combined	Historical	Pro Forma Combined
Revenues	\$146,732	\$148,057	\$85,061	\$142,077
Net income	\$ 19,789	\$ 19,873	\$13,547	\$ 12,821
Basic earnings per share	\$ 0.39	\$ 0.40	\$ 0.40	\$ 0.24
Diluted earnings per share	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.23

**3. Accounting for 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. In addition, all goodwill must be assigned to reporting units for purposes of impairment testing. In connection with our adoption of SFAS No. 142 on October 1, 2002, we reclassified \$113 in net book value associated with our acquired customer base intangible assets to goodwill. Intangible assets subject to amortization consisted of the following:

	December 31, 2002	September 30, 2002
Completed technology	\$42,000	\$42,000
Customer contracts and relationships	44,608	39,855
Tradenname	9,090	9,090
Other	714	714
	96,412	91,659
Less accumulated amortization	(5,505)	(2,284)
	\$90,907	\$89,375

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(In thousands, except per share amounts)**

Amortization expense associated with our definite lived intangible assets totaled \$3,262 during the quarter ended December 31, 2002. Amortization expense during the quarter ended December 31, 2001 totaled \$525, all of which related to goodwill. Estimated future intangible asset amortization expense as of December 31, 2002 is as follows:

Nine Months Ending September 30, 2003	\$10,256
Fiscal Year Ending September 30,	
2004	13,665
2005	13,627
2006	13,474
2007	11,640
2008	3,083
Thereafter	25,162
	<u>\$90,907</u>

For comparative purposes, the following table summarizes reported results for the quarter ended December 31, 2001, adjusted to exclude the amortization of goodwill:

	Net Income	Earnings per Share	
		Basic	Diluted
<b>Quarter Ended December 31, 2001:</b>			
As reported	\$13,547	\$0.40	\$0.38
Amortization of goodwill, net of tax impact	525	0.01	0.01
As adjusted	<u>\$14,072</u>	<u>\$0.41</u>	<u>\$0.39</u>

As required by SFAS No. 142, we are in the process of assessing whether goodwill within our reporting units was impaired at the date of adoption of this pronouncement using a two-step transitional impairment test. The first step, which we must complete by March 31, 2003, is our identification of any impairment of goodwill upon our adoption of SFAS No. 142. If any impairment is identified in step one, we will be required to complete a second step to measure the actual amount of the impairment loss, if any, prior to September 30, 2003. Any impairment loss resulting from the transitional impairment test will be reflected as the cumulative effect of a change in accounting principle. As we have not yet completed the impairment test, we have not determined the impact, if any, that it will have on our financial position and results of operations.

As of December 31, 2002, we have not allocated goodwill to our segments (see Note 9). Accordingly, goodwill information by segment is not presented. The following table summarizes changes to goodwill during the quarter December 31, 2002:

<b>Balance at September 30, 2002</b>	\$430,739
Goodwill acquired in Spectrum acquisition (see Note 2)	2,140
HNC purchase accounting adjustments	381
Reclassification of acquired customer base intangible assets	113
Product line dispositions (see Note 4)	(5,103)
<b>Balance at December 31, 2002</b>	<u>\$428,270</u>

During the quarter ended December 31, 2002, we adjusted our preliminary allocation of the HNC purchase price, which resulted in a \$381 net increase to goodwill. The adjustments reflect primarily a \$1,454 reduction in the carrying amount of our cost-basis equity investment in Azure Capital Partners L.P. (“Azure”), offset by a \$1,073 reduction in assumed liabilities, principally related to revisions made to our estimate of future facility lease exit costs. 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 of the HNC merger date. We had originally recorded this investment at \$2,050. We are committed to invest an additional \$2,200 into Azure. We anticipate

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(In thousands, except per share amounts)**

that some or all of this commitment amount will be invested during fiscal 2003. However, the ultimate timing of this additional investment will be dependent on when the fund managers make additional capital calls.

#### 4. Sales of Product Line Assets

In October 2002, we executed an asset purchase 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 executed an asset purchase 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.

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.

#### 5. 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 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 2.63% at December 31, 2002) or at the financial institution's Prime Rate (which was 4.25% at December 31, 2002), 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 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 December 31, 2002, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of December 31, 2002, this credit facility also served to collateralize certain letters of credit aggregating \$666, issued by us in the normal course of business. Available borrowings under this credit agreement are reduced by the principal amount of letters of credit outstanding under the facility.

#### 6. Restructuring and Merger-Related Expenses

The following table summarizes activity for the quarter ended December 31, 2002 related to restructuring accruals previously recorded in connection with the HNC acquisition:

	Remaining Accrual at September 30, 2002	Cash Payments	Remaining Accrual at December 31, 2002
Facilities charges	\$3,076	\$(218)	\$2,858
Employee separation	1,530	(766)	764
	<u>\$4,606</u>	<u>\$(984)</u>	<u>\$3,622</u>

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(In thousands, except per share amounts)**

During the quarter ended December 31, 2002, we also incurred incremental merger-related expenses totaling \$2,010, consisting primarily of retention bonuses earned through December 31, 2002 by employees with future severance dates.

## 7. Earnings Per Share

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

	Quarter Ended December 31,	
	2002	2001
Numerator — net income	\$19,789	\$13,547
Denominator — shares:		
Basic weighted-average shares	50,162	34,190
Effect of dilutive securities	2,011	1,756
Diluted weighted-average shares	52,173	35,946
Earnings per share		
Basic	\$ 0.39	\$ 0.40
Diluted	\$ 0.38	\$ 0.38

The computation of diluted EPS for the quarters ended December 31, 2002 and 2001 excludes stock options to purchase 2,733 and 494 shares of common stock, respectively, as the exercise prices for such options were greater than the average market price of our common stock, and their inclusion would be antidilutive. The computation of diluted EPS for the quarter ended December 31, 2002 also excludes 2,703 shares of common stock issuable upon conversion of our convertible subordinated notes, as the inclusion of such shares would have been antidilutive.

## 8. Repurchases of Common Stock

During the quarter ended December 31, 2002, we repurchased 1,850 shares of our common stock for an aggregate cost of \$76,036. The shares were repurchased pursuant to a program approved by our Board of Directors in the prior fiscal year that allows us to repurchase up to 6,000 shares of our common stock. Through December 31, 2002, a total of 2,915 shares of our common stock had been repurchased under this program.

## 9. Segment Information

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

The Scoring Solutions segment includes scoring services distributed through major credit reporting agencies, ScoreNet® services, PreScore® services and insurance bureau scoring services sold through credit reporting agencies.

The Strategy Machine Solutions segment primarily includes revenues derived from the following products: TRIAD™ credit account management services distributed through third-party bankcard processors, Fair, Isaac MarketSmart Decision System® solution, CompAdvisor® and AutoAdvisor® Medical Bill Review and Outsourced Cost Containment Services, RoamEx® Roamer Data Exchanger, LiquidCredit® service, TelAdaptive® service, CardAlert™ Fraud Manager and consumer services available through our myFICO.com Web site and strategic alliance partners' Web sites, List Processing and Strategy Science products, as well as software license and maintenance revenues related to our Falcon™ Fraud Manager, Capstone® Decision Manager, and TRIAD™ end-user products.

**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(In thousands, except per share amounts)

The Professional Services segment includes all consulting, implementation and custom analytics services.

The Analytic Software Tools segment principally includes software license and maintenance revenues associated with Fair, Isaac Blaze Decision System™ software, Fair, Isaac Blaze Advisor™ software and Model Builder software products.

Our Chief Executive Officer evaluates segment financial performance based on segment revenues and operating income. Segment operating expenses consist principally of personnel, facilities, consulting, travel and other expenses both directly related and allocated to the segments. 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 the corporate level.

The following table summarizes segment information for the quarters ended December 31, 2002 and 2001. Segment information during the quarter ended December 31, 2001 has been restated to conform to the current segment presentation.

	Quarter Ended December 31, 2002				
	Scoring	Strategy Machines	Professional Services	Analytic SW Tools	Total
Revenues	\$ 34,092	\$ 85,989	\$ 20,250	\$ 6,401	\$ 146,732
Operating expenses	(15,440)	(71,910)	(19,785)	(6,211)	(113,346)
Segment operating income	18,652	14,079	465	190	33,386
Unallocated merger-related expenses					(2,010)
Operating income					31,376
Unallocated interest expense — convertible subordinated notes					(2,322)
Unallocated interest and other income, net					3,124
Income before income taxes					\$ 32,178
Depreciation and amortization	\$ 3,102	\$ 6,640	\$ 1,522	\$ 381	\$ 11,645
	Quarter Ended December 31, 2001				
	Scoring	Strategy Machines	Professional Services	Analytic SW Tools	Total
Revenues	\$ 30,089	\$ 40,392	\$ 12,704	\$ 1,876	\$ 85,061
Operating expenses	(14,733)	(34,775)	(13,262)	(1,759)	(64,529)
Segment operating income	15,356	5,617	(558)	117	20,532
Unallocated interest and other income, net					1,859
Income before income taxes					\$ 22,391
Depreciation and amortization	\$ 1,724	\$ 4,025	\$ 843	\$ 114	\$ 6,706

Our revenues and percentage of revenues by reportable market segments are as follows for the quarters ended December 31, 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:

	Quarter Ended December 31,			
	2002		2001	
Scoring Solutions	\$ 34,092	23%	\$30,089	35%
Strategy Machine Solutions	85,989	59%	40,392	48%
Professional Services	20,250	14%	12,704	15%
Analytic SW Tools	6,401	4%	1,876	2%
	\$146,732	100%	\$85,061	100%



**FAIR, ISAAC AND COMPANY, INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(In thousands, except per share amounts)**

In addition, our revenues and percentage of revenues on a geographical basis are summarized below for the quarters ended December 31, 2002 and 2001. No individual country outside of the United States accounted for 10% or more of revenue in either quarter.

	Quarter Ended December 31,			
	2002		2001	
United States	\$121,820	83%	\$70,819	83%
International	24,912	17%	14,242	17%
	<u>\$146,732</u>	<u>100%</u>	<u>\$85,061</u>	<u>100%</u>

## 10. Contingencies

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

On April 30, 2002, Douglas Tidwell, seeking to act on behalf of a class of all holders of common stock of HNC Software Inc., filed suit in the Superior Court of the State of California, County of San Diego, and named as defendants all of the then current directors of HNC. The complaint alleged, among other things, that HNC's directors breached their fiduciary duties to HNC's stockholders by approving the Agreement and Plan of Merger that HNC entered into with Fair, Isaac on April 28, 2002 and that the individual defendants engaged in self-dealing in connection with the transaction. The complaint sought injunctive relief, including enjoining consummation of the merger transaction with Fair, Isaac, and attorneys' and experts' fees. On July 18, 2002, HNC announced that it had entered into a memorandum of understanding with plaintiff's counsel setting forth the terms of a proposed settlement of the suit. A Stipulation of Settlement implementing the terms of the memorandum of understanding was entered into by the parties and final settlement of the matter was approved by the Court on December 13, 2002. Pursuant to the settlement, the case was dismissed and \$492 in attorneys' fees were paid to plaintiff's counsel by Fair, Isaac as successor in interest to HNC, \$390 of which was reimbursed by HNC's directors' and officers' insurance carrier.

## 11. Guarantees

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 provides expanded accounting guidance surrounding liability recognition and disclosure requirements related to guarantees, as defined by this Interpretation. We adopted FIN No. 45 during the quarter ended December 31, 2002. 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 give rise only to the disclosure requirements prescribed by FIN No. 45.

Indemnification and warranty provisions contained within our customer license and service 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.



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

**FORWARD LOOKING STATEMENTS**

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

**RESULTS OF OPERATIONS**

**Overview**

We provide analytic, software and data management products and services that enable businesses to automate and improve decisions. Our predictive modeling, decision analysis, intelligence management, decision management systems and consulting services power more than 25 billion customer decisions a year. We help companies acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do many insurers, retailers, telecommunications providers, healthcare organizations and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure of credit risk, to manage their financial health.

Most of our revenues are derived from the sale of products and services within the consumer credit, financial services and insurance industries, and during the quarter ended December 31, 2002 approximately 81% of our revenues were derived from within these industries. A significant portion of our remaining revenues is derived from the telecommunications, healthcare and retail industries, as well as the government sector. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. A significant portion of our revenues is derived from recurring sources, generally including, but not limited to, transactional-based software license fees, license fees that recur annually under long-term software license arrangements, transactional fees derived under network service or internal hosted software arrangements, and software maintenance fees. Transactional-based and other recurring revenues are, 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. The portion of our revenues that is derived from non-recurring sources, generally includes, but is not limited to, perpetual or time-based licenses with upfront, non-recurring payment terms and non-recurring professional service arrangements.

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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 a lesser degree the Nykamp acquisition consummated in December 2001 and the asset dispositions consummated in October and November 2002, our financial results in the quarter ended December 31, 2002 are not directly comparable to those in the quarter ended December 31, 2001.

Following our acquisition of HNC, we changed our reportable business segments to reflect the new primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Our current reportable segments include: Scoring Solutions, Strategy Machine Solutions, Professional Services and Analytic Software Tools. Segment information for the quarter ended December 31, 2001 has been restated to conform to the quarter ended December 31, 2002 presentation for comparability. Comparative segment revenues, operating income, and related financial information for the quarters ended December 31, 2002 and 2001 are set forth in Note 9 to the Consolidated Financial Statements.

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

## Revenues

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

Segment	Percentage of Revenues Quarter Ended December 31,		Period-to-Period Percentage Change
	2002	2001	
Scoring Solutions	23%	35%	13%
Strategy Machine Solutions	59%	48%	113%
Professional Services	14%	15%	59%
Analytic Software Tools	4%	2%	241%
Total Revenues	100%	100%	73%

The growth in Scoring Solutions segment revenues during the quarter ended December 31, 2002 as compared to the quarter ended December 31, 2001 was due primarily to an increase in revenues derived from risk scoring services at the credit reporting agencies and an increase in PreScore services. The growth in risk scoring services resulted primarily from increased sales of scores for account review as well as a continued strong market for mortgage originations and refinancing. The growth in PreScore revenues is attributable primarily to the continued strong marketing efforts of credit card issuers. During the quarter ended December 31, 2002, revenues generated from our agreements with Equifax, TransUnion and Experian collectively, accounted for approximately 20% of our revenues, with Equifax alone accounting for approximately 10% of our revenues.

The increase in Strategy Machine Solutions segment revenues during the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001, was due primarily to the addition of revenues derived from products and services previously offered by HNC, primarily including revenues associated with Falcon Fraud Manager, CompAdvisor, Outsourced Cost Containment services, Capstone Decision Manager and RoamEx, along with increased revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, MarketSmart, Processor TRIAD and Liquid Credit, partially offset by a decline in List Processing revenues.

The increase in Professional Services segment revenues during the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001, was due primarily to increased revenues resulting from the acquisitions of the Nykamp and HNC businesses as well as increased revenues derived from consulting and integration services related to MarketSmart and various other products, partially offset by a decrease in consulting and integration revenues associated with Blaze Decision System and analytical consulting projects.

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The increase in Analytic Software Tools segment revenues during the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001, was due primarily to the addition of Blaze Advisor revenues previously offered by HNC, partially offset by a slight decrease in Blaze Decision System revenues.

Revenues derived from clients outside the United States totaled \$24.9 million and \$14.2 million during the quarters ended December 31, 2002 and 2001, respectively, representing 17% of total consolidated revenues in each of these periods.

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

The following table sets forth for the fiscal periods indicated (a) the percentage of revenues represented by certain line items in our Consolidated Statements of Income and (b) the percentage change in the amount of each such line item in the quarter ended December 31, 2002 from the corresponding period in the prior fiscal year.

	Percentage of Revenues Quarter Ended December 31,		Period-to-Period Percentage Change
	2002	2001	
Revenues	100%	100%	73%
Operating expenses:			
Cost of revenues	41%	45%	57%
Research and development	12%	9%	131%
Sales, general and administrative	22%	21%	79%
Amortization of intangibles	2%	1%	521%
Merger-related expenses	2%	—	100%
Total operating expenses	79%	76%	79%
Operating income	21%	24%	53%
Interest income	2%	2%	47%
Interest expense on convertible subordinated notes	(1)%	—	100%
Other income, net	—	—	456%
Income before income taxes	22%	26%	44%
Provision for income taxes	8%	10%	40%
Net income	14%	16%	46%

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

The quarter over quarter increase in cost of revenues was principally due to the HNC acquisition. Cost of revenues, as a percentage of revenues, decreased in the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001. This percentage decrease was attributable primarily to the addition of higher margin product offerings from the HNC acquisition, including Falcon Fraud Manager, RoamEx and Blaze Advisor, and to higher margins achieved by our consumer score services through myFICO.com due to increased revenues and related cost efficiencies.

### **Research and Development**

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

The quarter over quarter increase in research and development expenses was principally due to the HNC acquisition. Research and development expenses, as a percentage of revenues, increased in the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001. This percentage increase was attributable primarily to a higher level of research and development efforts associated with product lines acquired from HNC, including the development of a new software platform technology, and to increased research and development efforts within our Strategy Machine Solutions segment.

***Sales, General and Administrative***

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

The quarter over quarter increase in sales, general and administrative expenses was principally due to the HNC acquisition. Sales, general and administrative expenses, as a percentage of revenues, increased slightly in the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001. This percentage increase was attributable primarily to an increase in sales commissions, media, conference and trade show expenditures, insurance and legal costs, partially offset by a reduction in general and administrative personnel and other costs due to efficiencies achieved by the HNC merger.

***Amortization of Intangibles***

Amortization of intangibles consists of amortization expense that we have recorded on intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Amortization expense for the quarter ended December 31, 2002 totaled \$3.3 million as compared to amortization expense of \$0.5 million for the quarter ended December 31, 2001. The increase 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 full quarter of amortization of intangible assets resulting from our acquisition of assets from Nykamp Consulting Group, Inc. in December 2001. Our intangible assets are being amortized using the straight-line method or based on forecasted cash flows associated with the assets over periods ranging from three to fifteen years.

***Merger-related Expenses***

Related to our acquisition of HNC in fiscal 2002, we incurred incremental merger-related expenses totaling \$2.0 million during the quarter ended December 31, 2002, consisting primarily of retention bonuses earned through December 31, 2002 by employees with future severance dates.

***Interest Income***

Interest income totaled \$2.6 million for the quarter ended December 31, 2002, as compared to \$1.8 million for the quarter ended December 31, 2001. Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. The quarter over quarter increase was attributable primarily to higher average cash and investment balances, principally resulting from our acquisition of HNC on August 5, 2002, partially offset by lower interest and investment income yields due to lower market rates of return.

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

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

***Other Income, Net***

Other income, net totaled \$0.5 million during the quarter ended December 31, 2002, as compared to \$0.1 million during the quarter ended December 31, 2001. The increase in other income, net is attributable primarily to a \$0.3 million loss associated with the write-off of an equity investment in the quarter ended December 31, 2001. No such losses were recorded in the current year quarter.

***Provision for Income Taxes***

Our effective tax rate was 38.5% and 39.5% during the quarters ended December 31, 2002 and 2001, respectively. The current quarter decrease is primarily due to the increased availability of research and development tax credits. The

provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year.

### ***Operating Income***

Operating income increased from \$20.5 million for the quarter ended December 31, 2001 to \$31.4 million for the quarter ended December 31, 2002. This increase was attributable primarily to the HNC acquisition and to a lesser degree increased revenues and operating income associated with legacy Fair, Isaac product offerings, partially offset by HNC merger-related expenses incurred during the quarter ended December 31, 2002. At the segment level, the increase in operating income was attributable primarily to increased segment operating income derived from our Strategy Machines Solutions and Scoring Solutions segments. The increase in Strategy Machines Solutions segment operating income was driven primarily by the growth of segment revenues and operating margins quarter over quarter, principally as a result of additional revenues derived from products and services previously offered by HNC, including Falcon Fraud Manager, CompAdvisor, Outsourced Cost Containment services, Capstone Decision Manager and RoamEx, along with increased revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, MarketSmart, Processor TRIAD and Liquid Credit, partially offset by a decline in List Processing revenues. HNC merger-related cost efficiencies also contributed to the increase in Strategy Machines Solutions segment operating income. The increase in Scoring Solutions segment operating income was driven primarily by the growth in segment revenues and associated operating margins quarter over quarter, principally due to an increase in revenues derived from risk scoring services at the credit reporting agencies and to an increase in PreScore services.

### **Capital Resources and Liquidity**

Our working capital at December 31, 2002 and September 30, 2002 totaled \$306.2 million and \$338.0 million, respectively. The decrease in working capital during the quarter ended December 31, 2002 is attributable primarily to a \$37.0 million decline in cash and cash equivalents, offset by the net impact of other working capital account changes. The decline in cash and cash equivalents is principally due to the use of \$76.0 million for stock repurchases, offset by \$39.0 million in net cash provided by all other operating, investing and financing activities during the quarter, as described below.

Our primary method for funding operations and growth has been through cash flows generated from operations. Net operating cash flows increased from \$22.6 million during the quarter ended December 31, 2001 to \$52.7 million during the quarter ended December 31, 2002, reflective of an increase in net earnings before non-cash charges and the effect of other net working capital changes.

Net cash used in investing activities totaled \$27.8 million and \$10.3 million during the quarters ended December 31, 2002 and 2001, respectively. The increase in cash flows used in investing activities during the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001, is attributable primarily to a \$22.1 million increase in purchases of marketable securities, net of sales and maturities, partially offset by \$3.0 million in cash proceeds received from the sale of a product line in the current quarter and a decline in purchases of property and equipment quarter over quarter.

Net cash used in financing activities totaled \$61.9 million during the quarter ended December 31, 2002, compared to net cash provided by financing activities of \$8.5 million during the quarter ended December 31, 2001. The increase in net cash used in financing activities during the quarter ended December 31, 2002, as compared to the quarter ended December 31, 2001, is attributable primarily to the use of \$76.0 million in cash to repurchase common stock in the current quarter, partially offset by an increase in proceeds from the issuance of common stock quarter over quarter.

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During the quarter ended December 31, 2002, we expended \$76.0 million in connection with our repurchase of approximately 1.9 million shares of common stock pursuant to a 6.0 million share repurchase program announced in August 2002. Through December 31, 2002, a total of approximately 2.9 million shares of our common stock had been repurchased under this program. We anticipate that we will continue to repurchase shares in accordance with this program.

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

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the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

We are the issuer of \$150.0 million of 5.25% Convertible Subordinated Notes that mature on September 1, 2008. The notes are convertible into shares of Fair, Isaac common stock at a conversion rate of approximately 18.02 shares of Fair, Isaac common stock per \$1,000 principal amount of the notes, subject to anti-dilution adjustment. The notes are general unsecured obligations of Fair, Isaac and are subordinated in right of payment to all existing and future senior indebtedness of Fair, Isaac. Interest on the notes is payable on March 1 and September 1 of each year until maturity. We may redeem the notes on or after September 5, 2004, or earlier if the price of Fair, Isaac common stock reaches certain levels. If we redeem the notes prior to September 1, 2007, we will 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 December 31, 2002, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of December 31, 2002, this credit facility also served to collateralize certain letters of credit aggregating \$0.7 million, issued by us in the normal course of business. Available borrowings under this credit agreement are reduced by the principal amount of letters of credit outstanding under the facility.

As of December 31, 2002, we had \$411.0 million in cash, cash equivalents and marketable security investments. We believe that these balances, including interest to be earned thereon, and anticipated cash flows from operating activities will be sufficient to fund our working and other capital requirements over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all, particularly in light of the current decline in the capital markets. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

We are a limited partner in Azure Capital Partners L.P., a venture capital investment management fund, and are committed to invest an additional \$2.2 million into this fund. We anticipate that some or all of this commitment amount will be invested during fiscal 2003. However, the ultimate timing of this additional investment will be dependent on when the fund managers make additional capital calls.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements (as such term is defined in recently enacted SEC rules) that have or are reasonably likely to have a current or future effect on our 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

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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***

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

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

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

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

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

Transactional-based license fees under software license arrangements, network service and internally-hosted software agreements are recognized as revenue based on system usage or when fees based on system usage exceed monthly minimum license fees.

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.

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

### ***Allowance for Doubtful Accounts***

We make estimates regarding the collectibility of our accounts 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, or if payments from customers are significantly delayed, additional allowances might be required.



### ***Business Acquisitions; Valuation of Goodwill and Other Intangible Assets***

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

We continually review the events and circumstances related to our financial performance and economic environment for factors that would provide evidence of the impairment of 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. In lieu of amortization, we are required to perform an initial impairment review based on the estimated fair value of our goodwill and intangible assets as of October 1, 2002 and on a periodic basis thereafter. We are in the process of assessing whether goodwill within our reporting units was impaired at the date of adoption of this pronouncement using a two-step transitional impairment test. The first step, which we must complete by March 31, 2003, is our identification of any impairment of goodwill as of October 1, 2002. If any impairment is identified in step one, we will be required to complete a second step to measure the actual amount of the impairment loss, if any, prior to September 30, 2003. Any impairment loss resulting from the transitional impairment test will be reflected as the cumulative effect of a change in accounting principle. As we have not yet completed the impairment test, we have not determined the impact, if any, that it will have on our financial position and results of operations. There are many management assumptions and estimates underlying the determination of an impairment loss, and estimates using different, but each reasonable, assumptions could produce significantly different results. Therefore, the timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions. We expect to complete our initial impairment review prior to March 31, 2003. As we have not yet completed the impairment test, we have not determined the impact, if any, that it will have on our financial position and results of operations.

### ***Capitalized Software Development Costs***

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

### ***Internal-use Software***

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at the lower of cost or net realizable value. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. We assess potential impairment 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 likely will be realized. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If we determine during any period that we could realize a larger net deferred tax asset than the recorded amount, we would adjust the deferred tax asset to increase income for the period. Conversely, if we determine that we would be unable to realize a portion of our recorded deferred tax asset, we would adjust the deferred tax asset to record a charge to income for the period.



### **Contingencies and Litigation**

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

### **New Accounting Pronouncements**

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

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. This statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition and annual disclosure requirements of SFAS No. 148 are effective for us in fiscal 2003. The interim disclosure requirements are effective for us and will be adopted during the quarter ending March 31, 2003. We do not expect the adoption of this statement to have a significant impact on our financial position and results of operations.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 expands upon existing accounting guidance that addresses when a company should include in its financial 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 consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. We are currently evaluating the impact of FIN No. 46 on our financial statements and related disclosures. Certain disclosure requirements apply to any financial statements issued after January 31, 2003. We have provided certain disclosures in other areas of this filing and are still evaluating the impact of the accounting pronouncement.

### **RISK FACTORS**

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

On August 5, 2002, we completed the acquisition of HNC, previously announced on April 29, 2002. Our failure to meet the challenges involved in successfully integrating the operations of Fair, Isaac and HNC or otherwise to realize any of the anticipated benefits of the recently completed merger, including anticipated cost savings, could seriously harm our results of operations. Realizing the benefits of the recently completed merger will depend in part on the continued integration of products, technologies, operations, and personnel. Although we have made progress since the merger was completed, the continued integration is a complex, time-consuming and expensive process that, even with proper planning and implementation, could significantly disrupt our business. In many recent mergers, especially mergers involving technology companies, merger partners have experienced difficulties integrating the combined businesses, and we have not previously faced an integration challenge as substantial as the one presented by the recently completed merger. The challenges involved in this integration include the following:

- continuing to persuade employees that the business cultures of Fair, Isaac and HNC are compatible, maintaining employee morale and retaining key employees;

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

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

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

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

### **Any failure to recruit and retain additional qualified personnel, more challenging in light of uncertainty following the recent acquisition, could hinder our ability to successfully manage our business.**

Our future success will likely depend in large part on our ability to attract and retain experienced sales, research and development, marketing, technical support and management personnel. Employee retention may be particularly challenging in connection with the recently completed acquisition as a result of employee uncertainty about their future roles, the distractions of integration, and morale challenges posed by workforce reductions that occurred after completion of the acquisition. Moreover, the complexity of our products requires highly trained customer service and technical support personnel to assist customers with product installation and deployment. The labor market for these persons is very competitive due to the limited number of people available with the necessary technical skills and understanding. We have experienced difficulty in recruiting qualified personnel, especially technical and sales personnel, and we may need additional staff to support new customers and/or increased customer needs. We may also recruit and employ skilled technical professionals from other countries to work in the United States. Limitations imposed by federal immigration laws and the availability of visas could hinder our ability to attract necessary qualified personnel and harm our business and future operating results. There is a risk that even if we invest significant resources in attempting to attract, train and retain qualified personnel, we will not succeed in our efforts, and our business could be harmed.

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

During the quarter ended December 31, 2002, approximately 81% of our revenues were derived from sales of products and services to the consumer credit, financial services and insurance industries. A downturn in the consumer credit, the financial services or the insurance industry, including a downturn caused by increases in interest rates or a tightening of credit, among other factors, could harm our results of operations. Since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of our large institutional clients have merged and consolidated, we have generated most of our revenue growth from our bankcard-related scoring and account management businesses by selling and cross-selling our products and services to large banks and other credit issuers. As this industry continues to consolidate, we may have fewer opportunities for revenue growth due to changing demand for our products and services

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that support clients' customer acquisition programs. In addition, industry consolidation could affect the base of recurring revenues derived from contracts in which we are paid on a per-transaction basis if consolidated customers combine their operations under one contract. We cannot assure you that we will be able effectively to promote future revenue growth in our businesses.

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

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

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

- variability in demand from our existing customers;
- the lengthy and variable sales cycle of many products, 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.

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

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

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

We expect that revenues from some or all of our Falcon Fraud Manager, Decision Manager for Medical Bill Review, Outsourced Bill Review and account management products and services, and agreements with TransUnion, Equifax and Experian, will account for a substantial portion of our total revenues for the foreseeable future. Our revenue will decline if the market does not continue to accept these products and services. Factors that might affect the market acceptance of these products and services include the following:

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- changes in the business analytics industry;
- technological change;
- our inability to obtain or use state fee schedule or claims data in our insurance products;
- saturation of market demand;
- loss of key customers;
- industry consolidation;
- factors that reduce the effectiveness of or need for fraud detection capabilities; and
- reduction of the use of credit and other payment cards as payment methods.

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

We derive a substantial portion of our revenues and operating income from contracts with the three major credit reporting agencies. These contracts, which normally have a term of five years or less, accounted for approximately 20% of our revenues in the quarter ended December 31, 2002. While we have been successful in extending or renewing our agreements with credit reporting agencies in the past, the loss of one or more of such agreements or an adverse change in agreement terms could have a material adverse effect on our revenues and results of operations.

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

Most of our customers are relatively large enterprises, such as banks, insurance companies, healthcare firms, retailers and telecommunications carriers. Our future success will depend upon the timing and size of future licenses, if any, from these customers and new customers. Many of our customers and potential customers are significantly larger than we are and may have sufficient bargaining power to demand reduced prices and favorable nonstandard terms. The loss of any major customer, or the delay of significant revenue from these customers, could reduce or delay our recognition of revenue.

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

We 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, and completely new to some personnel integrated as a result of the merger. Products that we plan to market in the future are in various stages of development. We cannot assure you that the marketplace will accept these products. If our current or potential customers are not willing to switch to or adopt our new products and services, our revenues will decrease.

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

Significant undetected errors or delays in new products or new versions of products, especially in the area of customer relationship management, may affect market acceptance of our products and could harm our business, results of operations or financial position. If we were to experience delays in commercializing and introducing new or enhanced products, if our customers were to experience significant problems with implementing and installing our products, or if our customers were dissatisfied with our products' functionality or performance, our business, results of operations or financial position could be harmed. In the past, we have experienced delays while developing and introducing new products and product enhancements, primarily due to difficulties developing models, acquiring data and adapting to particular operating environments. Errors or defects in our products that are significant, or are perceived to be significant, could result in the rejection of our products, damage to our reputation, lost revenues, diverted development resources, potential product liability claims and increased service and support costs and warranty claims.

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

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

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

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

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

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

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

Our competitors may be able to sell products competitive to ours at lower prices individually or as part of integrated suites of several related products. This ability may cause our customers to purchase products of our competitors that

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directly compete with our products. Price reductions by our competitors could negatively impact our margins and results of operations, and could also harm our ability to obtain new long-term contracts and renewals of existing long-term contracts on favorable terms.

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

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

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

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

With recent developments in the law that permit patenting of business methods, we expect that products in the industry segments in which we will compete, including software products, will increasingly be subject to claims of patent infringement as the number of products and competitors in our industry segments grow and the functionality of products overlaps. We will have to defend claims made against our products, and such claims may require us to:

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

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

Internet-based, business-to-business electronic commerce requires the secure transmission of confidential information over public networks. Several of our products are accessed through the Internet, including our new consumer services accessible through the [www.myfico.com](http://www.myfico.com) website. Consumers using the Internet to access their personal information will demand the secure transmission of such data. Security breaches in connection with the delivery of our products and services, including our netsourced products and consumer services, or well-publicized security breaches affecting the Internet in general, could significantly harm our business, operating results and financial condition. We cannot be certain that advances in computer capabilities, new discoveries in the field of cryptography, or other developments will not compromise or breach the technology protecting the networks that access our netsourced products, consumer services and proprietary database information.

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

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

- the possibility that we will pay more than the acquired companies or assets are worth;
- the difficulty of assimilating the operations and personnel of the acquired businesses;
- the potential product liability associated with the sale of the acquired companies' products;
- the potential disruption of our ongoing business;
- the potential dilution of our existing stockholders and earnings per share;
- unanticipated liabilities, legal risks and costs;
- the distraction of management from our ongoing business; and
- the impairment of relationships with employees and clients as a result of any integration of new management personnel.

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

### **Government regulations that apply to us or to our customers may expose us to liability, or render our products obsolete.**

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

- federal and state regulation of consumer report data and consumer reporting agencies, such as the Fair Credit Reporting Act, or FCRA;
- regulation designed to insure that lending practices are fair and non-discriminatory, such as the Equal Credit Opportunity Act;
- privacy law, including but not limited to the provisions of the Financial Services Modernization Act of 1999 and the Health Insurance Portability and Accountability Act of 1996;
- regulations governing the extension of credit to consumers and by Regulation E under the Electronic Fund Transfers Act, as well as non-governmental VISA and MasterCard electronic payment standards;
- Fannie Mae and Freddie Mac regulations, among others, for our mortgage services products;
- insurance regulations related to our insurance products; and
- consumer protection laws, such as federal and state statutes governing the use of the Internet and telemarketing.

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

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

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Manager for Medical Bill Review products and Outsourced Bill Review services. Any changes to existing regulation or legislation, new regulation or legislation, or more restrictive interpretation of existing regulation could harm our business, results of operations and financial condition. Some of the legislation and regulation germane to our products and services authorizes private rights of action. Lawsuits pursuant to such legislation or regulation, even if baseless, could expose us to unexpected costs and risks.

Finally, governmental regulation influences our current and prospective clients' activities, as well as their expectations and needs in relation to our products and services. We must appropriately design products and services to function in regulated industries or risk liability to our customers for our products' non-compliance.

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

To develop, install and support our products, including consumer credit, financial services, predictive modeling, decision analysis, intelligence management, credit card fraud control and profitability management, loan underwriting and insurance products, we will require periodic updates of our technologies and models. We must develop or obtain a reliable source of sufficient amounts of current and statistically relevant data to analyze transactions and update our models. In most cases, these data must be periodically updated and refreshed to enable our products to continue to work effectively in a changing environment. We do not own or control much of the data that we require, most of which are collected privately and maintained in proprietary databases. Our 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 or prohibitions or a lack of permission from their own customers, we could lose access to required data and our products might become less effective. In addition, our Decision Manager for Medical Bill Review products use data from state workers' compensation fee schedules adopted by state regulatory agencies. Third parties have previously asserted copyright interests in these data. These assertions, if successful, could prevent us from using these data. Any interruption of our supply of data could seriously harm our business, financial condition or results of operations.

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

A growing portion of our revenues is derived from international sales. During the quarter ended December 31, 2002, approximately 17% of our revenues were derived from business outside the United States. As part of our growth strategy, we plan to continue to pursue opportunities outside the United States. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

- the general economic and political conditions in countries where we sell our products and services;
- incongruent tax structures;
- difficulty in staffing our operations in various countries;
- the effects of a variety of foreign laws and regulations;
- import and export licensing requirements;
- longer payment cycles;
- potentially reduced protection for intellectual property rights;
- currency fluctuations;
- changes in tariffs and other trade barriers; and
- difficulties and delays in translating products and related documentation into foreign languages.

We cannot assure you that we will be able to successfully address each of these challenges in the near term.

Additionally, some of our business will be conducted in currencies other than the U.S. dollar. Foreign currency transaction gains and losses are not currently material to our financial position, results of operations or cash flows. However, an increase in our foreign revenues could subject us to increased foreign currency transaction risks in the future.



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

**Market Risk Disclosures**

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

**Interest Rate Sensitivity**

We maintain an investment portfolio consisting mainly of income securities with an average maturity of less than five years. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our fixed rate investment portfolio at December 31, 2002 and September 30, 2002 (in thousands):

	December 31, 2002			September 30, 2002		
	Cost Basis	Carrying Amounts	Average Yield	Cost Basis	Carrying Amounts	Average Yield
Cash and cash equivalents	\$ 40,423	\$ 40,440	1.25%	\$ 76,195	\$ 76,189	1.66%
Short-term investments	210,647	210,632	1.98%	184,434	184,377	2.39%
Long-term investments	136,593	136,996	2.33%	135,788	136,971	3.27%
	<u>\$387,663</u>	<u>\$388,068</u>	2.03%	<u>\$396,417</u>	<u>\$397,537</u>	2.55%

We are also subject to interest rate risk related to our 5.25% Convertible 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**

Beginning October 2001, we initiated a hedging program to manage our foreign currency exchange rate risk on existing foreign currency receivable and bank balances by entering into forward contracts to sell or buy foreign currency. At period end, foreign-denominated receivables and cash balances held by our U.S. reporting entities are remeasured into the U.S. dollar functional currency at current market rates. The change in value from this remeasurement is then reported as a foreign exchange gain or loss for that period and the resulting gain or loss on the forward contract mitigates the exchange rate risk of the associated assets. All of our forward foreign currency contracts have maturity periods of less than six months. Such derivative financial instruments are subject to market risk.

The following table summarizes our outstanding forward foreign currency contracts, by currency, with contract amounts representing the expected payments to be made under these instruments at December 31, 2002 (in thousands):

	Contract Amount		Fair Value US \$
	Foreign Currency	US \$	
Sell foreign currency:			
British Pound (GBP)	GBP 1,500	\$2,393	\$2,411
EURO (EUR)	EUR 1,000	1,035	1,048
Japanese Yen (YEN)	YEN 30,000	250	253
		<u>\$3,678</u>	<u>\$3,712</u>

**ITEM 4. Controls and Procedures**

Within 90 days prior to the date of this report, an evaluation was carried out under the supervision and with the participation of Fair, Isaac's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Fair, Isaac's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Fair, Isaac's disclosure controls and procedures are effective to ensure that information required to be disclosed by Fair, Isaac in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of that evaluation, there were no significant changes in Fair, Isaac's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies or material weaknesses.

**PART II. OTHER INFORMATION****ITEM 1. Legal Proceedings**

On April 30, 2002, Douglas Tidwell, seeking to act on behalf of a class of all holders of common stock of HNC Software Inc., filed suit in the Superior Court of the State of California, County of San Diego, and named as defendants all of the then current directors of HNC. The complaint alleged, among other things, that HNC's directors breached their fiduciary duties to HNC's stockholders by approving the Agreement and Plan of Merger that HNC entered into with Fair, Isaac on April 28, 2002 and that the individual defendants engaged in self-dealing in connection with the transaction. The complaint sought injunctive relief, including enjoining consummation of the merger transaction with Fair, Isaac, and attorneys' and experts' fees. On July 18, 2002, HNC announced that it had entered into a memorandum of understanding with plaintiff's counsel setting forth the terms of a proposed settlement of the suit. A Stipulation of Settlement implementing the terms of the memorandum of understanding was entered into by the parties and final settlement of the matter was approved by the Court on December 13, 2002. Pursuant to the settlement, the case was dismissed and \$492,000 in attorneys' fees were paid to plaintiff's counsel by Fair, Isaac as successor in interest to HNC, \$390,000 of which was reimbursed by HNC's directors' and officers' insurance carrier.

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

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

Set forth below is information concerning each matter submitted to a vote at the Annual Meeting of Stockholders held on February 3, 2003.

**1. Election of Directors**

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

NOMINEE	FOR	WITHHELD
<b>Mr. A. George Battle</b>	<b>44,385,212</b>	<b>523,442</b>
<b>Mr. Tony J. Christianson</b>	<b>44,250,548</b>	<b>658,106</b>
<b>Mr. Thomas G. Grudnowski</b>	<b>44,366,091</b>	<b>542,563</b>
<b>Mr. Alex W. Hart</b>	<b>43,909,857</b>	<b>998,797</b>
<b>Mr. Philip G. Heasley</b>	<b>43,918,651</b>	<b>990,003</b>
<b>Mr. Guy R. Henshaw</b>	<b>44,459,750</b>	<b>448,904</b>
<b>Mr. David S.P. Hopkins</b>	<b>44,456,749</b>	<b>451,905</b>
<b>Ms. Margaret L. Taylor</b>	<b>43,924,467</b>	<b>984,187</b>

**2. Ratification of Auditors**

The stockholders ratified the appointment of KPMG LLP as the Company's independent auditors for the fiscal year ended September 30, 2003 (with 43,617,683 votes for, 1,275,485 votes against, and 15,486 abstentions).

**ITEM 6. Exhibits and Reports on Form 8-K****(a) Exhibits:**

Exhibit Number	Description
3.1	By-laws of the Company (as amended effective February 3, 2003). Amended to state that the Board consists of eight directors.

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<u>Exhibit Number</u>	<u>Description</u>
10.1	Material Contracts. 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.

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

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

**SIGNATURES**

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

FAIR, ISAAC AND COMPANY, INCORPORATED

DATE: February 11, 2003

By /s/ Kenneth J. Saunders

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

DATE: February 11, 2003

By /s/ Russell C. Clark

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

## CERTIFICATIONS

I, Thomas G. Grudnowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fair, Isaac and Company, Incorporated ;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 11, 2003

/s/ THOMAS G. GRUDNOWSKI

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Thomas G. Grudnowski  
*Chief Executive Officer*

**CERTIFICATIONS — (Continued)**

I, Kenneth J. Saunders, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fair, Isaac and Company, Incorporated ;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 11, 2003

/s/ KENNETH J. SAUNDERS

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Kenneth J. Saunders  
*Chief Financial Officer*

BY-LAWS  
OF  
FAIR, ISAAC AND COMPANY, INCORPORATED  
(as amended effective February 3, 2003)

ARTICLE I

Offices

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

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

ARTICLE II

Stockholders

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

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



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

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

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

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

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

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

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

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

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

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

(1) participate in a meeting of stockholders; and

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

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

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

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

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

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

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

## ARTICLE III

### Board of Directors

3.1 Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the certificate of incorporation. The number of directors which shall constitute the Board of Directors shall be eight (8). Directors need not be stockholders.

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

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

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

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

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

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

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

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

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

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

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

#### ARTICLE IV

##### Committees

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

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

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

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

## ARTICLE V

### Officers

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

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



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

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

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

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

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

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

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

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

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

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

## ARTICLE VI

### Stock

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

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

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

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

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

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

## ARTICLE VII

### Miscellaneous

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

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

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

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

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

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

## AT&amp;T TOWER

## LEASE AGREEMENT

This LEASE AGREEMENT ("LEASE"), made as of this 17th day of January, 2003 between International Centre Limited Partnership, a Minnesota limited partnership ("Landlord"), and Fair Isaac and Company, Incorporated, a Delaware corporation ("Tenant");

## RECITALS

A. Landlord is the owner of the Project (defined below).

B. Pursuant to that certain Lease Agreement dated as of October 23, 2000, as amended by that certain First Amendment to Lease dated as of July 30, 2001 (as amended, the "Prime Lease") Landlord leases to Utility Engineering Corporation, a Texas corporation ("UEC") certain space located on the 30th (such space being referred to herein as the "Sublease 30"), 31st, 32nd and 33rd floors of the Project (collectively referred to herein as the "Sublease Premises"), as more particularly set forth therein.

C. Simultaneously with the execution and delivery of this Lease, UEC is subleasing the Sublease Premises to Tenant pursuant to that certain Sublease Agreement of even date herewith between UEC and Tenant.

D. Tenant desires to lease from Landlord directly the Sublease Premises, together with the approximately 8,753 square feet of rentable area on the 30th floor of the Project (as designated on the floor plan attached hereto as Exhibit A and referred to herein as the "Direct 30") upon the terms and conditions set forth in this Lease.

E. The Sublease Premises and the Direct 30 are collectively referred to herein as the "Premises".

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

1.1 PREMISES: Landlord, subject to the terms and conditions hereof, hereby leases to Tenant and Tenant hereby leases from Landlord the Premises, which are shown crosshatched on the floor plans attached hereto as Exhibit A, containing approximately 71,474 square feet of net rentable area, as determined in accordance with BOMA, located in the building situated at 901 Marquette Avenue, Minneapolis, Minnesota 55402 (the "Building"), which is constructed on land (the "Land") legally described on attached Exhibit B. The Building, the Common Areas and the Land are collectively referred to in this Lease as the "Project", together with the right, in common with others, to use the Common Areas. "BOMA" shall mean the "Standard Method for Measuring Floor Area in Office Buildings", (American National Standard ANSI Z65.1-1996), Approved June 7, 1996 by American National Standards Institute, Inc.) prepared for the Building Owners and Managers Association International. "Common Areas" shall mean that part of the Building which includes any atriums, hallways for use by more than

one tenant, the Building's electrical and mechanical space, loading docks, elevators and elevator lobbies, and restrooms which are outside the premises of any tenant, and that part of the Land which is outside the perimeter of the Building including any parking facilities.

1.2. RIGHT OF FIRST OFFER: Landlord grants to Tenant the option ("RIGHT OF FIRST OFFER") to add to the Premises any portion of the 26th, 27th, 28th and 29th floors ("RIGHT OF FIRST OFFER SPACE") which Landlord elects to offer to a third party.

Landlord shall notify Tenant in writing of its intent to offer the Right of First Offer Space to the public. Landlord's notice shall include the material terms on which Landlord intends to lease the Right of First Offer Space, including Base Rent, Term, Landlord's contribution to Tenant Improvements and the approximate date possession is to be delivered. Tenant shall have ten (10) business days from receipt of Landlord's notice to Tenant to advise Landlord, in writing, that Tenant accepts the Right of First Offer Space, subject to the terms of Landlord's Notice.

Prior to delivery of possession, Tenant shall execute an amendment to this Lease reflecting the addition to the Premises, the additional Base Rent, the change in ratio of the Premises to the Building area and any other revisions necessary because of the Right of First Offer Space being added to the original Premises. All other terms and conditions of this Lease shall apply to the additional premises.

If at the time of the exercise or at any time thereafter until the commencement of the Term as to the Right of First Offer Space, there exists a Tenant Default (as defined in Section 14.1), Tenant will have no right to exercise its option as to the relevant Right of First Offer Space and/or to lease such Right of First Offer Space.

Tenant's rights as of the date hereof, under this section 1.2 as it relates to the 26th through 29th floors shall at all times be subordinate to the rights of AT&T Corp. and NRG Energy, Inc.

1.3 EXPANSION OPTION: Tenant is hereby granted the right (the "Expansion Right") to expand the Premises to incorporate the 29th floor of the Project (approximately \_\_\_\_\_ square feet of rentable area) (the "Expansion Space") into the Premises in accordance with the provisions set forth in this Section 1.3.

EXERCISING RIGHTS AND LANDLORD'S NOTICE: If Tenant desires to exercise the Expansion Right Tenant must give Landlord written notice thereof on or before September 1, 2005, and if Tenant does not deliver its written notice to Landlord on or before such date, Tenant will have waived its right to acquire the Expansion Space pursuant to the Expansion Right. Landlord will deliver the Expansion Space on June 1, 2006 and immediately upon such delivery, the Expansion Space will become a part of the Premises, and shall thereafter be subject to the same terms and conditions of the Lease as if the Expansion Space had originally been part of the Premises. Tenant's obligation to pay Base Rent for the Expansion Space will commence on the earlier of (a) 90 days after the date on which Landlord delivers the Expansion Space to Tenant in the condition required by this Lease, or (b) the date on which Tenant commences conducting its business operations in the Expansion Space. Upon the request of either party, Landlord shall prepare an amendment, in form and substance reasonably acceptable to Tenant, evidencing the addition of the Expansion Space to the Premises.

BASE RENT, ACCEPTANCE AND EXPANSION ALLOWANCE: Tenant shall accept the Expansion Space in "as is" condition. Base Rent for the Expansion Space will be

equal to FAIR MARKET RENT as defined in Section 37.3. Tenant will be permitted to gain access to the respective Expansion Space on June 1, 2006 for the purpose of constructing Tenant Improvements therein. Landlord will not be entitled to any fees for reviewing Tenant's plans or supervising Tenant's construction of the improvements to the Expansion Space.

2. TERM: The term of this lease (the "Term") shall commence on February 1, 2003 and continue thereafter until August 31, 2014.

2.1 RENEWAL TERM: Tenant shall have two (2) options to extend the Term ("Renewal Term") for periods of five (5) years each. Tenant shall provide Landlord written notice to exercise each option not less than eighteen months in advance of the expiration of the then existing Term. Base Rent during each Renewal Term shall be Fair Market Rent, as defined in Section 37 of this Lease.

3. ANNUAL BASE RENT: Tenant agrees to pay to Landlord during the Term an annual Base Rent (the "Base Rent") as follows:

Portion of Premises -----	Period -----	Annual Rent per Square Foot of Rentable Area -----
Floors 31, 32, 33	2/1/03-8/31/11 9/1/11-8/31/14	\$10.70 Fair Market Rent
Sublease 30	2/1/03-6/30/07 7/1/07-8/31/14	\$10.70 Fair Market Rent
Direct 30	2/1/03-6/30/07 7/1/07-8/31/14	\$7.50 Fair Market Rent

payable on the first day of each month in advance, without deduction or setoff of any kind, to Landlord and delivered to Landlord's managing agent, Ryan Properties, Inc., 50 South 10th Street, Suite 300, Minneapolis, Minnesota 55403, or at such other place as may from time to time be designated by Landlord.

Notwithstanding anything in this Section 3 to the contrary, Tenant's payment of the rent payable by Tenant with respect to the Sublease Premises pursuant to the Sublease shall be deemed to be payment in full of the Base Rent and Operating Costs with respect to the Sublease Premises under this Lease.

In each case where Base Rent is to be "Fair Market Rent", Landlord and Tenant shall endeavor to agree upon Fair Market Rent at least twelve (12) months prior to date on which such adjustment is to occur (it being agreed that both Landlord and Tenant will be reasonable in their attempt to determine Fair Market Rent). In the event the parties are unable to agree on the Fair Market Rent by such time, either party may provide written notice to the other party requesting arbitration (Arbitration Request) as outlined in Section 37.

4. USE: Tenant shall only use the Premises for general office purposes and all legal uses incidental thereto and for no other purpose without Landlord's prior written consent.

5. OPERATING COSTS: Subject to Section 3 above, Tenant shall pay to Landlord as an item of Additional Rent, without any setoff or deduction therefrom except as permitted by



this Lease, Tenant's Proportionate Share of Operating Costs incurred by Landlord with respect to the Building. Tenant's Proportionate Share being the decimal equivalent of a fraction, the numerator of which is 71,474 and the denominator of which is 610,154 (i.e., 11.7140%).

5.1 DEFINITION OF OPERATING COSTS: "Operating Costs" include all reasonable expenses and reasonable costs (but not specific costs which are separately billed to and paid by individual tenants) of every kind and nature which Landlord pays or becomes obligated to pay because of, or in connection with, the operation or maintenance of the Project and supporting facilities of the Project, including but not limited to all real estate taxes and annual installments of special assessments which are assessed, levied, charged, confirmed or imposed by any public authority (excluding any interest or penalty for late payment) upon the Project, its operations or the Rent provided for in this Lease (provided, however, that real estate taxes and special assessments attributable to the Building's parking structure will be excluded from Operating Costs), reasonable costs of any contest of such taxes, including reasonable attorneys' fees, to the extent taxes are reduced as a result of contest; management fees not in excess of four percent (4%) of gross Building rental amounts, insurance premiums (provided, however, that liability insurance premiums attributable to the Building's parking structure will be excluded from Operating Costs), the cost of supplying electricity to the Building's parking structure, and utility costs, janitorial costs, Building security costs, costs of wages (including, without limitation, the reasonable cost of overtime wages necessary to perform those items of maintenance and repair work generally performed by other landlords in the Minneapolis downtown office district on an overtime basis in order to minimize inconvenience to tenants), Project repair and maintenance costs, including those which incidentally benefit the Building's parking structure (such as sump pump maintenance and maintenance of the ventilation system serving the parking structure); and all other reasonable costs of any nature whatsoever which for federal tax purposes may be expensed rather than capitalized. Tenant shall not be responsible for any increase in real estate taxes which results solely from the creation of additional rentable area on the Land or in the Building or from improvements or alterations made by Landlord or other tenants unless Tenant's Proportionate Share shall be adjusted accordingly. Costs which would under generally accepted accounting principles be deemed capital costs or capital expenditures may be included in the definition of "Operating Costs" only to the extent that such cost: (i) relates to an expenditure which is required to comply with changes in Legal Requirements, as defined in Section 32, which occur after the Commencement Date but then only to the extent in any one year of the amount equal to the total expenditure divided by the useful life of the improvement which requires such cost, or (ii) relates to an expenditure which is incurred based upon a reasonable forecast that such expenditure will reduce in future years another cost which would be deemed an Operating Cost but then only to the extent in any one year of the originally estimated amount of savings for the year it is charged.

5.2 EXCLUSIONS FROM OPERATING COSTS: Operating Costs shall exclude the following:

A. With respect to employees primarily engaged in the development, marketing, leasing or collection of debts related to the Project, no portion of those employees' wages, benefits, or taxes allocable to time spent on those activities will be included in Operating Costs;

B. Depreciation or amortization of the Building or its contents or components;

- C. Expenses for the preparation of space or other work which Landlord performs for any other tenant or prospective tenant of the Building;
- D. Expenses for repairs or other work which is caused by fire, windstorm, casualty or any other insurable occurrence (except costs up to \$25,000 which are subject to Landlord's insurance deductible), and any cost for any commercial general liability insurance coverage with minimum limits in excess of those generally maintained by other landlords of similar buildings located in the Minneapolis downtown office district;
- E. Expenses incurred in leasing or obtaining new tenants or retaining existing tenants, including leasing commissions, legal expenses, advertising or promotion;
- F. Legal expenses incurred in enforcing the terms of any lease;
- G. Interest, amortization or other costs, including legal fees, associated with any mortgage, loan or refinancing of all or any part of the Project or sale of all or any part of the Project;
- H. Expenses incurred for any necessary replacement of any item to the extent that it is covered under warranty;
- I. The cost of any item or service for which Tenant separately reimburses Landlord or pays to third parties, or that Landlord provides selectively to one or more tenants of the Building whether or not Landlord is reimbursed by such other tenant(s). This category shall include the actual cost of any special electrical, heating, ventilation or air conditioning (the heating, ventilation and air conditioning systems are referred to as "HVAC") required by any tenant that exceeds normal building standards or is required during times other than the Business Hours, as defined in Section 7(B), and the cost of any special purpose HVAC supplied to any tenant. This category shall also include the cost of light tubes, bulbs, fixtures and ballasts supplied to tenants if the same are not supplied to all tenants on a no additional cost basis;
- J. Accounting and legal fees relating to the ownership, construction, leasing or sale of the Project; and accounting and legal fees paid or imputed to full time employees of Landlord or any management agent;
- K. Any interest or penalty incurred due to Landlord's late payment of any Operating Cost;
- L. Any amount paid to an entity or individual related to Landlord which exceeds the amount which would be paid for similar goods or services on an arms-length basis between unrelated parties;
- M. The cost of correcting defects in the construction of the Building;
- N. The initial cost or the replacement cost of any permanent landscaping, greater than that in place on the Commencement Date;
- O. Any ground rent, air space rent or other rent incurred for the Land;

P. The cost of correcting any applicable building or fire code violation(s) or violation(s) of any other applicable law relating to the Building in effect on the Commencement Date;

Q. Any costs incurred to test, survey, cleanup, contain, abate, remove or otherwise remedy Hazardous Substances, as defined in Section 29, from the Project which were present at the Project prior to the Commencement Date or brought onto the Project after the Commencement Date, including any damages or future claims asserted against Landlord in connection with the same; provided, however, that Landlord's routine costs incurred in cleaning up and disposing of materials which are used in the ordinary operation of the Project, such as copier toner or fluorescent light bulbs and which may be classified as Hazardous Substances, may be included as Operating Costs;

R. Any personal property taxes of Landlord for equipment or items not used directly in the operation or maintenance of the Project;

S. Rentals and other related expenses, if any, incurred in leasing items to the extent that the cost of the purchase of that item would not be included as a permitted capital expenditure hereunder; provided, however, that Landlord may include the cost of leasing items which are used solely in connection with the Project and typically leased and not purchased by landlords of similar buildings located in the Minneapolis downtown office district;

T. Any costs or expenses for sculpture, paintings, or other works of art, including costs incurred with respect to the purchase, ownership, leasing, repair and/or maintenance of such works of art; provided, however, that Landlord may include as an Operating Cost its routine and ordinary cleaning of these items but that cleaning does not include any restoration, special preservation, special maintenance, or similar activities;

U. Contributions to Operating Cost reserves if such reserves will not be used during the calendar year in which such reserve is created;

V. Overtime or other extraordinary labor expenses except as permitted by Section 5.1;

W. All expenses directly resulting from the negligence or willful misconduct or omissions of Landlord, its agents, servants or other employees;

X. All bad debt loss, rent loss or reserve for bad debt or rent loss;

Y. Any other cost or expense which, under generally accepted accounting principles consistently applied, would not be considered to be an operating cost of the Project;

Z. Any additional costs incurred to operate or maintain the Building, or costs directly incurred by Landlord, for tenants operating food service, child care or retail businesses in the Building;

AA. Real estate taxes and special assessments and liability insurance premiums attributable to the Building's parking structure; and

BB. If Landlord at any time self-manages the Building's parking structure, the cost of the Building parking structure maintenance which is, as of the Effective Date, performed by, or paid for by, Allied Parking, Inc. and not Landlord.

5.3 ESTIMATION AND RECONCILIATION OF OPERATING COSTS: As soon as reasonably practicable prior to the commencement of each calendar year during the Term, Landlord shall furnish to Tenant an estimate of Operating Costs for the ensuing calendar year and Tenant's Proportionate Share thereof. Tenant shall pay, as Additional Rent hereunder, together with each installment of Base Rent, one-twelfth (1/12th) of its estimated annual Proportionate Share of Operating Costs. As soon as reasonably practicable after the end of each calendar year during the Term but in no event later than 120 days after the end of each calendar year during the Term, Landlord shall furnish to Tenant a statement of the actual Operating Costs for the previous calendar year, including Tenant's Proportionate Share of Operating Costs, and within 30 days thereafter Tenant shall pay to Landlord, or Landlord shall credit to the next Rent payments due Landlord from Tenant, as the case may be, any difference between the actual Operating Costs and the estimated Operating Costs paid by Tenant. Within 30 days after the expiration or earlier termination of the Term, Tenant shall pay to Landlord, or Landlord shall pay to Tenant, any difference between the actual Operating Costs and the estimated Operating Costs paid by Tenant for the last year of the Term. Tenant's Proportionate Share of Operating Costs for the years in which this Lease commences and terminates shall be prorated by multiplying the actual Operating Costs by a fraction the numerator of which is the number of days of that year of the Term and the denominator of which is 365. Notwithstanding any other provision herein to the contrary, it is agreed that in the event that the Building is not fully occupied at any time during the Term, an adjustment shall be made in computing those Operating Costs which fluctuate due to Building occupancy for such year so that the Operating Costs will be computed for such year as though the Building had been fully occupied during that year. The Operating Costs and the books and records of Landlord may, on reasonable prior notice to Landlord, be audited by Tenant or Tenant's independent public accounting firm during Business Hours. Tenant will not compensate its independent public accounting firm for these audits on a contingent fee basis. If Tenant challenges Landlord's computations of the Operating Costs or Additional Rent, Tenant shall give Landlord notice stating Tenant's objections. Any such objection shall be made within one year after receipt of Landlord's statement pursuant to this Section 5.3 or be deemed waived; provided, however, that if Tenant's audit discloses that Tenant was overcharged for Additional Rent three percent (3%) or more of the amount Tenant should have paid, Tenant may, upon written notice (the "Additional Audit Notice") given to Landlord within 60 days after Tenant's receipt of the final audit results for the present audit, audit the Operating Costs and the books and records of Landlord for the two calendar years prior to the year for which Tenant conducted the present audit. If Tenant fails to give the Additional Audit Notice within the 60-day period, Tenant will be deemed to have waived its additional audit rights with respect to such two calendar years. If Tenant's audit of the Operating Costs or Additional Rent indicates that Tenant was overcharged for Additional Rent, Landlord shall, subject to Landlord's right to submit the matter to arbitration under Section 52, promptly repay all such overpayment to Tenant and adjust Tenant's estimated payments of Operating Costs if necessary. In event of any such arbitration, any over-payment shall be repaid to Tenant within 10 days after such arbitration is completed. If Tenant's audit of the Operating Costs for any year indicates that Tenant was overcharged for Additional Rent three percent (3%) or more of the amount Tenant should have paid, Landlord shall promptly reimburse Tenant for Tenant's reasonable expenses and fees incurred for the audit. Should Landlord dispute Tenant's or Tenant's auditors' determination, the dispute shall be resolved by arbitration in accordance with Section 37.

5.4 REAL ESTATE TAX CONTESTS: Landlord shall, after written notice from Tenant, contest any real estate tax assessment for any year during the Term. If Landlord shall fail or refuse to contest a real estate tax assessment requested by Tenant, then Tenant may bring appropriate proceedings in Landlord's and/or Tenant's name for contesting any assessment for any tax year during the Term. The net amount of real estate taxes recovered as a result of such proceedings, whether commenced or paid for by Landlord or Tenant (e.g., the amount recovered after payment of all sums necessary to attain such recovery), will be shared between Landlord and Tenant with Tenant receiving Tenant's Proportionate Share thereof. If Tenant contests any real estate tax assessment, it will reimburse Landlord for Landlord's reasonable costs incurred in connection with Tenant's contest, including any increase in the Project's real estate taxes. Landlord and Tenant shall cooperate with each other with respect to the proceedings so far as is reasonably necessary.

6. ADDITIONAL TAXES: Tenant shall pay as additional rent to Landlord, together with each installment of Base Rent, the amount of any gross receipts tax, sales tax or similar tax, or any tax imposed in lieu of real property taxes (but excluding therefrom any income tax), or arising out of ownership, payable or which will be payable by Landlord, by reason of the receipt of the Base Rent and adjustments thereto.

7. LANDLORD'S SERVICES: So long as Tenant performs each and every covenant to be performed by Tenant hereunder, Landlord agrees that Tenant may quietly enjoy the Premises in accord with the provisions hereof and that Landlord shall provide the following services ("Landlord's Services"):

A. HVAC. Furnish HVAC services in accordance with the criteria set forth on attached Exhibit E during Business Hours. If heat generating machines or equipment are used in the Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord, at the request of Tenant, shall install supplementary air conditioning equipment in the Premises, if such installation is deemed practical in the sole judgment of Landlord, and the cost of any such equipment, together with the cost of installation, operation and maintenance thereof (including all utility costs incurred in connection therewith) shall be paid by Tenant to Landlord as Additional Rent, together with each monthly installment of Base Rent, at such rates as are reasonably determined by Landlord. Any such equipment may be removed by Tenant upon the expiration or earlier termination of this Lease and, if requested by Landlord in writing, will be removed by Tenant upon the expiration or earlier termination of this Lease.

B. Elevators. Provide passenger elevator service in common with others at all times. Further, to provide freight elevator service in common with others Monday through Friday from 8:00 A.M. to 6:00 P.M., and Saturday from 8:00 A.M. to 1:30 P.M., Minnesota and Federally recognized holidays excepted (the "Business Hours").

C. Janitorial. Provide the janitorial services identified on attached Exhibit H on a daily basis in and about the Premises in a manner which is reasonably acceptable to Tenant.

D. Maintenance, Repair and Replacement. Maintain, repair, replace and keep in good repair, ordinary wear and tear excepted, the Building's foundations, electrical, mechanical and HVAC systems, exterior walls, Common Areas and roof, including roof membrane; provided, however, if the need for repairs is directly or indirectly attributable to, or results from, any Tenant activity being conducted within the Premises, Tenant

agrees to reimburse Landlord for all reasonable costs and expenses incurred by Landlord with respect to those repairs except to the extent covered by insurance. Landlord shall commence, and diligently pursue until completion, any repairs it is required to do hereunder within a reasonable period of time after receiving written notice from Tenant of the necessity for such repairs. Landlord's obligations hereunder shall be subject to the provisions of Sections 10 and 11.

E. Water. Provide water for drinking, lavatory and toilet purposes drawn through fixtures installed by Landlord at such points of supply provided for general use of other tenants in the Building.

F. Electricity. Provide electricity to the Premises for normal lighting and operation of small business office equipment (but not equipment using amounts of power in excess of that for which the Premises are presently designed and rated). In the event that additional utilities are required by Tenant, all actual costs for those additional utilities, including additional conduits, separate meters and service, will be paid by Tenant. Tenant shall use its best efforts to conserve electricity.

G. Window Coverings. Provide interior window coverings, at Landlord's own expense, of a venetian or similar type blind for exterior windows. Tenant, with Landlord's prior written consent and so long as such drapes or coverings are in harmony with the exterior and interior appearance of the Building and create no unreasonable safety or fire hazard, may install drapes or other window coverings to the inside of said blinds at Tenant's own expense (and if installed shall maintain them in an attractive and safe condition).

H. Premises Keys. Furnish Tenant with two keys for each corridor door entering the Premises, and, upon Tenant's request and at Landlord's actual cost, additional Premises' keys. All such keys will remain the property of Landlord. Except for Tenant's security system discussed below, no additional locks will be allowed on any door of the Premises without Landlord's written consent, and Tenant shall not make or permit to be made any duplicate keys. Tenant may, at Tenant's sole expense and upon notice to, but without the consent of, Landlord, install an electronic security card lock system within the Premises. Tenant will deliver a reasonable number of key cards to Landlord so that Landlord may gain access to the Premises as permitted by Section 8(B). Tenant will be permitted to change the security card codes on this system at any time and from time to time and Tenant will, as soon as reasonably possible after a change, deliver replacement key cards to Landlord. Upon the expiration or earlier termination of this Lease, Tenant shall surrender to Landlord at the address then provided for the payment of Rent all access cards and keys to the Premises, and give to Landlord the combination of all locks for safes, safe cabinets and vault doors, if any, in the Premises.

I. Building Monitoring. At least one employee or agent of Landlord will be present, subject to temporary absence for the purpose of inspecting the Project or responding to calls, in the first floor lobby 24 hours per day, seven days per week, for the purpose of monitoring the Project and access thereto.

J. Access. Access to and egress from the Building, the Premises and the

Common Areas, twenty four (24) hours per day, seven (7) days per week. Notwithstanding the immediately preceding sentence to the contrary, Landlord may temporarily restrict access to (i) the Building, the Premises and the Common Areas in the event of an emergency but only for so long as the emergency exists, and (ii) upon reasonable prior written notice to Tenant, the Common Areas of the Building for planned tenant events, such as holiday parties, but such restriction will not unreasonably interfere with Tenant's access to and egress from the Premises, other Common Areas or the other portions of the Building.

K. Landlord's Insurance. Landlord shall maintain in full force and effect during the Term (i) "all risk" commercial property insurance coverage (including coverage for Initial Alterations) in the amount of the full replacement value thereof, as the value may exist from time to time; (ii) boiler and machinery insurance; (iii) commercial general liability insurance, including contractual liability, on an occurrence basis with minimum limits of not less than \$5,000,000.00 per occurrence and in the aggregate for injuries, losses, claims or damages to persons or property and contractual liabilities occurring in or on the Building and the Land, and due to the negligence of Landlord and its employees; and (iv) worker's compensation and employer's liability for all of Landlord's employees. Landlord's insurance shall be issued by insurance companies qualified to do business in the State of Minnesota, with a general policyholder rating of at least A- and a financial rating of at least VIII as noted in the most current Best's Insurance Guide and Key Ratings, (or an equivalent rating by another widely recognized insurance rating agency of similar standing.) Landlord's liability insurance shall name Tenant as an Additional Insured and shall provide for a waiver of subrogation in favor of Tenant. Prior to the Commencement Date and throughout the Term, Landlord shall provide Tenant with certificate(s) of insurance evidencing the amounts and types of coverage described above with a 30 day (10 day for premium non-payment) notice of cancellation to Tenant. The limits of coverages required in (iii) and for employer's liability may be provided in combination with umbrella coverage. Evidence of such policies of insurance may be in the form of an ISO ACORD form Certificate of Insurance, or its equivalent, filed with Landlord prior to Tenant's occupancy of the Premises and at all times thereafter during the Term. In addition, Landlord will cause its contractors to maintain in full force and effect commercial general liability coverage, worker's compensation and employer's liability, with minimum limits acceptable to Landlord; such coverages shall be written by insurance companies qualified to do business in the State of Minnesota with a minimum rating of A- and VIII according to Best's Insurance Report.

L. Fire, Life, Safety. Landlord shall maintain the life safety and security systems and shall comply with all applicable requirements of all governmental authorities having or claiming jurisdiction over the Project, including, without limitation, the Minneapolis Fire Department. Landlord shall, upon Tenant's written request, provide Tenant a written emergency evacuation plan for the Building complying with the requirements of all governmental authorities having or claiming jurisdiction over the Project, including, without limitation, the Minneapolis Fire Department.

7.1 REQUEST FOR ADDITIONAL LANDLORD'S SERVICES: Tenant shall have the right to request any or all of the Landlord's Services outside of Business Hours, and the same shall be supplied on advance notice. If more than one tenant requests these services and directly benefits from these services, then the cost of providing the Landlord's Services during non-Business Hours shall be allocated proportionately between or among the benefiting tenants based on the amount of time each

tenant benefits and the square footage of each tenant's premises. The cost for these additional services shall, in no event, exceed Landlord's actual costs. After hour HVAC costs will be computed in accordance with the formula set forth on attached Exhibit E.

7.2 INTERRUPTION OF LANDLORD'S SERVICES: Rent is based in part on the Landlord's Services. If, for any reason, Landlord does not provide any Landlord's Services in the manner described in this Lease for more than three business days following notice from Tenant of a failure, interruption or reduction, all Rent shall be abated on a per diem basis for the period of interruption beginning with the date the failure, interruption or reduction in those Landlord's Services began and ending when those Landlord's Services are fully restored; provided, however, if Tenant is, or reasonably could be, conducting business in all or any part of the Premises during the period of the failure, interruption, or reduction the Rent will abate pro rata based upon the amount of space and the level at which Tenant is, or reasonably could be, conducting business. If those Landlord's Services are not provided for more than 30 consecutive days, Tenant will have the right, after an additional 10 days' notice to Landlord during which Landlord does not restore those Landlord's Services, to take such actions as Tenant may reasonably deem necessary to restore those Landlord's Services and charge the cost thereof to Landlord. If Landlord fails to pay, within 30 days after receipt of Tenant's invoice for those costs, the amount due, Tenant may offset the amount set forth on the invoice against installments of Rent due hereunder. If those Landlord's Services are not provided for more than 60 consecutive days and such interruption in Landlord's Services is not caused by a fire or other casualty subject to the provisions of Section 10, then Tenant may by notice to Landlord terminate this Lease.

8. COVENANTS OF TENANT: Tenant agrees that it shall:

A. Laws. To the extent not Landlord's responsibility under this Lease, observe and comply in all material respects with all governmental ordinances, laws and regulations and the Rules and Regulations attached hereto as Exhibit I, and all reasonable and nondiscriminatory modifications thereof as from time to time may be put in effect by Landlord, or Landlord's designated managing agent, for the general safety, comfort, and convenience of Landlord, occupants and tenants of the Building, including, without limitation, use of Common Areas and other Building areas, security measures, and similar matters.

B. Landlord's Access. Give Landlord and Landlord's managing agent access to the Premises, at any time during emergencies and at all reasonable times upon 24 hours prior notice and, at Tenant's election, with an escort identified by Tenant, without charge or diminution of Rent, to enable Landlord to examine or exhibit the same and to make such inspections and repairs as Landlord deems necessary, or to make such inspections, repairs, alterations or additions as may be required to be made by Landlord under this Lease or by law. If Tenant desires that an escort accompany Landlord or its agent during any such entry, Tenant will make an escort available to Landlord. Landlord will be permitted to enter the Premises unaccompanied by an escort if Tenant is unable to make an escort available after receipt of Landlord's notice required under this Section 8(B). Landlord will comply with reasonable directions or rules communicated by Tenant from time to time to assure the confidentiality of Tenant's and Tenant's customer's data and materials on the Premises.

C. Good Condition and Repair. To the extent not Landlord's responsibility



under this Lease, keep the Premises in good order and condition; Tenant shall be responsible for payment of all costs incurred by Landlord in replacing all glass broken by Tenant with glass of the same quality, and Tenant shall commit no waste on the Premises.

D. Lamps and Ballasts. Pay for all replacement electric lamps and ballasts in the Premises.

E. Surrender of Premises. Upon the expiration or earlier termination of this Lease, remove Tenant's personal property and those of any other person claiming under Tenant, and quit and deliver up the Premises to Landlord peaceably and quietly in as good order and condition as the same are in on the Commencement Date or thereafter were put in by Landlord or Tenant, reasonable use, wear and damage by casualty excepted. Personal property not removed by Tenant at the expiration or earlier termination of this Lease will be considered abandoned, and Landlord may dispose of the same as it deems expedient at Tenant's expense. Tenant shall be responsible for payment of all reasonable costs incurred by Landlord for any restoration of the Premises needed by virtue of the removal of Tenant's personal property whether removed by Tenant or Landlord.

F. Voice/Data Lines. Remove any or all voice/data lines installed by or for Tenant within or serving the Premises, including riser closet, upon the termination of this Lease, provided Landlord gives Tenant notice prior to, or within thirty (30) days following such termination

G. Assignment and Subletting. Tenant, on notice to Landlord (but without Landlord's consent), may assign this Lease or sublet all or part of the Premises to any of Tenant's Affiliates. "Tenant's Affiliates" means any company controlling, controlled by or under common control with Tenant, as well as any entity acquiring all or substantially all of Tenant's assets or common stock. In no circumstances shall the original Tenant be released from its obligations under this Lease. A transfer of an ownership interest in Tenant is not an assignment of this Lease, but Tenant shall give Landlord notice of any such transfer which results in a change in control of Tenant. Tenant shall not otherwise assign this Lease or sublet all or any part of the Premises voluntarily, involuntarily or by operation of law, without first obtaining Landlord's written consent thereto, which consent shall not be unreasonably withheld, delayed or conditioned and will be deemed granted unless denied in writing by Landlord within 10 days after Tenant's delivery of its consent request to Landlord. Any such assignee or sublessee shall assume in writing the performance of the covenants and obligations of Tenant hereunder. Tenant shall deliver to Landlord a fully executed copy of any assignment or sublease. No assignment or sublease will release Tenant from the payment and performance of any of its obligations under this Lease. Notwithstanding any other provision of this Section 8(F), so long as AT&T Communications, Inc. or any entity controlling, controlled by or under common control with AT&T Communications, Inc. (collectively, "AT&T") is a tenant in the Building, Tenant will not, without the prior written consent of Landlord, sublease the Premises or assign this Lease to any party that Landlord reasonably determines to be in direct competition with AT&T. For purposes of the immediately preceding sentence, the "primary business" of AT&T is the manufacture and sale of telecommunications equipment and data processing and typewriting equipment and interexchange telecommunications services.

H. Increase Risk. Not overload, damage or deface the Premises, the Building or the Project or do any act which may make void or voidable any insurance on the Premises, the Building or the Project, or which may render an increased or extra premium payable for insurance. Landlord represents and warrants that Tenant's use of the Premises for general office purposes and legal uses incidental thereto will not void or make voidable any insurance on the Premises, the Building or the Project, or result in an increased or extra insurance premium for the Premises, the Building or the Project.

I. ACM. Not install asbestos or any asbestos containing material within the Premises or the Building.

J. Mechanic's Liens. Keep the Premises and the Building free from any mechanics', materialmen's, contractors' or other liens arising from, or any claims for damages growing out of, any work performed, materials furnished or obligations incurred by or on behalf of Tenant. If a lien is claimed, Tenant shall either cause it to be removed or contested within 30 days after notice from Landlord to do so. If Tenant fails to remove or contest the lien within the 30-day period, Landlord may take such action as it deems necessary to remove the lien, and the entire cost to Landlord in removing the lien will immediately be due and payable by Tenant to Landlord. If Tenant contests the lien, it will do so at its expense and will indemnify Landlord against any claim, loss, demand and reasonable legal expense relating to any labor or material furnished to the Premises at the request or direction of Tenant. If Tenant elects to contest the lien, it must promptly notify Landlord and Landlord may elect by written notice to Tenant to require Tenant to either (a) post a bond or a letter of credit for the benefit of Landlord, the form and issuer of which bond or letter of credit will be subject to the reasonable approval of Landlord and the amount of which bond or letter of credit will equal not less than 110% of the amount of the lien, or (b) provide Landlord with such other reasonable assurances or security as may be required by Landlord, in its sole discretion, to protect Landlord against the loss of any interest in the Project. If required under any mortgage on the Land, or in connection with any prospective mortgage or sale of the Land, Tenant will at Landlord's request either remove the lien or make arrangements reasonably satisfactory to the mortgagee or prospective mortgagee or purchaser to insure the removal of the lien. If the lien is reduced to final judgment, Tenant will discharge the judgment.

K. Tenant's Insurance. Maintain at Tenant's expense at all times during the Term (i) a policy or policies of public liability insurance with respect to the Premises and the business of Tenant, with limits of not less than \$5,000,000 combined single limit; and (ii) a policy or policies of all risk insurance insuring Tenant's leasehold improvements, trade fixtures and other personal property for the full insurable value thereof. All such insurance policies shall be placed with companies authorized to do business in the State of Minnesota, provide for at least 30 days' (10 days' for premium non-payment) prior written notice to Landlord before cancellation or amendment, name Landlord as an Additional Insured thereon and provide for a waiver of subrogation in favor of Landlord. Evidence of such policies of insurance may be in the form of an ISO ACORD form Certificate of Insurance, or its equivalent, filed with Landlord prior to Tenant's occupancy of the Premises and at all times thereafter during the Term. Tenant's insurance shall be issued by insurance companies authorized to do business in the State of Minnesota, with a general policyholder rating of at least A- and a financial rating of at least VIII as noted in the most current Best's Insurance Guide and Key Ratings (or an equivalent rating by another widely recognized insurance rating agency of similar standing).

Tenant's obligations under this Section 8 to do or not to do a specified act shall extend to and include Tenant's obligation for all conduct of Tenant's employees, agents and invitees.

9. TENANT'S ALTERATIONS: Tenant may, without Landlord's consent, make improvements, additions, installations, decorations and changes to the Premises which do not adversely affect structural components or the HVAC system in a material manner, the cost of any one of which shall not exceed \$10,000.00 and all of which in any twelve-month period shall not exceed \$100,000.00 ("Permitted Alterations"). Tenant may make any other alterations to the Premises, including internal stairwells between the floors occupied by Tenant, with Landlord's prior written consent, which will be deemed granted unless Landlord objects to that alteration within 10 days after Tenant delivers Tenant's request for Landlord's consent. Tenant agrees to retain an engineer reasonably approved by Landlord to review any Premises stairwell designs. All improvements, additions, installations, decorations, and changes will become Landlord's property on completion and Tenant will not be required to, but Tenant may, remove any improvements, additions, installations, decorations, or changes prior to, or upon, the expiration or earlier termination of this Lease.

10. CASUALTY LOSS: If the Premises or the Building are totally destroyed by fire or any other casualty, this Lease shall automatically terminate as of the date of such destruction. If the Building, the Common Areas or the Premises are damaged to the extent that the same are untenable, as mutually agreed to by Landlord and by Tenant, and cannot, in the opinion of a licensed architect selected by Landlord, be repaired within 270 days after that casualty, either Landlord or Tenant may terminate this Lease as of the date of that casualty by notice to the other within 30 days after that casualty. If the Building, Common Areas or Premises are damaged by a casualty and this Lease is not terminated as aforesaid, the damage shall be promptly repaired by, and at the sole cost of, Landlord. If Landlord shall be obligated to repair, but repair is not be completed within 300 days after the casualty, subject to Force Majeure, Tenant will again have the right to terminate this Lease if Landlord fails to complete those repairs within 30 days after notice from Tenant given after that 300-day period. Until those repairs and restorations are completed, all Rent shall be abated in proportion to the portion of the Premises or the Common Areas which are untenable or inaccessible by Tenant in the conduct of its business by virtue of the casualty. If any such damage causes any portion of the Premises or the Common Areas to become unusable or inaccessible by Tenant in the conduct of its business during the last six months of this Lease, either Landlord or Tenant may, on 30 days' written notice to the other, terminate this Lease.

11. CONDEMNATION: If the entire Premises or the Project are taken under power of eminent domain (which shall include the exercise of any similar governmental power or any purchase or other acquisition in lieu thereof), this Lease shall automatically terminate as of the date of taking, which shall be the date Tenant is required to yield possession thereof to the condemning authority. If a substantial portion of the Land, the Building, the Premises or the Common Areas is taken under power by eminent domain, Landlord or Tenant may terminate this Lease as of the date of taking by giving written notice thereof to the other within 30 days after the date of that taking. If neither party elects to terminate this Lease, Landlord shall, at its expense, restore or cause to be restored the Project, exclusive of any improvements or other changes made therein by Tenant other than the Initial Alterations, to as near the condition which existed immediately prior to the date of taking as reasonably possible, and to the extent that the Premises are rendered untenable, the Rent shall proportionately abate. All damages awarded for a taking under the power of eminent domain shall belong to and be the exclusive

property of Landlord, whether such damages be awarded as compensation for diminution in value of the leasehold estate hereby created or to the fee of the Premises; provided, however, that nothing shall restrict or limit Tenant from asserting a separate claim, which will not diminish Landlord's award, for damages resulting from the taking, including those related to any unamortized leasehold improvements paid for by Tenant, the interruption of Tenant's business, Tenant's moving expenses or Tenant's trade fixtures and equipment

12. DELAY IN POSSESSION: If the Premises shall on the scheduled date of commencement of the Term not be ready for occupancy by the Tenant due to the possession or occupancy thereof by any person not lawfully entitled thereto, or because construction has not yet been completed, or by reason of any building operations, repair or remodeling to be done by Landlord, Landlord shall use due diligence to complete such construction, building operations, repair or remodeling and to deliver possession of the Premises to Tenant. Landlord, using such due diligence, except as expressly provided for in this Section, shall not in any way be liable for failure to obtain possession of the Premises for Tenant or to timely complete such construction, building operations, repair or remodeling, but the Base Rent and Additional Rent (as defined in Section 31 below) payable by Tenant hereunder shall abate until the Premises shall, on Landlord's part, be ready for the occupancy of Tenant, this Lease remaining in all other respects in full force and effect and the Term not thereby extended.

13. LIABILITY AND INDEMNITY: Except for Landlord's negligence, Landlord shall not be responsible or liable to Tenant for any loss or damage (i) that may be occasioned by or through the acts or omissions of persons occupying any part of the Building or any persons transacting any business in or about the Building or persons present in or about the Building for any other purpose or (ii) for any loss or damage resulting to Tenant or its property from burst, stopping or leaking water, sewer, sprinkler or steam pipes or plumbing fixtures or from any failure of or defect in any electric line, circuit or facility. Tenant shall defend, indemnify and save Landlord harmless from and against all liabilities, damages, claims, costs, charges, judgments and expenses, including, but not limited to, reasonable attorneys' fees, which may be imposed upon or incurred or paid by or asserted against Landlord, the Premises or any interest therein or in the Building by reason of or in connection with any Tenant use, non-use, possession or operation of the Premises, or any part thereof, any negligence or TORTUOUS act on the part of Tenant or any of its agents, contractors, servants, employees, licensees or invitees, any accident, injury, death or damage to any person or property occurring in, on or about the Premises or any part thereof, and any failure on the part of Tenant to perform any of the terms or conditions of this Lease provided, however, that nothing contained in this section shall be deemed to require Tenant to indemnify Landlord with respect to any negligence or tortuous act committed by Landlord or to any extent prohibited by law. Landlord hereby agrees to indemnify and hold Tenant, its contractors, agents, employees, officers, partners and shareholders harmless from and against any and all costs, damages, claims, liabilities and expenses (including reasonable attorneys' fees) suffered by or claimed against Tenant, resulting from any negligence or tortuous act of Landlord's, or its employees or contractors, in the Project, or any failure of Landlord to comply with the terms of this Lease.

#### 14. DEFAULT

14.1 TENANT DEFAULT: For purposes hereof, Tenant Default means: (i) Tenant fails to pay the Rent within five days after Tenant receives notice from Landlord that the Rent was not received when due; (ii) Tenant fails to perform any of its other obligations under this Lease within 30 days after receiving notice from Landlord specifying the nature and extent of the Tenant Default; provided, however, if the obligation shall not be reasonably curable

within such 30 day period, the time for cure shall be extended so long as Tenant shall continue to use reasonable efforts to effect a cure; or (iii) a petition in bankruptcy shall be filed by or against Tenant and if filed against Tenant is not discharged within 90 days after filing. In the event of a Tenant Default, Landlord, in addition to all other rights and remedies available to Landlord, by law or by other provisions hereof, may, with or without process of law, re-enter immediately into the Premises and remove all persons and property therefrom, and, at Landlord's option, annul and cancel this Lease as to all future rights of Tenant, and Tenant hereby expressly waives the service of any notice in writing of intention to re-enter as aforesaid. Tenant further agrees that in case of any such termination or re-entry the obligations of Landlord hereunder shall cease but the obligation of Tenant to pay Rent will continue for the then unexpired portion of the Term, and that Tenant will indemnify Landlord against all loss of Rents and other damage which Landlord incurs by reason of such termination or re-entry, including, but not limited to, reasonable costs of restoring and repairing the Premises and putting the same into rentable condition, reasonable costs, but not in excess of Tenant's remaining Base Rent obligations under the Lease as of the date of such termination, of renting the Premises to another tenant, actual loss or diminution of rents and other damage which Landlord incurs by reason of such termination or re-entry, and all reasonable attorneys' fees and expenses incurred in enforcing any of the terms of this Lease. Neither acceptance of Rent by Landlord, with or without knowledge of breach, nor failure of Landlord to take action on account of any breach hereof or to enforce its rights hereunder shall be deemed a waiver of any breach, and absent written notice or consent, said breach shall be a continuing one.

14.2 LANDLORD DEFAULT: For purposes hereof, "Landlord Default" means Landlord's failure to perform any of its obligations under this Lease within 30 days after receiving notice from Tenant specifying the nature and extent of such failure; provided, however, if the obligation is not reasonably curable within such 30 day period, the time for cure will be extended so long as Landlord continues to use reasonable efforts to effect a cure.

14.2.1 UNDISPUTED LANDLORD DEFAULT: If a Landlord Default has occurred and Landlord does not dispute the default under Section 14.2.2, then, in addition to all rights, powers or remedies permitted by law or in equity, Tenant may cure such Landlord Default and charge the cost thereof to Landlord, or sue for specific performance or sue for damages. Landlord will be liable for and will pay to Tenant within 30 days after receiving Tenant's invoice, all reasonable attorneys' fees and other costs incurred by Tenant as a result of a Landlord Default. If Landlord fails to pay within such 30 day period the amount due, Tenant will have the right to offset such amounts against the installments of Rent next coming due hereunder.

14.2.2 DISPUTED LANDLORD DEFAULT: If Landlord disputes that a Landlord Default exists, Landlord must notify Tenant in writing within five business days after Landlord receives Tenant's default notice under Section 14.2 or Landlord's right to dispute the default will be waived and Tenant will have the rights set forth in Section 14.2.1. If Landlord disputes a Landlord Default under this Section 14.2.2, the dispute in question will be submitted to arbitration in accordance with Section 37. Pending resolution of the dispute, Tenant may cure the default and, instead of offsetting the cost of that cure, including reasonable attorneys' fees and other costs incurred by Tenant as a result of the default, against the installments of Rent next coming due hereunder, Tenant shall deposit that amount in an escrow account with an escrow agent mutually acceptable to both Landlord and Tenant. If Landlord and Tenant are unable to agree upon a mutually acceptable escrow agent, the arbitrator or arbitrators resolving the dispute will select the escrow agent. Upon the arbitrator or arbitrators' resolution of the

dispute, the escrowed amount will be paid to either Landlord or Tenant in accordance with the ruling of the arbitrator or arbitrators.

15. NOTICES: All bills, statements, notices or communications which Landlord may desire or be required to give to Tenant shall be deemed sufficiently given or rendered if in writing and sent by registered or certified mail, return receipt requested, addressed to Tenant at the Building with a copy to: Fair Isaac and Company, Incorporated.  
4255 Lexington Avenue N.  
St. Paul, MN 55126

and the time of rendition thereof of the giving of such notice or communication shall be deemed to be the time when the same is personally delivered to Tenant or deposited in the mail as herein provided. Any notice or the return of any access cards, keys or otherwise to be given from Tenant to Landlord must be similarly delivered to Landlord's managing agent personally or sent by registered or certified mail, return receipt requested, addressed to Landlord at the address where the last previous rental hereunder was payable, or in ease of subsequent change upon notice given, to the latest address furnished.

16. HOLDING OVER: If Tenant continues to occupy the Premises after expiration or earlier termination of the Lease for any reason, Tenant's hold over tenancy will be from month to month and in no event from year to year or for any longer term. Tenant's hold over tenancy will be subject to all of the terms and conditions of this Lease except that Base Rent will equal one hundred twenty-five percent (125%) of the Base Rent payable at the time of such expiration or earlier termination. Tenant shall also pay its Proportionate Share of Operating Costs during that holding over tenancy. Nothing in this Section 16, however, will prevent Landlord from removing Tenant from the Premises pursuant to applicable law and, except to the extent limited by this Lease, seeking all remedies available to Landlord in law or equity.

17. SUBORDINATION: Landlord represents and warrants to Tenant that there is no mortgage, deed of trust or ground lease on the Project that has not been brought to Tenant's attention by Landlord in writing. Tenant agrees to subordinate this Lease to a future fee or leasehold mortgage affecting the Project if the holder of such mortgage executes an agreement substantially in the form of attached Exhibit F (an "SNDAs"). Concurrent with the execution of this Lease, Landlord has delivered to Tenant SNDAs from all parties having an interest in the Premises which may be superior to Tenant's rights in the Premises under this Lease.

18. ESTOPPEL CERTIFICATE: Either party (the "Executing Party") shall, at any time and from time to time, within 10 business days after written request by the other party (the "Requesting Party"), execute, acknowledge and deliver to the Requesting Party and any other parties designated by the Requesting Party, a certificate, in such reasonable form as the Requesting Party provides, ratifying this Lease and certifying (a) that this Lease is in full force and effect and has not been assigned, modified or amended in any way (or, if there has been any assignment, modification or amendment, identifying the same); (b) the Commencement Date and the Expiration Date, and the date to which the Base Rent and Additional Rent have been paid in advance, if any; and (c) that there are, to the Executing Party's knowledge, no uncured defaults on the part of the Requesting Party or any defenses or offsets against the enforcement of this Lease by the Requesting Party (or specifying each default, defense or offset if any are claimed). Any such statement may be furnished to and relied upon by the Requesting Party and any party identified by the Requesting Party.

19. BINDING EFFECT: The word "Tenant", wherever used in this Lease, shall be construed to mean tenants in all cases where there is more than one tenant, and the necessary grammatical changes required to make the provisions hereof apply to corporations, partnerships or individuals, men or women, shall in all cases be assumed as though in each case fully expressed. Each provision hereof shall extend to and shall, as the case may require, bind and inure to the benefit of Landlord and Tenant and their respective heirs, legal representatives, successors and assigns, provided that his Lease shall not inure to the benefit of any assignee, heir, legal representative, transferee or successor of Tenant except upon the express written consent or election of Landlord.

20. TRANSFER OF LANDLORD'S INTEREST: In the event of any transfer or transfers of Landlord's interest in the Premises or the Building, other than a transfer for security purposes only, the transferor shall not be relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer.

21. INTEREST: Any Rent which is not paid when due, shall bear interest per annum at the lesser of (i) the highest legal rate or (ii) two percent (2%) plus the Reference Rate as published by U. S. Bank National Association from time to time, from the date due until the date on which the past due amount is paid; provided, however, the payment of such interest shall not excuse or cure the default upon which such interest accrued.

22. EXPENSE OF ENFORCEMENT: If either party hereto be made or become a party to any litigation commenced by or against the other party involving the enforcement of any of the rights and remedies of such party, or arising on account of the default of the other party in the performance of such party's obligations hereunder, then the prevailing party in any such litigation (or the party becoming involved in such litigation because of a claim against such other party, as the case may be) shall receive from the other party all costs and reasonable attorney's fees incurred by it in relation to such litigation.

23 ACCESS; CHANGES IN BUILDING FACILITIES; NAME: All portions of the Building except the inside surfaces of all walls and doors bounding the Premises, and any space in or adjacent to the Premises used for shafts, stacks, pipes, conduits, fan rooms, ducts, electric or other utilities, sinks or other Building facilities, and the use thereof, as well as access thereto through the Premises for the purposes of operation, maintenance, decoration and repair, are reserved to Landlord and Landlord's managing agent. Landlord reserves the right, at any time, without incurring any liability to Tenant therefor, to make such changes in or to the Building and the fixtures and equipment thereof, as well as in or to the street entrances, halls, passages, concourse, elevators, escalators, stairways and other improvements thereof, as it may deem necessary or desirable. Landlord may adopt any name for the Building and Landlord reserves the right to change the name and/or address of the Building at any time.

24. RIGHT OF LANDLORD TO PERFORM: If Tenant shall fail to pay any sum of money, other than rent, required to be paid by it hereunder or shall fail to perform any other act on its part to be performed hereunder, Landlord may, but shall not be obligated, and without waiving or releasing Tenant from any obligations of Tenant, make any such payment or perform any such other act on Tenant's part to be made or performed hereunder. Tenant shall, promptly and upon demand therefore by Landlord, reimburse Landlord for all sums so paid by Landlord and all necessary incidental costs, together with interest thereon at the rate specified in Section 21 hereof from the date of such payment by Landlord, and Landlord shall have the same rights and remedies in the event of the failure by tenant to pay such amounts as Landlord would have in the event of a default by Tenant in the payment of rent.

25. BROKERS: Unless otherwise agreed in writing, if Tenant has dealt with any person or real estate broker in respect to leasing or renting space in the Building, excepting the exclusive leasing agent for the Building and Griffin Companies, Tenant shall be solely responsible for the payment of any fee due said person or firm and Tenant shall hold Landlord free and harmless from and against any liability in respect thereto.

26. MODIFICATIONS FOR LENDER: If, in connection with obtaining financing for the Building or the Premises, any lender shall request modifications in this Lease as a condition to such financing, Tenant shall promptly execute any instrument submitted to Tenant by Landlord containing such modifications; provided, however, that such modifications do not increase the obligations of Tenant hereunder or materially adversely affect the leasehold interest hereby created.

27. SECURITY DEPOSIT: Intentionally Deleted

28. LIMITATION OF LIABILITY: In the event that Landlord is ever adjudged by any court to be liable to Tenant in damages, Tenant specifically agrees to look solely to Landlord's interest in the Building for the recovery of any judgment from Landlord, it being agreed that Landlord, or if Landlord is a partnership, its partners whether general or limited, or if Landlord is a corporation, its directors, officers, or shareholders, shall never be personally liable for any such judgment. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that tenant might otherwise have to obtain injunctive relief against Landlord or Landlord's successor in interest, or to maintain any other action not involving the personal liability of Landlord (or if Landlord is a partnership, its partners whether general or limited, or if Landlord is a corporation, requiring its directors, officers or shareholders to respond in monetary damages from assets other than Landlord's interest in the Building), or to maintain any suit or action in connection with enforcement or collection of amounts which may become owing or payable under or on account of insurance maintained by Landlord.

29. ENVIRONMENTAL: Landlord has initialed and provided to Tenant a copy of Landlord's most recent Phase I environmental assessment report for the Project ("Environmental Report"). Except as disclosed in the Environmental Report, Landlord has no knowledge of any Hazardous Substance, as defined below, or violations of Environmental Laws, as defined below, within the Project, and represents and warrants that, to the best of its knowledge, the Premises are in compliance with Environmental Laws. Landlord shall indemnify, defend, and hold harmless Tenant, its officers, directors, beneficiaries, shareholders, partners, agents, and employees from all fines, suits, procedures, claims, and actions of every kind, and all reasonable costs associated therewith (including reasonable attorneys' and reasonable consultants' fees) arising out of or in any way connected with Landlord's breach of the representations and warranties set forth in this Section 29. Except to the extent of Tenant's responsibility under this Section 29, Landlord shall clean up and mitigate the effect of any Hazardous Substance or violations of Environmental Laws which shall have entered the Project or occurred after the Commencement Date and indemnify Tenant from all liability resulting therefrom. Tenant shall not cause or permit to occur, and shall indemnify, defend and hold harmless Landlord from all fines, suits, procedures, claims and actions of every kind, and all reasonable costs associated therewith (including reasonable attorneys' fees and reasonable consultants' fees) arising out of or in anyway connected with: (a) any material violation of any Environmental Law on, under, or about the Premises, and arising from Tenant's use or occupancy of the Premises, including, but not limited to, soil and ground water conditions; or (b) the use, generation, release, manufacture, refining, production, processing, storage, or disposal



of any Hazardous Substance on, under, or about the Premises, or the transportation to or from the Premises of any Hazardous Substance by Tenant or its employees, agents or contractors; provided, however, that the foregoing does not prohibit Tenant from using and storing normal products used in the operation of a business office so long as those products are used and stored in compliance with applicable laws. "Hazardous Substance", as used in this Lease, includes, without limitation, flammables, explosives, radioactive materials, asbestos, polychlorinated biphenyls (PCBs), chemicals known to cause cancer or reproductive toxicity, pollutants, contaminants, hazardous wastes, toxic substances or related materials, petroleum and petroleum products, and substances including, without limitation, freon or other chlorofluorocarbons declared to be hazardous or toxic or regulated or banned under any law or regulation now or hereafter enacted or promulgated by any government authority. Tenant shall, at Tenant's own expense, comply in all material respects with all federal, state and local laws regulating the use, generation, storage, transportation, or disposal of Hazardous Substances ("Environmental Laws"). To the extent required by the Authorities, Tenant shall, at Tenant's own expense, make all submissions to, provide all information required by, and comply in all material respects with all requirements of all governmental authorities (the "Authorities") under the Environmental Laws. If any Authority or any third party demand that an investigation be performed, or a cleanup plan be prepared by Tenant and that a cleanup be undertaken, because of any Tenant deposit, spill, discharge, or other release of Hazardous Substances that occurs during the Term, at or from the Premises, or which arises at any time from Tenant's use or occupancy of the Premises, then Tenant shall, at Tenant's own expense, perform the investigation and prepare and submit the required plans and all related bonds and other financial assurances, and Tenant shall carry out all such cleanup plans. Tenant shall promptly provide all information regarding the use, generation, storage, transportation, or disposal of Hazardous Substances that is reasonably requested by Landlord. If Tenant fails to fulfill any duty imposed under this section within a reasonable time, Landlord may do so, and in such case, Tenant shall cooperate with Landlord in order to prepare all documents Landlord reasonably deems necessary or appropriate to determine the applicability of the Environmental Laws to the Premises and Tenant's use thereof, and for compliance therewith, and Tenant shall execute all reasonable documents promptly upon Landlord's request. No such action by Landlord and no attempt made by Landlord to mitigate damages under any Law shall constitute a waiver of any of Tenant's obligations under this section. Tenant will, at and to the extent required by Environmental Laws and upon written request of Landlord, remove from the Premises at the end of the Term, at Tenant's expense and in accordance with any applicable laws or regulations, equipment (including refrigeration equipment and enhancements to the Building's standard HVAC systems installed by Tenant) that contains, uses or generates freon or any other chlorofluorocarbons. Tenant's obligations and liabilities under this section shall survive the expiration of this Lease. Tenant shall indemnify, defend, and hold harmless Landlord, the manager of the property, and their respective officers, directors, beneficiaries shareholders, partners, agents, and employees from all fines, suits, procedures, claims, and actions of every kind, and all reasonable costs associated therewith (including reasonable attorneys' and reasonable consultants' fees) arising out of or in any way connected with any Tenant deposit, spill, discharge, or other release of Hazardous Substances that occurs during the term of this Lease, at or from the Premises, and which arises at any time from Tenant's use or occupancy of the Premises, or from Tenant's failure to provide all information, make all submissions, and take all steps required by all Authorities under the Environmental Laws. Tenant's obligations and liabilities under this section shall survive the expiration of this Lease.

30. WAIVER OF SUBROGATION: Each of Landlord and Tenant hereby releases the other from any and all liability or responsibility to the other or anyone claiming through or under them by way of subrogation or otherwise for any loss or damage to property caused by

fire or any of the extended coverage casualties, even if such fire or other casualty shall have been caused by the fault or negligence of the other party, or anyone for whom such party may be responsible.

31. ADDITIONAL RENT AMOUNTS: Any amounts in addition to Base Rent payable to Landlord by Tenant hereunder, including without limitation amounts payable pursuant to Sections 5, 6, 7A, 7D, 7F, 8C, 8D, 8F, 8j, 12,13, 20, 21, 24, 27 and Exhibit C, and any such costs set forth in Exhibit E, hereof (the "Additional Rent") shall be an obligation of Tenant hereunder and all such Additional Rent shall be due and payable upon demand.

### 32 REQUIREMENTS OF LAW

32.1 LANDLORD'S OBLIGATIONS: Except to the extent affected by Tenant's particular use of the Premises (as opposed to mere use of the Premises for general office purposes), Landlord shall be responsible for compliance with all federal, state, local and municipal laws, statutes, rules, regulations, orders, ordinances and codes, including, without limitation, the Americans with Disabilities Act and the Minnesota Accessibility Code (collectively, the "Legal Requirements"), which are applicable to all or any part of the physical condition and occupancy of the Building, the Common Areas or the Land or the physical condition or occupancy thereof. To Landlord's knowledge the Building, the Common Areas, the Premises and the Land are or shall be in material compliance with the Legal Requirements as of the Commencement Date. Landlord hereby agrees to indemnify, defend and hold Tenant harmless from any and all loss, cost, liability or expense, including, without limitation, reasonable attorneys' fees, resulting from Landlord's failure to comply with all Legal Requirements relating to the Premises, the Building, the Land and the Common Areas. Without limiting the generality of the foregoing, Landlord shall make, at its sole cost, any renovations, alterations or improvements to the Premises' restrooms required to be made by the Legal Requirements, including the Americans with Disabilities Act and the Minnesota Accessibility Code; provided, however, that Landlord's obligation to renovate, alter or improve the Premises' restrooms may be satisfied by the construction of a "unisex" bathroom if permitted by the Americans with Disabilities Act and the Minnesota Accessibility Code. The costs incurred in making such restroom renovations, alterations and improvements will not be Operating Costs.

32.2 TENANT'S OBLIGATIONS: Tenant shall be responsible for compliance with all Legal Requirements which are applicable to Tenant's particular use and manner of use of the Premises (as opposed to mere use of the Premises for general office purposes) excluding, however, restrooms which are Landlord's responsibility. If Tenant's particular use or manner of use of the Premises violates any Legal Requirements, Tenant shall bear all expense and liability for compliance with such Legal Requirements. Tenant hereby agrees to indemnify, defend and hold Landlord harmless from any and all loss, liability or expense, including, without limitation, reasonable attorneys' fees, resulting from Tenant's failure to comply with the Legal Requirements relating to its particular use and manner of use of the Premises.

33. INCORPORATION OF EXHIBITS: The following exhibits to this Lease are hereby incorporated by reference for all purposes as fully as if set forth at length herein:

EXHIBIT A	Floor Plans of Premises
EXHIBIT B	Property Description
EXHIBIT C	Additional Terms and Conditions
EXHIBIT D	Estoppel Certificate
EXHIBIT E	HVAC Criteria and Overtime HVAC Charges

EXHIBIT F	Subordination, Non-Disturbance & Attornment Agreement
EXHIBIT G	Janitorial Services
EXHIBIT H	Rules & Regulations

34. FORCE MAJEURE: All of the obligations of Landlord and of Tenant under this Lease are subject to and shall be postponed for a period equal to any delay or suspension resulting from fires, strikes, acts of God, and other causes beyond the control of the party delayed in its performance hereunder, this Lease remaining in all other respects in full force and effect and the Term not thereby extended. Provided nevertheless, the unavailability of funds for payment or performance of Tenant's obligations hereunder shall not give rise to any postponement or delay in such payment or performance of Tenant's obligations hereunder.

35. GENERAL: The submission of this Lease for examination does not constitute the reservation of or an option for the Premises, and this Lease becomes effective only upon execution and delivery hereof by Landlord and Tenant. This Lease does not create the relationship of principal and agent or of partnership, joint venture or any association between Landlord and Tenant, the sole relationship between Landlord and Tenant being that of lessor and lessee. No waiver of any default of Tenant hereunder shall be implied from any omission by Landlord to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated. Each term and each provision of this Lease performable by Tenant shall be construed to be both a covenant and a condition. The topical headings of the several paragraphs and clauses are for convenience only and do not define, limit or construe the contents of such paragraphs or clauses. All preliminary negotiations are merged into and incorporated in this Lease. This Lease can only be modified or amended by an Agreement in writing signed by the parties hereto, their successors or assigns. All provisions hereof shall be binding upon the heirs, successors and assigns of each party hereto.

36. SEVERABILITY: The invalidity of any provision, clause or phrase herein contained shall not serve to render the balance of this Lease ineffective or void and the same shall be construed as if such had not been herein set forth.

37. ARBITRATION.

37.1 REQUEST AND SELECTION OF ARBITRATORS: The parties to this Lease will initially attempt to agree upon the matter in question. If they have been unable to so agree within the period that they are required to, or may, agree as to such matter under this Lease, if any, then either party may request by written notice to the other party ("Arbitration Request") that the matter be determined by an arbitration board consisting of three reputable real estate professionals who are recognized experts regarding similar leases in the Minneapolis downtown office district. One arbitrator will be appointed by each party, and the two arbitrators so appointed shall appoint the third arbitrator, and each such arbitrator will have no material financial or other business interest in common with the party selecting such arbitrator. If a party fails to appoint an arbitrator and notify the other party of such appointment within 30 days after the Arbitration Request is made, then the arbitrator that was appointed by such other party within such 30 day period will be the sole arbitrator. If two arbitrators are properly appointed and such first two arbitrators are unable to agree on a third arbitrator within 30 days after the appointment of the second arbitrator, then such third arbitrator will be appointed by the presiding judge of the Hennepin County District Court, or by any person to

whom such presiding judge formally delegates the matter, or, if such methods of appointment fail, by the American Arbitration Association.

37.2 DETERMINATION OF FAIR MARKET RENT: If the matter in question is the determination of Fair Market Rent, the parties will submit a copy of this Lease to the sole arbitrator or the three arbitrators, as the case may be. If the arbitration is conducted by a sole arbitrator, such sole arbitrator will render his or her determination of Fair Market Rent applicable during the period in question to the parties by the 60th day after the Arbitration Request was made. If the arbitration is conducted by three arbitrators, each arbitrator will submit his or her determination(s) of Fair Market Rent applicable during the period in question in a sealed envelope by the 30th day following appointment of the last arbitrator, and any determinations not submitted by such time shall be disregarded. In such cases, the parties will meet on such 30th day (or if it is not a business day, on the first business day thereafter) at 11:00 a.m. at the office of Landlord, or such other place as the parties may agree, and simultaneously deliver the determinations. If the determinations of at least two of the arbitrators are identical in amount, such amount will be deemed the decision of the arbitrators. If the determinations of the three arbitrators are different in amount, the decision as to Fair Market Rent will be independently determined as follows:

(a) If neither the highest nor lowest determination differs from the middle determination by more than ten percent (10%) of such middle determination, then the decision will be deemed to be the average of the three determinations; and

(b) If clause (a) does not apply, then the decision will be deemed to be the average of the middle determination and the determination closest in amount to such middle determination.

37.3 FACTORS INFLUENCING FAIR MARKET RENT: "Fair Market Rent" will be determined based upon the annual rental rates then being charged in the Minneapolis downtown office district for comparable space for leases commencing on or about the date of the commencement of the Extension Term taking into consideration use, location and floor level of the Building, the location, quality and age of the Building, leasehold improvements or allowances provided, rental concessions (such as abatements, lease assumptions or takeovers and moving expenses), the date that the particular rate under consideration became or becomes effective, the term of the Lease, the extent of services provided thereunder, applicable distinctions between "gross" leases and "net" leases, base year figures and base years for escalation purposes, the creditworthiness and quality of Tenant, leasing commissions and costs of the Lease and other adjustments to the Base Rent and any other relevant term or condition in making such evaluation, including the benefit to Landlord of having the Premises immediately producing rent at the commencement of the Extension Term.

37.4 OTHER MATTERS: If the matter in question is a matter other than the determination of Fair Market Rent, then the decision of the sole arbitrator or the decision of any two of the three arbitrators will control, and such decision will be made and delivered to Landlord and Tenant by such arbitrator or arbitrators not later than the date 60 days after the Arbitration Request was made (in the case of an arbitration conducted by a sole arbitrator) or the 30th day following the appointment of the last arbitrator (in the case of an arbitration conducted by three arbitrators). An arbitration of any matter other than Fair Market Rent will be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Each party will pay the fees and expenses of the arbitrator it selected, and the

parties will each pay one-half (1/2) of the fees and expenses of the third arbitrator, if any, selected by the other two arbitrators or appointed by the court. The costs of all counsel, experts and other representatives that are retained by a party will be paid by such party.

37.5 DECISIONS: The decision of the arbitrators, determined as above set forth, will be final and non-appealable.

37.6 CONTINUING PERFORMANCE: During the period of time that any arbitration is pending under this Lease, the parties to this Lease will continue to comply with all those terms and provisions that are not the subject of the arbitration.

38. CERTAIN PROVISIONS REGARDING THE SUBLEASE PREMISES.

Landlord and Tenant acknowledge that with respect to the Sublease Premises, the term of this Lease runs concurrently with the terms of the Prime Lease and the Sublease for the period commencing as of the date of this Lease and ending August 31, 2011 or the earlier termination of the Prime Lease or the Sublease (the "Interim Period"), and that Tenant is entitled to possession of the Sublease Premises under both this Lease and the Sublease. With respect to the Sublease Premises only, (a) this Lease shall be subject and subordinate to the Prime Lease in effect on the date of this Lease, and (b) to the extent of any conflict between the Prime Lease during the term hereof and this Lease, the terms of the Prime Lease shall govern as between Landlord and Tenant. Any and all new obligations imposed upon and any representations and warranties made by either Landlord or Tenant pursuant to this Lease, to the extent the same does not conflict with the terms of the Prime Lease, shall be effective, binding and enforceable upon Landlord or Tenant, as appropriate, from and after the date of this Lease. After the expiration of the Interim Period, the terms and conditions of this Lease solely shall govern Tenant's possession of the Premises, including, without limitation, the Sublease Premises.

IN WITNESS WHEREOF, the respective parties hereto have caused this Lease to be executed as of the day and year first above written.

LANDLORD:  
INTERNATIONAL CENTER LIMITED  
PARTNERSHIP

TENANT:  
FAIR ISAAC AND COMPANY,  
INCORPORATED

By International Centre III Limited  
Partnership

BY: /s/ Kenneth J. Saunders  
Its: Chief Financial Officer

By Ryan Properties, Inc.  
Its General Partner

BY: /s/ John P. Kelly  
Its: EVP

EXHIBIT A  
FLOOR PLANS OF PREMISES

EXHIBIT B

PROPERTY DESCRIPTION

Lots 1, 2, 3, 4, 5 and 6, Dean's Subdivision of Part of Block 4, Brown and Jackin's Addition to Minneapolis, according to the recorded plat thereof, and situate in Hennepin County, Minnesota.

and

The Southeasterly 1/2 of Lot 9, Block 4, Brown and Jackin's Addition to Minneapolis, according to the recorded plat thereof, and situate in Hennepin County, Minnesota.

and

Lots 7 and 8, Dean's Subdivision of Part of Block 4, Brown and Jackin's Addition to Minneapolis, according to the recorded plat thereof, and situate in Hennepin County, Minnesota.

EXHIBIT C

ADDITIONAL TERMS & CONDITIONS

1. PARKING:

Tenant may, and thereafter from time to time, with sixty days written notice, hire from Landlord, at market rates reasonably determined by Landlord and pursuant to a separate written agreement, the right to park up to fifteen vehicles in the Building's parking structure, including one reserved stall.

2. LEASING COMMISSION:

Tenant has been represented in this transaction by Griffin Companies. Landlord shall pay a fee to Griffin Companies equal to \$2.00 per square foot of rentable area, such fee to be payable upon execution of this Lease.

3. TENANT IMPROVEMENT ALLOWANCE:

Landlord shall contribute up to \$300,000.00 ("Landlord's Contribution") toward the cost of design, construction and installation of Tenant Improvements, including telecommunications and data wiring, relocation costs and furniture, in Tenant's discretion. This amount shall be paid to Tenant within ten (10) days after submission of lien waivers.

The total amount of the Landlord's contribution shall be amortized at 8% interest over a term of eleven (11) years four (4) months and shall be paid to Landlord as Additional Rent.

4. CONDITION OF THE PREMISES:

Tenant hereby accepts the Premises in its "as is" condition.

5. INITIAL ALTERATIONS:

Tenant shall be responsible for the construction of the initial alterations (the "Initial Alterations") within the Premises in accordance with the construction documents prepared by Tenant's architect, subject to Landlord's reasonable approval of such construction documents and the selection of Tenant's contractor, not to be unreasonably withheld. Landlord acknowledges that it will not be entitled to receive any fee or profit in connection with the Initial Alterations. Tenant may obtain all necessary permits and licenses required in connection with the construction of the Initial Alterations and shall cause the Initial Alterations to be completed in accordance with all Legal Requirements affecting the Premises. Tenant shall pay all costs of the Initial Alterations. The Commencement Date will not be delayed, nor the Expiration Date extended, if Tenant fails to complete the Initial Alterations on or before the Commencement Date.

6. ROOF RIGHTS:

At any time during the Term, at no additional cost, Tenant shall have the non-exclusive right to install, operate and maintain a satellite-earth communications antenna on the roof of the Building, subject to Landlord's reasonable approval of the location and appearance of, and plans and specifications for such equipment. Landlord shall not permit any other equipment to be installed on the roof whose operation may



interfere with Tenant's equipment after installation of Tenant's equipment. The equipment will be connected, at Tenant's cost, to communications equipment located within the Premises via cable and Landlord shall without charge assist Tenant in obtaining reasonable access to install such cables. Landlord will cooperate with Tenant regarding the installation, maintenance, repair and removal of such equipment by Tenant, but all costs therefor shall be paid by Tenant.

7. SIGNAGE:

Tenant shall have the right to install suite signage. Tenant shall also have its name listed in the building directories at the Landlord's cost. Any changes after the initial installation will be at the Tenant's expense.

EXHIBIT D

STATEMENT OF TENANT IN RE: LEASE

Teachers Insurance Annuity  
Association of America  
730 Third Avenue  
New York, New York 10017

RE: TIAA Appl. # MN-221  
TIAA Mtge.# 000457600  
AT&T Tower  
901 Marquette Avenue  
Floors: \_\_\_\_\_

Ladies & Gentlemen:

It is our understanding that you have committed to place a mortgage upon the subject premises and as a condition precedent thereof have required this certification of the undersigned.

The undersigned, as lessee, under that certain lease dated \_\_\_\_\_, 2000, made with International Centre Limited Partnership, as lessor, hereby ratifies said lease and certifies that:

1. the "Commencement Date" of said lease is \_\_\_\_\_; and
2. the undersigned is presently solvent and free from reorganization and/or bankruptcy and is in occupancy, open, and conducting business with the public in the premises; and
- 3 the operation and use of the premises do not involve the generation, treatment, storage, disposal or release of a hazardous substance or a solid waste into the environment other than to the extent necessary to conduct its ordinary course of business in the premises and in accordance with all applicable environmental laws, and that the premises are being operated in accordance with all applicable environmental laws, zoning ordinances and building codes; and
4. the current base rent payable pursuant to the terms of said lease is \$\_\_\_\_\_per month; and further, additional rent pursuant to said lease is payable as follows:\_\_\_\_\_; and
5. said lease is in full force and effect and has not been assigned, modified, supplemented or amended in anyway (except by agreement (s) dated \_\_\_\_\_), and to the knowledge of the undersigned, neither party thereto is in default thereunder; and
6. the lease described above represents the entire agreement between the parties as to the leasing of the premises; and
7. the term of said lease expires on \_\_\_\_\_; and
8. all conditions under said lease to be performed by the lessor have been satisfied, including, without limitation, all co-tenancy requirements thereunder, if any; and

9. all required contributions by lessor to lessee on account of lessee's improvements have been received; and

10. on this date to the knowledge of the undersigned, there are no existing defenses or offsets, claims or counterclaims which the undersigned has against the enforcement of said lease by the lessor; and

11. no rental has been paid in advance and no security (except for the security deposit in amount of \$0.00) has been deposited with lessor; and

12. lessee's floor area is \_\_\_\_\_ rentable square feet; and

13. the most recent payment of current basic rental was for the payment due on \_\_\_\_\_, and all basic rental and additional rental payable pursuant to the terms of the lease have been paid up to said date; and

14. the undersigned acknowledges notice that lessor's interest under the lease and the rent and all other sums due thereunder will be assigned to you as part of the security for a mortgage loan by you to lessor. In the event that Teacher's Insurance and Annuity Association of America, as lender, notifies the undersigned of a default under the mortgage and demands that the undersigned pay its rent and all other sums due under the lease to lender, lessee agrees that it shall pay its rent and all such other sums to lender. Landlord, by its signature below, acknowledges that Tenant has agreed to the foregoing as an accommodation to the Landlord; that upon notice from Teacher's Insurance and Annuity Association of America, as lender, Tenant is authorized and directed by Landlord to pay its rent and all other sums to lender, without the necessity of a determination or inquiry by Tenant that a default by Landlord has occurred under any agreements between it and Teacher's Insurance and Annuity Association of America. Tenant shall have no liability to Landlord in connection with or as a result of the exercise by Teacher's Insurance and Annuity Association of America, as lender, of any rights or remedies under its agreements with Landlord or as recognized in this Statement of Tenant Re: Lease.

Very truly yours,

\_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

International Centre Limited Partnership,  
a Minnesota limited partnership

By: \_\_\_\_\_

Its: \_\_\_\_\_

EXHIBIT E

HVAC CRITERIA AND OVERTIME HVAC CHARGES

1. CRITERIA: The HVAC system shall maintain the temperature in the Premises at not less than 72(degrees) F based upon a "dry-bulb" measurement (and 55(degrees) F based upon a "wet-bulb" measurement) in the winter and not more than 76(degrees) F based upon a "dry-bulb" measurement (and 60(degrees) F based upon a "wet-bulb" measurement) in the summer.

2. OVERTIME CHARGES: Landlord will charge Tenant \$15 per hour per Premises floor, or portion thereof, which amount is approximately \$.30 per hour per ton, for those periods in which any heating, ventilating or air conditioning shall be operated at the request of Tenant after Business Hours. Effective as of the first anniversary of the Term, Landlord may increase the amount set forth for Overtime HVAC cost on not less than thirty (30) days' written notice to Tenant. Any such increase shall be based upon Landlord's actual cost (without profit) of operating the HVAC systems including electrical costs, employee costs and a reasonable amount for maintenance and depreciation. Landlord shall, prior to implementing any change in Overtime HVAC Cost, advise Tenant of Landlord's analysis of the reasons for such increase which analysis shall be subject to confirmation by Tenant.

To be modified to cover both the lease and sublease agreement

EXHIBIT F

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (this "Agreement") is made by and between TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA, a New York corporation with offices at 730 Third Avenue, New York, New York 10017 ("Lender") and \_\_\_\_\_ with its principal place of business at \_\_\_\_\_ ("Tenant").

RECITALS:

A. Lender has made or is about to make a loan (together with all advances and increases, the "Loan") to INTERNATIONAL CENTRE LIMITED PARTNERSHIP, A MINNESOTA CORPORATION ("Borrower").

B. Borrower or its predecessor in interest, International Centre III Limited Partnership, as landlord, and Tenant have entered into a lease dated \_\_\_\_\_, (the "Lease"), which leased to Tenant Suite No. \_\_\_\_\_ (the "Leased Space") located in the Property (defined below).

C. The Loan is or will be secured by the Mortgage, Assignment of Lease and Rents, Fixture Filing Statement and Security Agreement recorded or to be recorded in the official records of the County of Hennepin, State of Minnesota (together with all advances, increases, amendments or consolidations, the "Mortgage") and the Assignment of Leases and Rents recorded or to be recorded in such official records (together with all amendments or consolidations, the "Assignment"), assigning to Lender the Lease and all rent, additional rent and other sums payable by Tenant under the Lease (the "Rent").

D. The Mortgage encumbers the real property, improvements, and fixtures located at 901 MARQUETTE AVENUE in the City of MINNEAPOLIS, County of HENNEPIN, State of MINNESOTA, commonly known as AT&T TOWER, and described on Exhibit "A" (the "Property").

IN CONSIDERATION of the mutual agreements contained in this Agreement, Lender and Tenant agree as follows:

1. The Lease and all of Tenant's rights under the Lease are and will remain subject and subordinate to the lien of the Mortgage and all of Lender's rights under the Mortgage and Tenant will not subordinate the Lease to any other lien against the Property without Lender's prior consent.

2. This Agreement constitutes notice to Tenant of the Mortgage and the Assignment and, upon receipt of notice from Lender, Tenant will pay the Rent as and when due under the Lease to Lender and the payments will be credited against the Rent due under the Lease.

3. Tenant does not have and will not acquire any right or option to purchase any portion of or interest of the Property.

4. Tenant and Lender agree that if Lender exercises its remedies under the Mortgage or the Assignment and if Tenant is not then in default under this Agreement and if Tenant is not then in default beyond any applicable grace and cure periods under the Lease:

(a) Lender will not name Tenant as a party to any judicial or non-judicial foreclosure or other proceeding to enforce the Mortgage unless joinder is required under applicable law but in such case Lender will not seek affirmative relief against Tenant, the Lease will not be terminated and Tenant's possession of the Leased Space will not be disturbed;

(b) If Lender or any other entity (a "Successor Landlord") acquires the Property through foreclosure, by other proceeding to enforce the Mortgage or by deed-in-lieu of foreclosure (a "Foreclosure"), Tenant's possession of the Leased Space will not be disturbed and the Lease will continue in full force and effect between Successor Landlord and Tenant, and

(c) If, notwithstanding the foregoing, the Lease is terminated as a result of a Foreclosure, a lease between Successor Landlord and Tenant will be deemed created, with no further instrument required, on the same terms as the Lease except that the term of the replacement lease will be the then unexpired term of the Lease. Successor Landlord and Tenant will execute a replacement lease at the request of either.

5. Upon Foreclosure, Tenant will recognize and attorn to Successor Landlord as the landlord under the Lease for the balance of the term. Tenant's attornment will be self-operative with no further instrument required to effectuate the attornment except that at Successor Landlord's request, Tenant will execute instruments reasonably satisfactory to Successor Landlord confirming the attornment.

6. Successor Landlord will not be:

(a) liable for any act or omission of any prior landlord under the Lease occurring before the date of the Foreclosure except for repair and maintenance obligations of a continuing nature imposed on the landlord under the Lease;

(b) required to credit Tenant with any Rent paid more than one month in advance or for any security deposit unless such Rent or security deposit has been received by Successor Landlord;

(c) bound by any amendment, renewal or extension of the Lease that is inconsistent with the terms of this Agreement or is not in writing and signed by both Tenant and landlord;

(d) bound by any reduction of the Rent unless the reduction is in connection with an extension or renewal of the Lease at prevailing market terms or was made with Lender's prior consent;

(e) bound by any reduction of the term 1 of the Lease or any termination, cancellation or surrender of the Lease unless the reduction, termination, cancellation or surrender occurred during the last 6 months of the term or was made with Lender's prior consent;

(f) bound by any amendment, renewal or extension of the Lease entered into without Lender's prior consent if the Leased Space represents 50% or more of the net rentable area of the building in which the Leased Space is located;

(g) subject to any credits, offsets, claims, counterclaims or defenses that Tenant may have that arose prior to the date of the Foreclosure or liable for any damages Tenant may suffer as a result of any misrepresentation, breach of warranty or any act of or failure to act by any party other than Successor Landlord;

(h) bound by any obligation to make improvements to the Property, including the Leased Space, to make any payment or give any credit or allowance to Tenant provided for in the Lease or to pay any leasing commission arising out of the Lease, except that Successor Landlord will be:

(i) bound by any such obligations provided for in the Lender-approved form lease;

(ii) bound by any such obligations if the overall economic terms of the Lease (including the economic terms of any renewal options) represented market terms for similar space in properties comparable to the Property when the Lease was executed; and

(iii) bound to comply with the casualty and condemnation restoration provisions included in the Lease provided that Successor Landlord receives the insurance or condemnation proceeds; or

(iv) liable for obligations under the Lease with respect to any off-site property or facilities for the use of Tenant (such as off-site leased space or parking) unless Successor Landlord acquires in the Foreclosure the right, title or interest to the off-site property.

For purposes of this subparagraph "the term of the Lease" includes any renewal term after the right to renew has been exercised.

7. Lender will have the right, but not the obligation, to cure any default by Borrower, as landlord, under the Lease. Tenant will notify Lender of any default that would entitle Tenant to terminate the Lease or abate the Rent and any notice of termination or abatement will not be effective unless Tenant has so notified Lender of the default and Lender has had a 30-day cure period (or such longer period as may be necessary if the default is not susceptible to cure within 30 days) commencing on the latest to occur of the date on which (i) the cure period under the Lease expires; (ii) Lender receives the notice required by this paragraph; and (iii) Successor Landlord obtains possession of the Property if the default is not susceptible to cure without possession.

8. All notices, requests or consents required or permitted to be given under this Agreement must be in writing and sent by certified mail, return receipt requested or by

nationally recognized overnight delivery service providing evidence of the date of delivery, with all charges prepaid, addressed to the appropriate party at the address set forth above.

9. Any claim by Tenant against Successor Landlord under the Lease or this Agreement will be satisfied solely out of Successor Landlord's interest in the Property and Tenant will not seek recovery against or out of any other assets of Successor Landlord. Successor Landlord will have no liability or responsibility for any obligations under the Lease that arise subsequent to any transfer of the Property by Successor Landlord.

10. This Agreement is governed by and will be construed in accordance with the laws of the state in which the Property is located.

11. Lender and Tenant waive trial by jury in any proceeding brought by, or counterclaim asserted by, Lender or Tenant relating to this Agreement.

12. If there is a conflict between the terms of the Lease and this Agreement, the terms of this Agreement will prevail as between Successor Landlord and Tenant.

13. This Agreement binds and inures to the benefit of Lender and Tenant and their respective successors, assigns, heirs, administrators, executors, agents and representatives.

14. This Agreement contains the entire agreement between Lender and Tenant with respect to the subject matter of this Agreement, may be executed in counterparts that together constitute a single document and may be amended only by a writing signed by Lender and Tenant.

15. Tenant certifies that: the Lease represents the entire agreement between the landlord under the Lease and Tenant regarding the Leased Space; the Lease is in full force and effect; neither party is in default under the Lease beyond any applicable grace and cure periods and no event has occurred which with the giving of notice or passage of time would constitute a default under the Lease; Tenant has entered into occupancy and is open and conducting business in the Leased Space; and all conditions to be performed to date by the landlord under the Lease have been satisfied.

IN WITNESS WHEREOF, Lender and Tenant have executed and delivered this Agreement as of \_\_\_\_\_, 2000.

TEACHERS INSURANCE AND ANNUITY  
ASSOCIATION OF AMERICA, a New York corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_ (TENANT)

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



ACKNOWLEDGMENT

State of \_\_\_\_\_

County of \_\_\_\_\_

On this the \_\_\_\_\_ day of \_\_\_\_\_, 2000, before me, the undersigned officer, personally appeared \_\_\_\_\_ who acknowledged himself/herself to be the \_\_\_\_\_ of \_\_\_\_\_, a corporation, and that he/she, as such \_\_\_\_\_ being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself/herself as \_\_\_\_\_.

In witness whereof I hereunto set my hand and official seal.

\_\_\_\_\_

\_\_\_\_\_  
Title of Officer

EXHIBIT G

JANITORIAL SERVICES

Based on five (5) days per week service (Monday - Friday) with all work to commence after 5:00 p.m.

TENANT AREA - DAILY CLEANING

1. Empty all wastebaskets, waste receptacles, and place for disposal.
2. Empty and wash all ashtrays.
3. Dust mop tile floor surfaces.
4. Spot clean nightly - damp mop weekly.
5. Spot vacuum carpet nightly - vacuum thoroughly once a week.
6. Spot clean carpet spots and spillage upon request.
7. Dust desks, tables, counters, file cabinets, and other furniture or fixtures.
8. Dust all ledges and other flat surfaces within reach.
9. Properly arrange furniture.
10. Spot clean door and partition glass.
11. Spot clean light switches and adjacent wall area. These areas are to be free of fingerprints, marks and soils.
12. Wash cafeteria table tops.
13. Keep all building vacancies in a clean, presentable condition at all times.
14. All doors are to be locked upon completion of work.
15. Leave only designated lights on.

TENANT AREA - WEEKLY CLEANING

1. Dust high partition ledges and moldings.
2. Clean and polish door push plates, kickplates, and thresholds
3. Spray buff all tile areas.
4. Wash all cafeteria waste receptacles.
5. Vacuum thoroughly.

TENANT AREA - QUARTERLY CLEANING

1. Strip, seal, and refinish all tile floor surfaces.

2. Dust venetian blinds.

ELEVATORS - DAILY CLEANING

1. Vacuum clean carpeting.
2. All areas are to be free of visible dust.
3. Clean and polish walls and doors.
4. Clean and polish all stainless steel.
5. Spot clean carpet spots and spillage.

ELEVATORS - MONTHLY CLEANING

1. Cleaning ceiling light diffusers
2. Dust high ledges and moldings.
3. Shampoo carpeting as required.

STAIRWAYS - DAILY CLEANING

1. Polish and spot clean.

STAIRWAYS - WEEKLY CLEANING

1. Damp wipe handrails
2. Dust all ledges, moldings and pipes.
3. Wet mop steps and landings.
4. Sweep steps and landings.

RESTROOMS - DAILY CLEANING

1. Empty waste containers and replace plastic liners from customers stock.
2. Damp wipe and polish exterior of all waste containers.
3. Dust mop floor surfaces.
4. Wet mop all floor surfaces using a disinfectant solution. Corners, edges, baseboard grout are to be uniform in appearance.
5. Dust all ledges and other flat surfaces within reach.
6. Clean and polish all chrome hardware.
7. Clean and sanitize sinks, toilets, seats and urinals.
8. Clean and polish mirrors and frames.
9. Remove any soap scum or residue left from soap dispenser.

10. Wash walls and partitions adjacent to urinals, bowls, sinks. They are to be free of soil and marks and uniform in appearance.
11. Clean and polish dispensers, and refill from customer's stock.
12. Report any fixtures not working properly to building office.

RESTROOM - WEEKLY CLEANING

1. Wash interior of all waste containers.
2. Dust high ledges and moldings.

RESTROOMS - MONTHLY CLEANING

1. Scrub floor surfaces.
2. Vacuum or dust ceiling vents.

RESTROOMS - QUARTERLY CLEANING

1. Wash all walls, doors, and partitions.

ENTRANCE, LOBBY AND CORRIDORS - DAILY CLEANING

1. Empty and wash all ashtrays.
2. Empty all debris from sand urns, smooth sand. Replace sand as needed and polish chrome.
3. Empty waste receptacles and place for disposal.
4. All areas to be free of visible dust.
5. Walls and doors to be free of marks and soil.
6. Clean and polish drinking fountains and adjacent wall area.
7. Clean and polish public telephone and adjacent wall area.
8. All entrance glass to be free of streaks and smudges.
9. Wash all entrance door glass inside and out, and clean metal.
10. Clean and polish door kickplates, push plates, thresholds, and other chromes and stainless steel.
11. Dust mop tile floor surfaces.
12. Wet mop tile floor surfaces.
13. Vacuum clean all carpeted areas.
14. Spot clean carpet spots and spillage.

15. Clean and polish building directory board.

16. Clean all entry and walk-way mats.

ENTRANCE, LOBBY, AND CORRIDORS - WEEKLY CLEANING

1. Dust high ledges and moldings.

2. Wash entrance side plates inside and outside.

3. Wash doors and first floor side plates inside and outside.

4. Spray buff lobby tile.

ENTRANCE, LOBBY, AND CORRIDORS - QUARTERLY CLEANING

1. Shampoo all carpeted areas.

2. Strip, seal and recoat tile floor surfaces.

3. Wash all entrance glass, inside and outside.

EXHIBIT H

RULES AND REGULATIONS

AT&T TOWER

TENANT, AGREES TO OBSERVE FOR ITSELF, ITS EMPLOYEES, CLIENTS, CUSTOMERS, INVITEES AND GUESTS, TO COMPLY WITH THE FOLLOWING RULES AND REGULATIONS AND WITH SUCH REASONABLE AND NONDISCRIMINATORY MODIFICATIONS THEREOF AND ADDITIONS THERETO AS LANDLORD MAY MAKE FOR THE PROJECT:

1. In advertising or other publicity, without Landlord's prior written consent, Tenant shall use neither the name of the Building, except as the address of its business, nor use pictures of the Building.
2. Tenant, its customers, invitees, licensees, and guests, shall not loiter, congregate, or obstruct sidewalks, entrances, passages, corridors, vestibules, halls, elevators and stairways in and about the Project. Tenant shall not place objects against glass partitions or doors or windows, which would be unsightly from the Building corridor, or from the exterior of the Building, and will promptly, remove same upon notice from Landlord.
3. Tenant shall not make noises, cause disturbances, or vibrations or use or operate electrical or electronic devices or other devices that emit sound or other waves or disturbances, or create odors, any of which may be offensive to other tenants and occupants of the Building or that would unreasonably interfere with the operation of any device or equipment initially installed after the Effective Date or radio or television broadcasting or reception from or within the Project, and shall not place or install any projections, antenna, aerials or similar devices inside or outside the Premises. The provisions of this Section 3 will not alter or limit Tenant's rights under Section 42 of the Lease.
4. Tenant shall not waste electricity or water and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air conditioning and shall refrain from attempting to adjust any controls other than room thermostats installed for Tenant's use. Tenant shall observe Landlord's regulations regarding use and operation of window sun shading system and shall keep public corridor doors closed.
5. Door keys for doors in the Premises will be furnished at the commencement of the Term by Landlord. Tenant shall not affix additional locks on doors, without Landlord's consent, and shall purchase duplicate keys only from Landlord. When the Lease is terminated, Tenant shall return all keys to Landlord and will disclose to Landlord the combination of, and provide any keys relating to, any safes, cabinets or vaults left in the Premises. The provisions of this Section 5 will not alter or limit Tenant's rights under Section 7(H) of the Lease.
6. Tenant assumes full responsibility for protecting its space from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed and secured.

7. Peddlers and solicitors shall be reported to the Building office or as Landlord otherwise requests.
8. Tenant shall not install and operate machinery or any mechanical devices of a nature not directly related to Tenant's ordinary use of the Premises without the written consent of Landlord.
9. No person or contractor not employed by Landlord shall be used to perform window washing, cleaning, decorating, repair or other work in the Premises without Landlord's advance consent.
10. Tenant, its associates or employees, shall not make or commit any indecent or improper acts or noises in the Building, or unreasonably interfere in any way with the other Tenants or those having business with them. Nothing shall be thrown by Tenant, its associates, or employees out of the windows or doors. Tenant agrees that no part of the Premises shall be used for sleeping purposes or any other undesirable use.
11. All safes, merchandise, furniture, equipment and other bulky articles shall be carried up or into the Premises at such times and in such manner as shall be specified by Landlord; Landlord shall in all cases retain the power to prescribe the proper position of such safes and to control the weight of same, and any damage done to the Building by taking in or putting out a safe, or from overloading the floor with any safe, shall be paid by Tenant causing it.
12. No bicycle or other vehicle, and no dogs, birds or other animals, except those animals assisting an individual with a disability, shall be allowed in the offices, halls, corridors or any other parts of the Building.
13. Tenant shall not cook in the Building without Landlord's advance consent.
14. Capitalized terms used in these Rules and Regulations but not defined herein have the meaning ascribed to them in the Lease.

SUBLEASE AGREEMENT

THIS SUBLEASE AGREEMENT (the "Sublease"), is made and entered into effective the 17th day of January, 2003, by and between Utility Engineering Corporation, a Texas corporation, as sublessor ( "Sublessor"), and Fair, Isaac and Company, Incorporated, a Delaware corporation, as sublessee ("Sublessee").

W I T N E S S E T H :

WHEREAS, Sublessor is the tenant under that Lease Agreement dated October 23, 2000 (the "Initial Lease") by and between International Centre Limited Partnership, a Minnesota limited partnership, as landlord ("Landlord") and Sublessor. The Initial Lease was subsequently amended by a First Amendment To Lease dated July 30, 2001 (the "First Amendment"). For purposes of this Sublease Agreement, the Initial Lease and the First Amendment, shall be referred to collectively as the "Master Lease";

WHEREAS, the Master Lease demises to Sublessor certain premises (the "Premises") in that building commonly known as The AT&T Tower located at 901 Marquette Avenue, Minneapolis, Minnesota (the "Building"), and

WHEREAS, attached hereto as Exhibit A is a true and correct copy of the Master Lease; and

WHEREAS, the Sublessee desires to lease all of the Premises from the Sublessor, subject to the Landlord's consent, for the term and upon the conditions contained in this Sublease and Sublessor is willing to sublet the Premises upon such terms; and

WHEREAS, simultaneously with the execution and delivery of this Sublease, Sublessee is entering into a separate Lease directly with Landlord of even date herewith (the "Direct Lease"), leasing the Premises and certain additional space in the Building to Sublessee, as more particularly set forth therein; and

WHEREAS, to the extent applicable to the Premises, the Direct Lease is subordinate to this Sublease; and

WHEREAS, capitalized terms not otherwise defined in this Sublease shall have the meaning set forth in the Master Lease.



NOW THEREFORE, in consideration of the agreements and covenants contained herein, and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Sublessor and Sublessee hereby agree as follows:

1. PREMISES. Sublessor hereby leases to Sublessee, and Sublessee hereby leases from Sublessor the Premises for the term and for the rent and on all other terms and conditions set forth herein. The Premises consist of all of the rentable area on the 33rd, 32nd and 31st floors of the Building, together with a portion of the 30th floor of the Building as generally depicted in Exhibit B attached hereto. The Premises are deemed to contain 62,721 square feet of rentable area. The Premises do not contain the storage space leased pursuant to Exhibit C, paragraph 11 of the Master Lease, or the parking spaces to which Sublessor has rights pursuant to the Master Lease.
2. USE. Sublessee shall use the Premises only for general office purposes and such other uses as are permitted by the Master Lease, and for no other purposes.
3. TERM. The term of this Sublease (the "Sublease Term") shall commence on February 1, 2003 (the "Sublease Commencement Date") and shall continue until June 30, 2007, with respect to that portion of the Premises located on the 30th floor only, and until August 31, 2011 with respect to the remainder of the Premises, unless earlier terminated in accordance with the terms of this Sublease.
4. BASE RENT. Commencing on the Sublease Commencement Date, Sublessee shall pay to Sublessor a base rent for the Premises equal to Ten Dollars and Seventy Cents (\$10.70) per square foot of rentable area per year (the "Sublease Base Rent") throughout the Sublease Term. Sublessee shall pay Sublease Base Rent in equal monthly installments of \$55,926.23. All Sublease Base Rent is payable in advance and without notice demand, deduction or offset. Sublease Base Rent for any partial months shall be prorated on a per diem basis.
5. BASE RENT ABATEMENT. Sublease Base Rent payable by Sublessee for the first two full months of the Sublease Term shall be abated with respect to 40,000 square feet of rentable area, such that Sublessee shall pay Sublease Base Rent with respect to only 22,721 square feet of rentable area for each of the first two full months of the Sublease Term, and such that each of the first two installments of Sublease Base Rent due from Sublessee shall be in the amount of \$20,259.56.
6. OPERATING COSTS. In addition to Base Rent, Sublessee shall pay to Sublessor throughout the Sublease Term "Operating Costs" payable by Sublessor as tenant under the Master Lease. Sublessee shall make payment to Sublessor as and when

such payments are due from Sublessor to Landlord under the terms of the Master Lease.

7. ADDITIONAL TAXES. Sublessee shall pay to Sublessor, as additional rent, any "additional taxes" payable by Sublessor as tenant under the Master Lease pursuant to Section 6 thereof as and when such payments are due from Sublessor to Landlord under the terms of the Master Lease. To the extent any of the taxes described in Section 6 of the Master Lease are payable by Sublessor by reason of the receipt of Sublease Base Rent, Sublessee shall pay such taxes, as additional rent, to Sublessor in the manner set forth therein.
8. ADDITIONAL SERVICES AND UTILITIES. Sublessee shall be solely responsible for any additional services as described in Section 7.1 of the Master Lease and shall arrange with Landlord to have any invoice for such additional service sent directly to Sublessee. Sublessee shall pay Landlord therefor as and when provided in the Master Lease.
9. PAYMENT OF RENT. All amounts payable by Sublessee under this Sublease, including the Sublease Base Rent, Sublessee's share of Operating Costs and additional taxes, if any, shall be deemed "Rent."
10. CONDITION OF SUBLEASE PREMISES. Sublessor shall deliver the Premises to Sublessee "broom clean" and in "as-is" condition except that Sublessor shall repair any significant damage to walls or carpet. Sublessor's furniture and furniture systems on the 33rd and 32nd floors together with the phone and data cabling shall remain the property of Sublessor during the Sublease Term, but may be used by Sublessee during the entire Sublease Term without charge. Upon the expiration or earlier termination of the Sublease Term, and provided there then exists no Sublease Default (defined below), Sublessee shall have the right to purchase the furniture and furniture systems from Sublessor for a price of \$1.00 and shall be deemed the owner of the phone and data cabling. A list of the furniture and furniture systems is attached as Exhibit D. EXCEPT AS STATED ABOVE IN THIS SECTION 10. SUBLESSEE ACKNOWLEDGES THAT THE PREMISES WILL OTHERWISE BE DELIVERED TO SUBLESSEE IN THEIR "AS-IS" CONDITION, WITH ALL FAULTS, AND SUBLESSOR SHALL HAVE NO LIABILITY TO SUBLESSEE AS TO THE CONDITION OF THE PREMISES OR OBLIGATION FOR THE PERFORMANCE OF ANY REPAIR OR MAINTENANCE THERETO. THE TAKING OF POSSESSION OF THE PREMISES BY SUBLESSEE SHALL BE DEEMED ACCEPTANCE BY SUBLESSEE OF THE PREMISES AND ACKNOWLEDGMENT THAT THE PREMISES ARE IN SATISFACTORY CONDITION ON THE DATE OF SUCH TAKING OF POSSESSION.

11. NO EXTENSION OR EXPANSION RIGHTS. Sublessee acknowledges that, notwithstanding any rights set forth in the Master Lease that would permit the Sublessor, as tenant, to extend the term of the Master Lease or to expand the area of the Premises, Sublessee shall have no right to extend the Sublease Term or to expand the area of the Premises. However, nothing herein shall preclude Sublessee from negotiating directly with the Landlord for additional space in the Building or for continued occupancy of the Sublease Premises after the Expiration Date, and to the extent Sublessee desires to exercise any expansion, renewal or other options with respect to the Premises or this Sublease, it shall do so pursuant to the Direct Lease. In addition, Sublessor hereby covenants that it will not exercise any options that it may have as tenant under the Master Lease to expand the Premises, to extend the term of the Master Lease, or to otherwise alter the terms of the Master Lease as they exist as of the date of this Sublease.
12. MASTER LEASE. This Sublease is subject and subordinate to the Master Lease. It is the intent of Sublessee and Sublessor to incorporate the Master Lease into this Sublease by reference except as otherwise specifically provided herein. Sublessee shall pay all sums due to Landlord pursuant to the Master Lease to the extent such sums are applicable to the Premises or Sublessee's use of any portion of the Building. Except as otherwise expressly provided by the terms of this Sublease, Sublessee agrees to be bound by and perform all the terms, provisions and conditions to be performed by or applicable to Sublessor under the Master Lease to the extent the same are applicable to the Premises or Sublessee's use of any portion of the Building, and for purposes of said limited incorporation by reference of the Master Lease, any references therein to "Tenant" shall be deemed references to Sublessee. Sublessor shall have the benefit of all rights and remedies available to Landlord under the Prime Master Lease, including, but not limited to the right of re-entry. Except as expressly provided by the term of this Sublease or as superseded by the specific provisions hereof, all rights of Sublessor and obligations of Landlord under the Master Lease shall inure to the benefit of Sublessee herein, and for purposes of said limited incorporation by reference of the Master Lease, notwithstanding the foregoing, references to Landlord in the Master Lease shall be deemed to continue to be references to Landlord. Sublessor shall have no liability to Sublessee for Landlord's defaults, provided that at Sublessee's request Sublessor shall demand that Landlord cure any default by Landlord. Sublessor represents and warrants that as of the date of this Sublease, the Lease is in full force and effect and to the best of Sublessor's actual knowledge there is no default by Landlord or Sublessor under the Master Lease. During the Sublease Term, Sublessor shall not surrender, cancel or terminate the Lease in any manner that would materially affect Sublessee's rights hereunder.

13. SUBLEASE DEFAULT. The occurrence of any one or more of the following shall constitute a "Sublease Default":

(a) Sublessee shall fail to pay any monthly installment of Rent within five days after Sublessee receives notice from Sublessor that the Rent was not received when due, or fails to make timely payment of any other amounts due and owing from Sublessee to Sublessor or to Landlord;

(b) Sublessee shall create or suffer a default under the Master Lease under any provision of the Master Lease applicable to Sublessee or the Premises, and Sublessee shall not cure such default at least five days prior to the expiration of any applicable cure period with respect to such default under the Master Lease.

Upon the occurrence of a Sublease Default, the Sublessor shall have all of the rights and remedies relative to the Sublessee as exist in favor of the Landlord upon default by the Tenant under the Master Lease. Sublessee acknowledges that the remedies available to Sublessor for default include, without limitation, the right to terminate the Sublease and to assert a claim for damages against Sublessee or to repossess the Sublease Premises without terminating the Sublease, all as more fully set forth in Section 14 of the Master Lease.

14. SUBLESSOR CURE OF SUBLESSEE DEFAULT. If Sublessee defaults in the making of any payment, or in the doing of any act herein required to be done by Sublessee or commits any act prohibited herein, Sublessor may, but shall not be required to, make such payment or do such act, or correct any damage caused by such prohibited act and to enter the Premises as appropriate in connection therewith, and the amount of the expense incurred by Sublessor, with interest thereon at the lesser of the highest lawful rate or twelve percent (12%) per annum from the date paid by Sublessor, shall be paid by Sublessee to Sublessor and shall constitute Rent hereunder due and payable with the next monthly installment of Sublease Base Rent. Sublessee hereby acknowledges and agrees that the making of such payment or the performance of such act by Sublessor shall not operate to cure such default or prevent Sublessor from the pursuit of any remedy to which Sublessor would otherwise be entitled. If any installment of Sublease Base Rent is not paid by Sublessee within five (5) business days of the due date, Sublessee shall also be obligated to pay: (i) a one-time late charge of two and one-half percent (2 1/2%) of the amount due as a reasonable reimbursement of administrative costs incurred by Sublessor; and (ii) interest on the unpaid balance at the lesser of the highest lawful rate or twelve percent (12%) per annum and such late charge and interest shall constitute Rent hereunder which shall be immediately due and payable.

15. ALTERATIONS BY SUBLESSEE. Sublessor is delivering the Sublease Premises to Sublessee in its "as-is" condition. Sublessor shall make the Sublease Premises reasonably accessible to Sublessee following execution of this Sublease and the obtaining of Landlord's consent for purposes of planning Sublessee improvements (subject to compliance with Sublessor's and Landlord's reasonable security and notice requirements with regard to such access). Sublessee shall also have access to the Premises no later than January 18, 2003 for the purpose of installing telephone and data lines within the Premises, subject to compliance with Building rules and regulations applicable to such installation. Sublessee shall have the right to make alterations to the Premises to the extent Sublessor has such rights as tenant under the Master Lease, as set forth in Section 9 of the Master Lease. Any fixtures, furnishings or equipment attached to the Premises by Sublessee (except trade fixtures or trade equipment) shall become the property of the Landlord, or be otherwise disposed of, as provided in the Master Lease upon the termination of this Sublease, to the extent not removed by Sublessee from the Premises prior to the termination date. Sublessee shall be required to repair any damage caused to the Premises by removal of fixtures, furnishings, or equipment attached to the Premises by Sublessee and subsequently removed to the extent required by the Master Lease. Upon the expiration or earlier termination of this Sublease, if Sublessee will not be continuing its occupancy of the Sublease Premises at that time under the Direct Lease, Sublessee shall deliver the Premises to Sublessor in the condition required by the Master Lease. If required by Landlord pursuant to the Master Lease (either directly or by Landlord's direction to Sublessor), Sublessee shall remove any alterations or improvements to the Premises, including cabling, installed by Sublessee, at Sublessee's expense, and such work shall be completed prior to the expiration of the Sublease Term. Any signage shall be installed at the expense of Sublessee with the consent of Landlord. Sublessor shall reasonably cooperate with Sublessee with regard to procuring a Building directory listing for Sublessee. Sublessee shall also be permitted to begin its move-in of furniture, fixtures and equipment on January 21, 2003 or any time thereafter.
16. MAINTENANCE. Sublessee shall be responsible for maintaining and repairing the Premises in the condition required by the Master Lease. Sublessee shall also promptly repair any and all damage to the Premises and perform ordinary and necessary maintenance, to the extent required by the Master Lease.
17. INDEMNIFICATION AND INSURANCE.
- A. Sublessee agrees to indemnify, hold harmless and defend Sublessor, and its officers, directors, employees, agents, successors and assigns, from and

against claims, losses, damages, liabilities, causes of action, suits, judgments and expenses, including but not limited to reasonable attorney's fees, for bodily or personal injury, or death to any persons including, but not limited to, employees of Sublessee, and for any loss of, damage to, or destruction of any property, including loss of use thereof, in any way related to Sublessee's use and occupancy of the Premises.

B. Sublessee agrees to purchase and to carry in full force all insurance required by the Master Lease to be carried by Sublessor. Sublessee shall name Sublessor as an additional insured on all liability insurance policies and as loss payee on its property damage insurance and shall provide Sublessor with reasonable evidence of such insurance.

C. Prior to the Sublease Commencement Date, certificates of insurance shall be delivered by Sublessee to Sublessor evidencing compliance with the insurance terms of this Sublease.

D. The indemnity and insurance provisions contained herein shall remain in effect and shall survive the termination of this Sublease with respect to any occurrence or claim arising during the Sublease Term of or in connection with this Sublease or occupancy of the Premises.

18. NOTICES. All notices to be given hereunder shall be in writing and shall be deemed given the earlier of receipt or three (3) business days after deposit in the United States mail, postage prepaid, addressed as follows (or to such address as from time to time may be designated by any party by written notice to the other parties):

SUBLESSEE:

Fair, Isaac and Company, Incorporated  
c/o Robert Benson, Vice President  
5935 Cornerstone Court West  
San Diego, CA 92121

LANDLORD:

International Centre Limited Partnership  
c/o Ryan Properties  
50 South 10th Street, Suite 300  
Minneapolis, MN 554023

CC: Andrea Fike, Vice President,  
Secretary and General Counsel  
901 Marquette Avenue  
Minneapolis, MN 55402

SUBLESSOR:

Utility Engineering Corporation  
Amarillo National's Plaza Two  
500 South Taylor Lobby Box 239  
Amarillo, TX 79101-2446

CC: Corey N. Hessen  
901 Marquette Avenue South  
Suite 2900  
Minneapolis, MN 55402

Any notice received by either Sublessor or Sublessee from Landlord shall be delivered to the other party within five (5) business days of receipt and shall be effective, under the terms of this Sublease, on the business day following receipt of such copy by the party to be notified.

19. ASSIGNMENT AND SUBLEASING. Subject to the approval of Landlord to the extent required under the Master Lease, Sublessee on notice to Sublessor (but without Sublessor's consent), may assign this Lease or sublet all or part of the Premises to any of Sublessee's Affiliates. "Sublessee's Affiliates" means any company controlling, controlled by or under common control with Sublessee, as well as any entity acquiring all or substantially all of Sublessee's assets or common stock. In no circumstances shall the original Sublessee be released from its obligations under this Sublease. A transfer of an ownership interest in Sublessee is not an assignment of this Sublease, but Sublessee shall give Sublessor notice of any such transfer which

results in a change in control of Sublessee. Sublessee shall not otherwise assign this Sublease or sublet all or any part of the Premises voluntarily, involuntarily or by operation of law, without first obtaining Sublessor's written consent thereto, which consent shall not be unreasonably withheld, delayed or conditioned and will be deemed granted unless denied in writing by Sublessor within 10 days after Sublessee's delivery of its consent request to Sublessor. Any such assignee or sublessee shall assume in writing the performance of the covenants and obligations of Sublessee hereunder. Sublessee shall deliver to Sublessor a fully executed copy of any assignment or sublease. Any assignment or subletting by Sublessee not in compliance with the Master Lease and this Sublease shall permit Sublessor to exercise against Sublessee the rights granted to the Landlord against the Tenant under the Master Lease.

20. LIENS AND TAXES. Sublessee shall promptly pay, and shall hold Sublessor and Landlord harmless from:
- A. All taxes assessed against and levied upon any trade fixtures, furnishings, equipment and all other personal property of Sublessee in the Premises.
  - B. All levies, liens and encumbrances which arise from any act or omission of Sublessee, including any work performed in the Premises by or under the direction of Sublessee.
21. PERFORMANCE UNDER LEASE. Sublessee acknowledges that Sublessor does not control the performance by Landlord under the Master Lease, including the providing of services to the Sublease Premises. Sublessee hereby agrees that Sublessor shall have no liability to Sublessee of any kind arising out of such non-performance or non-delivery of services, except the obligation to use reasonable efforts to request Landlord to perform under the Master Lease and/or provide the required services. Sublessor hereby assigns to Sublessee the right of Sublessor to pursue enforcement of the Master Lease against Landlord as to such non-performance.
22. APPLICABLE LAW. This Sublease shall be governed by and construed in accordance with the laws of the State of Minnesota.
23. QUIET ENJOYMENT. So long as Sublessee is not in default under any of the covenants, agreements, terms and conditions hereof, on the part of Sublessee to be performed and observed, Sublessor covenants that Sublessee shall peacefully have and enjoy the Premises without hindrance or molestation by Sublessor.



24. **BROKER COMMISSION.** Sublessor has disclosed to Sublessee that it is represented by The Staubach Company (the "Sublessor Broker") with regard to this Sublease. Sublessee has disclosed to Sublessor that it is represented by Griffin Companies with regard to this Sublease (the "Sublessee Broker"). Sublessor has agreed to pay Sublessor Broker a brokerage fee pursuant to a separate written commission agreement, and Sublessor Broker shall also be responsible for payment of a brokerage fee owing to Sublessee Broker out of Sublessor Broker's commission when Sublessor pays Sublessor Broker. Each of the parties represents to the other that such party has not incurred any brokerage commission or finder's fee as a result of this Sublease other than as set forth in this Section 24, and each party agrees to hold the other harmless from all liabilities incurred by the other relating to such brokerage commission or finder's fee incurred as a result of the actions of such party. The provisions of this Section shall survive termination of this Sublease.
25. **LANDLORD CONSENT.** Sublessee acknowledges that Sublessor is requesting Landlord's consent as to the Sublease and that this Sublease shall not be binding upon the parties until the Landlord has provided its written consent. The form of consent requested by Sublessor and Sublessee is attached is hereto as Exhibit C.
26. **BUILDING SERVICES.** From and after the Sublease Commencement Date, Sublessee shall have access to the Building, the Premises, and the Common Areas twenty-four (24) hours per day, seven (7) days per week subject to exceptions set forth in the Master Lease.

Except as otherwise provided in Section 8 of this Sublease, from and after the Sublease Commencement Date, Building standard janitorial services shall be provided to the Premises at no cost to Sublessee and Sublessee shall cooperate in using trash and recycling facilities provided in conjunction with such services.

Sublessee shall not be obligated for payment of utility costs with regard to the Premises unless Landlord imposes an excess utility charge on Sublessor as a result of Sublessee's particular use of the Premises (i.e., related to excessive utility use, excessive cooling requirements, etc.). In such event, Sublessor shall submit the invoices for such excess charges to Sublessee and Sublessee shall promptly pay said charges to Landlord.

27. **COUNTERPART SIGNATURES.** This Sublease may be executed in counterparts, each of which when appended with the signatures of the parties, shall constitute an original Sublease.

28. SATELLITE DISH. Sublessee shall have the right to install and operate a rooftop satellite-earth communications antenna, at no cost to Sublessor, to the extent such rights are granted to Sublessor as tenant under the Master Lease.

IN WITNESS WHEREOF, the parties have executed this Sublease Agreement effective the date and year first above written.

SUBLESSEE:

FAIR, ISAAC AND COMPANY, INC.  
A DELAWARE CORPORATION

DATED: January 17, 2003

BY /s/ Kenneth J. Saunders

ITS CHIEF FINANCIAL OFFICER

SUBLESSOR:

UTILITY ENGINEERING CORPORATION,  
A TEXAS CORPORATION

DATED: January 17, 2003

BY /s/ [SIGNATURE ILLEGIBLE]

ITS Vice President, Corporate  
Strategy & Services

EXHIBIT A  
COPY OF LEASE

EXHIBIT B

DEPICTION OF SUBLEASE PREMISES

EXHIBIT C

CONSENT TO SUBLEASE

Reference is made to that certain Lease Agreement dated October 23, 2000 (the "Initial Lease"), by and between International Centre Limited Partnership, as landlord (the "Initial Landlord") and Utility Engineering Corporation, as tenant (the "Tenant"), as amended by a First Amendment to Lease dated July 30, 2001 (the "First Amendment"), which Initial Lease and First Amendment to Lease shall be referred to collectively herein as the "Lease."

Subject to the terms and conditions of this Consent to Sublease, Landlord hereby consents to the sublease by Sublessor of the Premises to Fair, Isaac and Company, Incorporated ("Sublessee") pursuant to the terms of that certain Sublease Agreement dated effective \_\_\_\_\_, 2003, by and between Sublessor and Sublessee (the "Sublease"). For purposes of this Consent, "Premises" shall mean those premises described in the Sublease and generally depicted in Exhibit B thereto.

Sublessor and Sublessee each represent and warrant that the Sublease sets forth the entire transaction between Sublessor and Sublessee relating to the Premises. Sublessee represents that all disclosures made by Sublessee to the Landlord in connection with this Consent to Sublease (if any) are true in all material respects and do not omit any materially relevant information.

The Landlord's consent to the Sublease shall not constitute approval of the form or terms and conditions of the Sublease. The Sublease, notwithstanding any term or provision thereof to the contrary, shall not amend, modify, or in any way affect the Lease or the rights and obligations of the parties thereunder. The Sublease shall not create in or grant to Sublessee any direct rights or remedies against Landlord under the Sublease. To the extent that any provision of the Sublease is inconsistent with this Consent to Sublease, that provision shall be void and of no force and effect.

Notwithstanding anything which may be apparently to the contrary in the Sublease, Sublessee hereby agrees to observe fully all covenants and conditions of the Lease as applicable to the Premises. Landlord's consent hereunder shall not be deemed in any manner to be a consent to a use not permitted pursuant to Section 4 of the Lease or a consent to any other sublease or assignment. Any proposed sublease or assignment by Sublessee shall be subject to the provisions of Section 8(G) of the Lease. The terms and conditions of the Lease shall be fully enforceable against Sublessee, and nothing in this Consent to Sublease or in the Sublease shall be construed to modify the Lease or Landlord's rights and remedies

thereunder. Nothing in this Consent to Sublease shall in any manner be construed to be an agreement by Landlord not to disturb Sublessee in the event of any default under the Lease by Sublessor which is not cured by Sublessor within the cure period, if any, provided under the Lease.

Notwithstanding the Sublease, Sublessor shall remain liable to Landlord under the Lease. Sublessor hereby ratifies and confirms its obligations under the Lease and acknowledges that, to the best of its actual knowledge, (i) Landlord is not in default under the Lease, (ii) no event has occurred that, with the passage of time or notice, would constitute a default under the Sublease, and (iii) Sublessor has no existing claim against Landlord or right of offset or defense against enforcement by the Landlord of the obligations of the Sublessor under the Lease.

Landlord agrees that, so long as Sublessee has procured and maintains the insurance required under Section 17(B) of the Sublease, Sublessor shall be relieved of its obligation to maintain insurance under Section 8(K) of the Lease.

This Consent to Sublease, the Sublease Agreement and the Direct Lease (referenced in the Recitals to this Sublease contains the entire agreement of the parties hereto with respect to the subject matter hereof. This Consent to Sublease shall be binding on and inure to the benefit of Landlord, Sublessor and Sublessee and their respective successors and assigns.

LANDLORD: International Centre Limited Partnership  
By International Centre III Limited Partnership  
By Ryan Properties, Inc.

Dated: January 17, 2003

By /s/ John P. Kelly

Its EVP

Dated: January 17, 2003

SUBLESSOR: Utility Engineering Corporation

By [SIGNATURE ILLEGIBLE]

Its Vice President, Corporate  
Strategy & Services

Dated: January 17, 2003

SUBLESSEE: Fair, Isaac and Company, Inc.

By /s/ Kenneth J. Saunders

Its Chief Financial Officer

EXHIBIT D

Schedule of Furniture and Built-In Furniture Systems