# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

**Form 10-K/A**
**(Amendment No. 1)**

(Mark One)

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

**For the fiscal year ended September 30, 2007**

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

**For the transition period from__________ to __________**

**Commission File Number 0-16439**

# Fair Isaac Corporation
*(Exact name of registrant as specified in its charter)*

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

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

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

| (Title of Class) | (Name of each exchange on which registered) |
|---|---|
| Common Stock, $0.01 par value per share | New York Stock Exchange, Inc. |
| Preferred Stock Purchase Rights | New York Stock Exchange, Inc. |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☑ Yes o No

Indicate by check mark if the registrant is not required to file report pursuant to Section 13 or Section 15(d) of the Act. o Yes ☑ No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer ☑ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

As of March 31, 2007, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $1,480,955,703 based on the last transaction price as reported on the New York Stock Exchange on such date. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes.

The number of shares of common stock outstanding on March 31, 2008 was 48,588,622 (excluding 40,268,162 shares held by the Company as treasury stock).

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders held on February 4, 2008.

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Certification of CEO
Certification of CFO
Section 1350 Certifications of CEO
Section 1350 Certifications of CFO

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**Explanatory Note**

This Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, initially filed on November 28, 2007, is being filed for the primary purpose of adding Deloitte & Touche LLP's conformed signature ("/s/ Deloitte & Touche LLP") at the bottom of its Report of Independent Registered Public Accounting Firm. The conformed signature was inadvertently omitted in the version of the report previously filed. We are including the signed Report of Independent Registered Public Accounting Firm in a new Item 8, *Financial Statements and Supplementary Data*, to amend and replace in its entirety the Item 8, *Financial Statements and Supplementary Data* as previously filed. In addition, we amended Item 3, *Legal Proceedings*, to provide additional disclosure of certain legal matters. We are including a new Item 3, *Legal Proceedings*, to amend and replace in its entirety the Item 3, *Legal Proceedings* as previously filed. We also amended Item 9A, *Controls and Procedures*, to modify the language included therein. We are including a new Item 9A, *Controls and Procedures*, to amend and replace in its entirety the Item 9A, *Controls and Procedures* as previously filed.

Except as described above, no other amendments are being made to the Annual Report. We are including in this amendment Item 15 — *Financial Statements and Exhibits*, Exhibit 23.1, the consent of our independent registered public accounting firm and Exhibits 31.1, 31.2, 32.1 and 32.2, the certifications of the Principal Executive Officer and Principal Financial Officer. This Form 10-K/A does not reflect events occurring after the November 28, 2007 filing of our Annual Report or modify or update the disclosure contained in the Annual Report in any way other than as required to reflect the previously discussed amendments.

**Item 3.** ***Legal Proceedings***

We were a defendant in a lawsuit captioned as Robbie Hillis v. Equifax Consumer Services, Inc. and Fair Isaac, Inc., filed in the U.S. District Court for the Northern District of Georgia. The plaintiff claimed that the defendants jointly sold the Score Power® credit score product in violation of certain procedural requirements under the Credit Repair Organizations Act ("CROA"), and in violation of the antifraud provisions of that statute. On June 13, 2007, the Court granted final approval of a settlement agreed to by the parties and directed that final judgment be entered. An appeal was filed on July 11, 2007. The appeal was dismissed, and the settlement agreement is final.

We were a defendant in a lawsuit captioned as Christy Slack v. Fair Isaac Corporation and MyFICO Consumer Services, Inc., which was filed in the United States District Court for the Northern District of California. As in the Hillis matter, the plaintiff is claiming that the defendants violated certain procedural requirements of CROA, and violated the antifraud provisions of CROA, with respect to the sale of credit score products on our myfico.com website. This matter was covered by the settlement agreement in the Robbie Hillis lawsuit, as described above.

On October 11, 2006, we filed a lawsuit in the U.S. District Court for the District of Minnesota captioned Fair Isaac Corporation and myFICO Consumer Services Inc. v. Equifax Inc., Equifax Information Services LLC, Experian Information Solutions, Inc., TransUnion LLC, VantageScore Solutions LLC, and Does I through X. The lawsuit primarily relates to the development, marketing, and distribution of VantageScore, a credit score product developed by VantageScore Solutions LLC, which is jointly owned by the three national credit reporting companies. We allege in the lawsuit violations of antitrust laws, unfair competitive practices and false advertising, trademark infringement, trade secret misappropriation, and breach of contract. We are seeking injunctive relief, and compensatory and punitive damages. The defendants have made no counterclaims against Fair Isaac in the lawsuit. Discovery is ongoing and scheduled to close by July 2008, with trial expected in mid-2009.

**Item 8.** ***Financial Statements and Supplementary Data***

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Fair Isaac Corporation
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Fair Isaac Corporation and subsidiaries (the "Company") as of September 30, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for each of the three years in the period ended September 30, 2007. We have also audited the Company's internal control over financial reporting as of September 30, 2007 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 16 to the consolidated financial statements, the Company changed its method of accounting for share-based payments to conform to Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, as of October 1, 2005.

/s/ Deloitte & Touche LLP
Minneapolis, Minnesota
November 28, 2007

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

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 95,284 | $ 75,154 |
| Marketable securities available for sale, current portion | 125,327 | 152,141 |
| Accounts receivable, net | 177,402 | 165,806 |
| Prepaid expenses and other current assets | 24,738 | 17,998 |
| Deferred income taxes | — | 2,211 |
| Total current assets | 422,751 | 413,310 |
| Marketable securities available for sale, less current portion | 13,776 | 38,318 |
| Other investments | 12,374 | 2,161 |
| Property and equipment, net | 52,157 | 56,611 |
| Goodwill | 692,922 | 695,162 |
| Intangible assets, net | 62,923 | 90,900 |
| Deferred income taxes | 14,828 | 20,010 |
| Other assets | 4,040 | 4,733 |
| | $ 1,275,771 | $ 1,321,205 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 16,300 | $ 12,162 |
| Senior convertible notes | 390,963 | 400,000 |
| Accrued compensation and employee benefits | 44,202 | 34,936 |
| Other accrued liabilities | 31,887 | 41,647 |
| Deferred revenue | 42,572 | 48,284 |
| Total current liabilities | 525,924 | 537,029 |
| Revolving line of credit | 170,000 | — |
| Other liabilities | 13,533 | 14,148 |
| Total liabilities | 709,457 | 551,177 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock ($0.01 par value; 1,000 shares authorized; none issued and outstanding) | — | — |
| Common stock ($0.01 par value; 200,000 shares authorized, 88,857 shares issued and 51,064 and 59,369 shares outstanding at September 30, 2007 and 2006, respectively) | 511 | 594 |
| Paid-in-capital | 1,097,327 | 1,073,886 |
| Treasury stock, at cost (37,793 and 29,488 shares at September 30, 2007 and 2006, respectively) | (1,290,393) | (952,979) |
| Retained earnings | 745,054 | 644,836 |
| Accumulated other comprehensive income | 13,815 | 3,691 |
| Total stockholders' equity | 566,314 | 770,028 |
| | $ 1,275,771 | $ 1,321,205 |

See accompanying notes to consolidated financial statements.

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

| | Years Ended September 30, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Revenues | $ 822,236 | $ 825,365 | $ 798,671 |
| Operating expenses: | | | |
| Cost of revenues (1) | 293,482 | 281,977 | 275,065 |
| Research and development | 70,599 | 84,967 | 81,295 |
| Selling, general and administrative (1) | 285,541 | 260,845 | 223,400 |
| Amortization of intangible assets (1) | 23,226 | 25,191 | 25,900 |
| Restructuring and acquisition-related | 2,455 | 19,662 | — |
| Gain on sale of product line assets | (1,541) | — | — |
| Total operating expenses | 673,762 | 672,642 | 605,660 |
| Operating income | 148,474 | 152,723 | 193,011 |
| Interest income | 13,527 | 15,248 | 8,402 |
| Interest expense | (12,766) | (8,569) | (8,347) |
| Other income (expense), net | 427 | (210) | 1,022 |
| Income before income taxes | 149,662 | 159,192 | 194,088 |
| Provision for income taxes | 45,012 | 55,706 | 59,540 |
| Net income | $ 104,650 | $ 103,486 | $ 134,548 |
| Earnings per share: | | | |
| Basic | $ 1.87 | $ 1.63 | $ 2.02 |
| Diluted | $ 1.82 | $ 1.59 | $ 1.86 |
| Shares used in computing earnings per share: | | | |
| Basic | 56,054 | 63,579 | 66,556 |
| Diluted | 57,548 | 65,125 | 73,584 |

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

See accompanying notes to consolidated financial statements.

# FAIR ISAAC CORPORATION
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
## Years Ended September 30, 2007, 2006 and 2005
## (In thousands)

| | Common Stock | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Paid-In-Capital | Treasury Stock | Unearned Compensation | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Comprehensive Income |
| **Balance at September 30, 2004** | **69,579** | **$ 697** | **$ 1,054,437** | **$ (551,977)** | **$ (1,814)** | **$ 417,218** | **$ (2,090)** | **$ 916,471** | |
| Exercise of stock options | 3,299 | 33 | (35,145) | 98,300 | — | — | — | 63,188 | |
| Tax benefit from exercised stock options | — | — | 12,711 | — | — | — | — | 12,711 | |
| Amortization of unearned compensation | — | — | — | — | 2,927 | — | — | 2,927 | |
| Options exchanged in Braun acquisition | — | — | 2,417 | — | (394) | — | — | 2,023 | |
| Forfeitures of restricted stock and stock options | (13) | — | 35 | (291) | 256 | — | — | — | |
| Release of common stock from escrow | (102) | (1) | — | (2,201) | — | — | — | (2,202) | |
| Repurchases of common stock | (9,225) | (94) | — | (328,443) | — | — | — | (328,537) | |
| Issuance of ESPP shares from treasury | 298 | 3 | (190) | 8,866 | — | — | — | 8,679 | |
| Senior convertible notes exchange offer premium | — | — | 1,000 | — | — | — | — | 1,000 | |
| Dividends paid | — | — | — | — | — | (5,316) | — | (5,316) | |
| Stock-based unearned compensation | — | — | 2,259 | — | (2,259) | — | — | — | |
| Net income | — | — | — | — | — | 134,548 | — | 134,548 | $ 134,548 |
| Unrealized losses on investments, net of tax of $97 | — | — | — | — | — | — | (172) | (172) | (172) |
| Cumulative translation adjustments, net of tax of $134 | — | — | — | — | — | — | (226) | (226) | (226) |
| **Balance at September 30, 2005** | **63,836** | **638** | **1,037,524** | **(775,746)** | **(1,284)** | **546,450** | **(2,488)** | **805,094** | **$ 134,150** |
| Share-based compensation | | | 42,085 | — | — | — | — | 42,085 | |
| Exercise of stock options | 2,104 | 21 | (10,993) | 65,888 | — | — | — | 54,916 | |
| Tax benefit from exercised stock options | — | — | 10,571 | — | — | — | — | 10,571 | |
| Reclassification due to the adoption of SFAS No. 123(R) | — | — | (1,284) | — | 1,284 | — | — | — | |
| Forfeitures of restricted stock | (22) | — | 51 | (51) | — | — | — | — | |
| Repurchases of common stock | (6,971) | (69) | — | (256,418) | — | — | — | (256,487) | |
| Issuance of ESPP shares from treasury | 300 | 3 | (185) | 9,466 | — | — | — | 9,284 | |
| Issuance of restricted stock to employees from treasury | 122 | 1 | (3,883) | 3,882 | — | — | — | — | |
| Dividends paid | — | — | — | — | — | (5,100) | — | (5,100) | |
| Net income | — | — | — | — | — | 103,486 | — | 103,486 | $ 103,486 |
| Unrealized gains on investments, net of tax of $206 | — | — | — | — | — | — | 368 | 368 | 368 |
| Cumulative translation adjustments, net of tax of $3,441 | — | — | — | — | — | — | 5,811 | 5,811 | 5,811 |
| **Balance at September 30, 2006** | **59,369** | **594** | **1,073,886** | **(952,979)** | **—** | **644,836** | **3,691** | **770,028** | **$ 109,665** |
| Share-based compensation | | | 36,261 | — | — | — | — | 36,261 | |
| Exercise of stock options | 3,137 | 31 | (29,262) | 104,357 | — | — | — | 75,126 | |
| Tax benefit from exercised stock options | — | — | 16,684 | — | — | — | — | 16,684 | |
| Forfeitures of restricted stock | (23) | — | 732 | (732) | — | — | — | — | |
| Repurchases of common stock | (11,716) | (117) | — | (450,971) | — | — | — | (451,088) | |
| Issuance of ESPP shares from treasury | 277 | 3 | (328) | 9,286 | — | — | — | 8,961 | |
| Issuance of restricted stock to employees from treasury | 20 | — | (646) | 646 | — | — | — | — | |
| Dividends paid | — | — | — | — | — | (4,432) | — | (4,432) | |
| Net income | — | — | — | — | — | 104,650 | — | 104,650 | $ 104,650 |
| Unrealized gains on investments, net of tax of $165 | — | — | — | — | — | — | 261 | 261 | 261 |
| Cumulative translation adjustments, net of tax of $6,622 | — | — | — | — | — | — | 9,863 | 9,863 | 9,863 |
| **Balance at September 30, 2007** | **51,064** | **$ 511** | **$ 1,097,327** | **$ (1,290,393)** | **$ —** | **$ 745,054** | **$ 13,815** | **$ 566,314** | **$ 114,774** |

See accompanying notes to consolidated financial statements.

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

| | Years Ended September 30, 2007 | 2006 | 2005 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 104,650 | $ 103,486 | $ 134,548 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 50,224 | 48,805 | 51,517 |
| Share-based compensation | 36,261 | 42,085 | 2,927 |
| Deferred income taxes | 3,800 | 1,125 | 13,279 |
| Tax benefit from exercised stock options | 16,684 | 10,571 | 12,711 |
| Excess tax benefits from share-based payment arrangements | (12,623) | (7,094) | — |
| Net amortization (accretion) of premium (discount) on marketable securities | (1,098) | (110) | 420 |
| Provision for doubtful accounts | 4,972 | 2,200 | 3,691 |
| Gain on sale of product line assets | (1,541) | — | — |
| Net loss on sales of property and equipment | 693 | 70 | 71 |
| Changes in operating assets and liabilities, net of acquisition and disposition effects: | | | |
| Accounts receivable | (15,837) | (9,686) | (7,527) |
| Prepaid expenses and other assets | (3,400) | 4,489 | (2,485) |
| Accounts payable | 1,584 | 126 | (1,773) |
| Accrued compensation and employee benefits | 8,864 | 3,326 | (2,395) |
| Other liabilities | (9,492) | 7,686 | (8,665) |
| Deferred revenue | (4,578) | (8,037) | 17,763 |
| Net cash provided by operating activities | 179,163 | 199,042 | 214,082 |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (22,735) | (31,409) | (16,414) |
| Cash proceeds from sales of property and equipment | 566 | — | — |
| Cash proceeds from sales of product line assets | 15,758 | 500 | 750 |
| Cash paid for acquisitions, net of cash acquired | — | — | (41,312) |
| Cash proceeds from disposition of London Bridge Phoenix Software, Inc. | — | — | 22,672 |
| Purchases of marketable securities | (180,951) | (176,251) | (241,273) |
| Proceeds from sales of marketable securities | 14,250 | 53,390 | 118,472 |
| Proceeds from maturities of marketable securities | 220,763 | 136,743 | 154,804 |
| Investment in cost-method investees | (10,213) | — | (600) |
| Net cash provided by (used in) investing activities | 37,438 | (17,027) | (2,901) |
| **Cash flows from financing activities:** | | | |
| Proceeds from revolving line of credit | 170,000 | — | — |
| Payments for repurchases of senior convertible notes | (9,037) | — | — |
| Debt issuance costs | (858) | — | — |
| Proceeds from issuances of common stock under employee stock option and purchase plans | 84,087 | 64,200 | 71,867 |
| Dividends paid | (4,432) | (5,100) | (5,316) |
| Repurchases of common stock | (451,088) | (256,487) | (328,537) |
| Excess tax benefits from share-based payment arrangements | 12,623 | 7,094 | — |
| Net cash used in financing activities | (198,705) | (190,293) | (261,986) |
| **Effect of exchange rate changes on cash** | 2,234 | 552 | (385) |
| Increase (decrease) in cash and cash equivalents | 20,130 | (7,726) | (51,190) |
| Cash and cash equivalents, beginning of year | 75,154 | 82,880 | 134,070 |
| Cash and cash equivalents, end of year | $ 95,284 | $ 75,154 | $ 82,880 |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid for income taxes, net of refunds of $30, $2,378 and $2,951 during the years ended September 30, 2007, 2006 and 2005, respectively | $ 38,127 | $ 37,586 | $ 23,932 |
| Cash paid for interest | $ 9,580 | $ 6,000 | $ 6,000 |

See accompanying notes to consolidated financial statements.

**FAIR ISAAC CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**Years Ended September 30, 2007, 2006 and 2005**

## 1. Nature of Business and Summary of Significant Accounting Policies

### *Fair Isaac Corporation*

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

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

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

The consolidated financial statements include the accounts of Fair Isaac and its subsidiaries. All intercompany accounts and transactions have been eliminated.

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include, but are not limited to, assessing the following: the recoverability of accounts receivable, goodwill and other intangible assets, software development costs and deferred tax assets; the ability to estimate hours in connection with fixed-fee service contracts, the ability to estimate transactional-based revenues for which actual transaction volumes have not yet been received, and the determination of whether fees are fixed or determinable and collection is probable or reasonably assured.

### *Cash and Cash Equivalents*

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

### *Fair Value of Financial Instruments*

The fair value of certain of our financial instruments, including cash and cash equivalents, receivables, and other current assets, accounts payable, accrued compensation and employee benefits, other accrued liabilities and amounts outstanding under our revolving line of credit, approximate their carrying amounts because of the short-term maturity of these instruments. The fair values of our cash and cash equivalents, marketable security investments are disclosed in Note 4. The fair value of our cost-method investments approximate their recorded value. The fair value of our senior convertible notes is disclosed in Note 9.

### *Investments*

Management determines the appropriate classification of our investments in marketable debt and equity securities at the time of purchase, and re-evaluates this designation at each balance sheet date. While it is our intent to hold debt securities to maturity, our investments in U.S. government obligations and marketable equity and debt securities that have readily determinable fair values are classified as available-for-sale, as the sale of such securities may be required prior to maturity to implement management strategies. Therefore, such securities are carried at fair value with unrealized gains or losses related to these securities included in comprehensive income (loss). Realized gains and losses are included in other income (expense), net. The cost of investments sold is based on the specific identification method. Losses resulting from other than temporary declines in fair value are charged to operations. Investments with remaining maturities over one year are classified as long-term investments.

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

***Concentration of Risk***

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

***Property and Equipment***

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

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

The cost and accumulated depreciation for property and equipment sold, retired or otherwise disposed of are removed from the accounts and resulting gains or losses are recorded in operations. Depreciation and amortization on property and equipment totaled $27.0 million, $23.6 million and $24.3 million during fiscal 2007, 2006 and 2005, respectively.

***Internal-use Software***

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at cost, subject to an impairment test as described below. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. Capitalized costs are amortized using the straight-line method over two to three years.

We assess potential impairment of capitalized internal-use software whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows that are expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. We capitalized $0.2 million, $0.8 million and $1.1 million in fiscal 2007, 2006 and 2005, respectively. Amortization expense related to internal-use software was $2.0 million, $2.5 million and $3.0 million in fiscal 2007, 2006 and 2005, respectively.

***Capitalized Software Development Costs***

All costs incurred prior to the resolution of unproven functionality and features, including new technologies, are expensed as research and development. After the uncertainties have been tested and the development issues have been resolved and technological feasibility is achieved, subsequent direct costs such as coding, debugging and testing are capitalized. Capitalized software development costs are amortized using the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. Capitalized software development costs were $0, net of accumulated amortization of $3.4 million as of September 30, 2007 and 2006, and are included in other long-term assets in the accompanying consolidated balance sheets. Amortization expense related to capitalized software development costs totaled $0, $0 and $1.3 million during fiscal 2007, 2006 and 2005, respectively.

At each balance sheet date, we compare a product's unamortized capitalized cost to the product's estimated net realizable value. To the extent unamortized capitalized costs exceed net realizable value based on the product's estimated future gross revenues, reduced by the estimated future costs of completing and disposing of the product, the excess is written off. This analysis requires us to estimate future gross revenues associated with certain products, and the future costs of completing and disposing of certain products. If these estimates change, reductions or write-offs of capitalized software development costs could result. No write-offs were recorded during fiscal 2007, 2006 or 2005.

***Goodwill and Intangible Assets***

Goodwill and intangible assets with indefinite lives are tested for impairment at least annually or more frequently if impairment indicators arise. Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identified intangible assets, in connection with our business combinations accounted for by the purchase method of accounting (see Note 2).

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

| | Estimated Useful Life |
|---|---|
| Completed technology | 5 to 6 years |
| Customer contracts and relationships | 2 to 15 years |
| Trade names | 5 years |
| Other | 3 years |

***Revenue Recognition***

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

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

If at the outset of an arrangement we determine that the arrangement fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes due assuming all other revenue recognition criteria have been met. If at the outset of an arrangement we determine that collectibility is not probable, revenue is deferred until the earlier of when collectibility becomes probable or the receipt of payment. If there is uncertainty to the customer's acceptance of our deliverables, revenue is not recognized until the earlier of receipt of customer acceptance, expiration of the acceptance period, or where we can demonstrate we meet the acceptance criteria.

Revenues from post-contract customer support services, such as software maintenance, are recognized on a straight-line basis over the term of the support period. The majority of our software maintenance agreements provide technical support as well as unspecified

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software product upgrades and releases when and if made available by us during the term of the support period.

Revenues recognized from our credit scoring, data processing, data management and internet delivery services are recognized as these services are performed, provided persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured. The determination of certain of our credit scoring and data processing revenues requires the use of estimates, principally related to transaction volumes in instances where these volumes are reported to us by our clients on a monthly or quarterly basis in arrears. In these instances, we estimate transaction volumes based on preliminary customer transaction information, if available, or based on average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported.

Transactional or unit-based license fees under software license arrangements, network service and internally-hosted software agreements are recognized as revenue based on system usage or when fees based on system usage exceed monthly minimum license fees, provided persuasive evidence of an arrangement exists, fees are fixed or determinable and collection is probable. The determination of certain of our transactional or unit-based license fee revenues requires the use of estimates, principally related to transaction usage or active account volumes in instances where this information is reported to us by our clients on a monthly or quarterly basis in arrears. In these instances, we estimate transaction volumes based on preliminary customer transaction information, if available, or based on average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported.

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

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

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

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

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

***Allowance for Doubtful Accounts***

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

***Income Taxes***

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

***Earnings per Share***

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

***Comprehensive Income***

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

***Foreign Currency***

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

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

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

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***Share-Based Compensation***

Prior to October 1, 2005, we accounted for our share-based employee compensation plans under the measurement and recognition provisions of Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*. We generally recorded no employee compensation expense for options granted prior to October 1, 2005 as options granted generally had exercise prices equal to the fair market value of our common stock on the date of grant. We also recorded no compensation expense in connection with our 1999 Employee Stock Purchase Plan ("Purchase Plan") as the purchase price of the stock was not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each offering period. In accordance with SFAS No. 123, we disclosed our net income and earnings per share as if we had applied the fair value-based method in measuring compensation expense for our share-based incentive awards.

Effective October 1, 2005, we adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified prospective transition method. Under that transition method, compensation expense that we recognize beginning on that date includes expense associated with the fair value of all awards granted on and after October 1, 2005, and expense for the unvested portion of previously granted awards outstanding on October 1, 2005. Results for prior periods have not been restated. See Note 16 for further discussion of the impact of the adoption of SFAS No. 123(R).

***Impairment of Long-lived Assets***

We assess potential impairment to long-lived assets and certain identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows that are expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. We determined that our long-lived intangible assets were not impaired at September 30, 2007, 2006 or 2005. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

***Advertising and Promotion Costs***

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs totaled $1.2 million, $4.3 million and $5.3 million in fiscal 2007, 2006 and 2005, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of income.

***New Accounting Pronouncements Not Yet Adopted***

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning October 1, 2007. We are in the process of determining what effect, if any, the adoption of FIN 48 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measures*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of determining what effect, if any, the adoption of SFAS No. 157 will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets & Financial Liabilities — Including an Amendment of SFAS No. 115* ("SFAS 159"). SFAS 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option. SFAS 159 will become effective for fiscal years beginning after November 15, 2007. We are in the process of determining what effect, if any, the adoption of SFAS 159 will have on our consolidated financial statements.

In August 2007, the FASB proposed FASB Staff Position ("FSP") APB 14-a, *Accounting for Convertible Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. The proposed FSP would require the proceeds from the issuance of such convertible debt instruments to be allocated between debt (at a discount) and an equity component. The debt discount would be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The proposed change in accounting treatment would be effective for fiscal years beginning after December 15, 2007, and applied retrospectively to prior periods. If adopted as proposed, this FSP would change the accounting treatment for our Senior Notes, which were issued in August 2003. The new accounting treatment would require us to retrospectively record a significant amount of non-cash interest as the discount on the debt is amortized. We are in the process of determining the effect the adoption of the proposed FSP will have on our consolidated financial statements.

## 2. Acquisitions

***RulesPower, Inc.***

On September 23, 2005, we acquired certain assets of RulesPower, Inc. ("RulesPower"), a leading provider of analytics and decision management technology, in exchange for cash consideration of $6.5 million. The purpose of this acquisition was to acquire RulesPower's high-performance business rules management systems. These systems utilize proprietary execution engines that help users manage large amounts of data by executing rules faster and more efficiently. We intend to integrate this technology into Blaze Advisor system's existing performance optimization capabilities, rules repository, developer tools, templates for business user rules management and other Fair Isaac products in which the Blaze Advisor system is embedded. We accounted for this transaction using the purchase method of accounting. Our allocation of the purchase price included $5.3 million for goodwill and $1.2 million for intangible assets, consisting of core technology. The acquired intangible assets have an estimated useful life of five years and are being amortized over this period using the straight-line method. The goodwill was allocated entirely to our Analytical Software Tools operating segment and will be deductible for tax purposes.

***Braun Consulting, Inc.***

On November 10, 2004, we acquired all of the issued and outstanding stock of Braun Consulting, Inc. ("Braun"), a marketing strategy and technology consulting firm, in exchange for cash consideration of $37.1 million and contingent cash consideration of $3.3 million payable to a former Braun shareholder if certain revenue parameters are achieved during either the fiscal year ended September 30, 2005, the two fiscal years ended September 30, 2006, or the three fiscal years ended September 30, 2007. These revenue parameters were not achieved and, accordingly, no contingent cash consideration was paid. The acquisition of Braun was consummated principally to complement our marketing solutions and services related to marketing strategy and customer management technologies, as well as to expand our capabilities in markets targeted for growth, including healthcare, retail and pharmaceuticals. Braun is included in the Professional Services operating segment. The results of operations of Braun have been included in our results prospectively from November 10, 2004.

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

| | |
|---|---|
| Total cash consideration | $ 37,093 |
| Acquisition-related costs | 615 |
| Fair value of options to purchase Fair Isaac common stock, less $0.4 million representing the portion of the intrinsic value of unvested options allocated to unearned compensation | 2,023 |
| Total purchase price | $ 39,731 |

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

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

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| | |
|---|---|
| **Assets:** | |
| Cash, cash equivalents and marketable securities available for sale | $ 9,643 |
| Receivables, net | 7,196 |
| Prepaid expenses and other current assets | 645 |
| Deferred income taxes, current portion | 1,907 |
| Property and equipment | 3,405 |
| Goodwill | 9,374 |
| Intangible assets: | |
| Customer contracts and relationships | 3,580 |
| Deferred income taxes, less current portion | 15,326 |
| Other assets | 56 |
| Total assets | 51,132 |
| **Liabilities:** | |
| Current liabilities | 7,781 |
| Non-current liabilities | 3,620 |
| Total liabilities | 11,401 |
| **Net assets** | $ 39,731 |

The acquired customer contracts and relationships, which include backlog, have a weighted average useful life of approximately 4.5 years and are being amortized over their estimated useful lives using the straight-line method. The goodwill was allocated to our Professional Services operating segment, and will not be deductible for tax purposes.

### 3. Sales of Product Line Assets

In March 2007, we sold the assets and products associated with our mortgage banking solutions product line for $15.8 million in cash. The assets sold include accounts receivable, certain identifiable intangible assets and goodwill. We recognized a $1.5 million pre-tax gain, but a $0.4 million after-tax loss on the sale due to goodwill associated with the mortgage banking solutions product line that was not deductible for income tax purposes. We acquired the mortgage banking solutions through our May 2004 acquisition of London Bridge Software Holdings plc (“London Bridge”). The product line sold includes software and e-commerce services used in the origination processing, underwriting, pricing, product definition, closing, secondary marketing, servicing, and default management of mortgage and construction loans, and BridgeLinkTM e-Services for the mortgage industry. Revenues attributable to the mortgage banking solutions product line for the years ended September 30, 2007, 2006 and 2005 were $7.7 million, $19.9 million and $20.5 million, respectively.

In November 2004, we sold all of the issued and outstanding stock of London Bridge Phoenix Software, Inc. (“Phoenix”) to Harland Financial Solutions, Inc. (“Harland”). In connection with this disposition, we sold all of the Phoenix related assets, including all Phoenix bank processing solutions, the associated customer base, intellectual property rights and other related assets to Harland in exchange for cash consideration of $22.7 million and the assumption of substantially all Phoenix liabilities by Harland. Phoenix was an indirectly wholly-owned subsidiary that we acquired in connection with our acquisition of London Bridge in May 2004. As this disposition occurred shortly after the London Bridge acquisition and the fair value of Phoenix did not change significantly from the date of the London Bridge acquisition, no gain or loss was recorded in connection with this transaction. The excess of the consideration received over the book value of the net assets sold in this disposition, amounting to $15.1 million, was recorded as a decrease to goodwill in the Strategy Machines Solutions segment.

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## 4. Cash, Cash Equivalents and Marketable Securities Available for Sale

The following is a summary of cash, cash equivalents and marketable securities available for sale at September 30, 2007 and 2006:

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | | | | | |
| **Cash and Cash Equivalents:** | | | | | | | | |
| Cash | $ 50,260 | $ — | $ — | $ 50,260 | $ 33,944 | $ — | $ — | $ 33,944 |
| Money market funds | 40,029 | — | — | 40,029 | 17,045 | — | — | 17,045 |
| Commercial paper | 4,997 | — | (2) | 4,995 | 24,189 | — | (24) | 24,165 |
| | $ 95,286 | $ — | $ (2) | $ 95,284 | $ 75,178 | $ — | $ (24) | $ 75,154 |
| **Short-term Marketable Securities:** | | | | | | | | |
| U.S. government obligations | $ 93,054 | $ 32 | $ (5) | $ 93,081 | $ 105,512 | $ 6 | $ (211) | $ 105,307 |
| Corporate debt | 32,239 | 15 | (8) | 32,246 | 32,684 | — | (100) | 32,584 |
| Other debt securities | — | — | — | — | 14,250 | — | — | 14,250 |
| | $ 125,293 | $ 47 | $ (13) | $ 125,327 | $ 152,446 | $ 6 | $ (311) | $ 152,141 |
| **Long-term Marketable Securities:** | | | | | | | | |
| U.S. government obligations | $ 5,999 | $ 13 | $ — | $ 6,012 | $ 25,490 | $ 23 | $ (49) | $ 25,464 |
| Corporate debt | 1,517 | — | — | 1,517 | 7,817 | 6 | (32) | 7,791 |
| Marketable equity securities | 5,581 | 666 | — | 6,247 | 4,894 | 169 | — | 5,063 |
| | $ 13,097 | $ 679 | $ — | $ 13,776 | $ 38,201 | $ 198 | $ (81) | $ 38,318 |

Short-term marketable securities mature at various dates over the course of the next twelve months. Our long-term U.S. government obligations and corporate debt investments mature at various dates over the next one to three years. During fiscal 2007, 2006 and 2005, we recognized no realized gains or losses on investments.

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

The following table shows the gross unrealized losses and fair value of our investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2007 and 2006:

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or Greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| **Description of Securities** | | | | | | |
| Commercial paper | $ 4,995 | $ (2) | $ — | $ — | $ 4,995 | $ (2) |
| U.S. government obligations | — | — | 5,494 | (5) | 5,494 | (5) |
| Corporate debt | 1,982 | (3) | 3,488 | (5) | 5,470 | (8) |
| | $ 6,977 | $ (5) | $ 8,982 | $ (10) | $ 15,959 | $ (15) |

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| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or Greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| **Description of Securities** | | | | | | |
| Commercial paper | $ 24,165 | $ (24) | $ — | $ — | $ 24,165 | $ (24) |
| U.S. government obligations | 49,678 | (45) | 34,678 | (215) | 84,356 | (260) |
| Corporate debt | 20,944 | (32) | 15,625 | (100) | 36,569 | (132) |
| | $ 94,787 | $ (101) | $ 50,303 | $ (315) | $ 145,090 | $ (416) |

### 5. Receivables

Receivables at September 30, 2007 and 2006 consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| Billed | $ 127,965 | $ 118,144 |
| Unbilled | 57,506 | 53,668 |
| | 185,471 | 171,812 |
| Less allowance for doubtful accounts | (8,069) | (6,006) |
| Receivables, net | $ 177,402 | $ 165,806 |

Unbilled receivables represent revenue recorded in excess of amounts billable pursuant to contract provisions and generally become billable at contractually specified dates or upon the attainment of milestones. Unbilled amounts are expected to be realized within one year. During fiscal 2007, 2006 and 2005, we increased our allowance for the provision for doubtful accounts by $5.0 million, $2.2 million and $3.7 million, respectively, recorded an allowance for doubtful accounts on acquired receivables of $0, $0 and $0.5 million, respectively, and wrote off receivables (net of recoveries) of $2.9 million, $3.4 million and $5.7 million, respectively. In addition, we recorded a $5.9 million decrease in the allowance in fiscal 2005 from the completion of the purchase price allocation for the London Bridge acquisition, the disposition of Phoenix and currency translation.

### 6. Other Investments

In May 2007, we made a $10 million investment in convertible preferred stock in a private company. The company is developing a range of products focused on revenue cycle activities for hospitals and other healthcare providers. Our interest is accounted for using the cost-method.

### 7. Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested for impairment at least annually or more frequently if impairment indicators arise. Our other intangible assets have definite lives and are being amortized using the straight-line method or based on the forecasted cash flows associated with the assets over their estimated useful lives.

As prescribed by SFAS No. 142, *Goodwill and Other Intangible Assets,* we have determined that our reporting units are the same as our reportable segments (see Note 17). We selected the fourth quarter to perform our annual goodwill impairment test, and determined that goodwill was not impaired as of July 1, 2007 and 2006.

Intangible assets that are subject to amortization consisted of the following at September 30, 2007 and 2006:

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| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| Completed technology | $ 74,720 | $ 79,980 |
| Customer contracts and relationships | 80,194 | 85,346 |
| Trade names | 8,600 | 8,600 |
| Foreign currency translation adjustments | 4,023 | 1,458 |
| | 167,537 | 175,384 |
| Less accumulated amortization | (104,614) | (84,484) |
| | $ 62,923 | $ 90,900 |

Amortization expense associated with our intangible assets, which has been reflected as a separate operating expense caption within the accompanying consolidated statements of income, consisted of the following during fiscal 2007, 2006 and 2005:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | (In thousands) | |
| Cost of revenues | $ 13,388 | $ 14,928 | $ 14,815 |
| Selling, general and administrative expenses | 9,838 | 10,263 | 11,085 |
| | $ 23,226 | $ 25,191 | $ 25,900 |

In the table above, cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflect our amortization of other intangible assets.

Estimated future intangible asset amortization expense associated with intangible assets existing at September 30, 2007, was as follows (in thousands):

| Fiscal Year | |
|---|---|
| 2008 | $ 13,916 |
| 2009 | 12,737 |
| 2010 | 10,431 |
| 2011 | 5,621 |
| 2012 | 5,602 |
| Thereafter | 14,616 |
| | $ 62,923 |

The following table summarizes changes to goodwill during fiscal 2007 and 2006, both in total and as allocated to our operating segments.

| | Strategy Machine Solutions | Scoring Solutions | Professional Services | Analytic Software Tools | Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Balance at September 30, 2005** | $ 537,116 | $ 88,254 | $ 12,451 | $ 50,862 | $ 688,683 |
| Purchase accounting adjustments | 60 | — | — | 20 | 80 |
| Foreign currency translation adjustments | 5,373 | — | — | 1,026 | 6,399 |
| **Balance at September 30, 2006** | 542,549 | 88,254 | 12,451 | 51,908 | 695,162 |
| Purchase accounting adjustments | (4,895) | (140) | 494 | (851) | (5,392) |
| Disposition of mortgage product line assets | (7,221) | — | — | — | (7,221) |
| Foreign currency translation adjustments | 8,709 | — | — | 1,664 | 10,373 |
| **Balance at September 30, 2007** | $ 539,142 | $ 88,114 | $ 12,945 | $ 52,721 | $ 692,922 |

During fiscal 2007, we reduced goodwill related to the London Bridge and HNC Software Inc. acquisition due to the realization of certain deferred tax benefits that had valuation allowances recorded on them and other adjustments to deferred income taxes on acquired entities.

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**8. Composition of Certain Financial Statement Captions**

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| | (In thousands) | |
| **Property and equipment:** | | |
| Data processing equipment and software | $ 139,906 | $ 123,692 |
| Office furniture, vehicles and equipment | 23,672 | 28,324 |
| Leasehold improvements | 31,667 | 29,330 |
| Less accumulated depreciation and amortization | (143,088) | (124,735) |
| | $ 52,157 | $ 56,611 |
| **Other accrued liabilities:** | | |
| Income taxes payable | $ — | $ 18,498 |
| Other | 31,887 | 23,149 |
| | $ 31,887 | $ 41,647 |

**9. Convertible Notes**

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

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

We may redeem for cash all or part of the Senior Notes on and after August 15, 2008, at a price equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest. Holders may require us to repurchase for cash all or part of the remaining Senior Notes outstanding on August 15, 2008, August 15, 2013 and August 15, 2018, or upon a change in control, at a price equal to 100% of the principal amount of the Senior Notes being repurchased, plus accrued and unpaid interest.

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On March 31, 2005, we completed an exchange offer for the Senior Notes, whereby holders of approximately 99.9% of the total principal amount of our Senior Notes exchanged their existing securities for new 1.5% Senior Convertible Notes, Series B ("New Notes"). The terms of the New Notes are similar to the terms of the Senior Notes described above, except that: (i) upon conversion, we will pay holders cash in an amount equal to the lesser of the principal amount of such notes and the conversion value of such notes, and to the extent such conversion value exceeds the principal amount of the notes, the remainder of the conversion obligation in cash or common shares or combination thereof; (ii) in the event of a change of control, we may be required in certain circumstances to pay a make-whole premium on the New Notes converted in connection with the change of control and (iii) if the conversion condition in the first clause (iii) in the third paragraph preceding this paragraph is triggered and the closing price of our common stock is greater than 100% of the conversion price but less than or equal to 120% of the conversion price, the holders converting New Notes shall receive cash with a value equal to 100% of the principal amount of New Notes on the conversion date.

The first date noteholders could require us to repurchase the Senior Notes was August 15, 2007. As a result, certain noteholders exercised their repurchase option and we repurchased $9.0 million of the Senior Notes. As of September 30, 2007, $391.0 million of the Senior Notes remain outstanding and are classified as short-term debt in our consolidated balance sheet, because noteholders may require us to repurchase for cash all or part of the Senior Notes on August 15, 2008.

The fair value of the Senior Notes at September 30, 2007 and 2006, as determined based upon quoted market prices, was $391.5 million and $407.0 million, respectively.

### 10. Credit Agreement

In October 2006, we entered into a five-year unsecured revolving credit facility with a syndicate of banks. In July 2007, we entered into an amended and restated credit agreement that increased the revolving credit facility from $300 million to $600 million. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The credit facility also contains covenants typical of unsecured facilities. As of September 30, 2007, we had $170.0 million of borrowings outstanding under the credit facility at an average interest rate of 5.9%.

### 11. Restructuring and Acquisition-Related Expenses

During fiscal 2007, we vacated excess lease space located in California and Maryland and recorded a lease exit accrual of $1.2 million, representing future cash lease obligations net of estimated sublease income, and a $0.2 million write off of fixed assets abandoned as a part of this action. We also recorded a $1.0 million charge for severance costs associated with the elimination of certain management positions. Cash payments for the majority of these severance costs will be paid in fiscal 2008.

During fiscal 2006, we vacated excess lease space primarily located in California and recorded a lease exit accrual of $13.0 million, representing future cash lease obligations, net of estimated sublease income. In connection with a restructuring initiative, we incurred charges of $5.1 million for severance costs associated with a reduction of 190 employees primarily in product management, delivery and development functions. Cash payments for the majority of these severance costs were paid in fiscal 2006. We also recorded a $0.2 million gain in fiscal 2006 due to the adjustment of liabilities established for the exit of certain leased spaces.

During fiscal 2006, we also recorded a $0.5 million gain from past rent paid that was refunded to us from the landlord and we wrote off deferred acquisition costs totaling $2.2 million in connection with abandoned acquisitions, consisting principally of third-party legal, accounting and other professional fees. These amounts are recorded in restructuring and acquisition-related expenses in the accompanying consolidated statements of income, but are not included in the tables below as they do not relate to future cash payments.

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During fiscal 2005, in connection with our acquisition of Braun, we recorded a $4.5 million lease exit accrual and we also completed a plan to reduce Braun staff and accordingly recorded a $1.3 million employee separation accrual. These amounts were recorded to goodwill in connection with our allocation of the Braun purchase price. During fiscal 2005, we incurred an additional $1.2 million of lease exit costs related to our London Bridge acquisition. These amounts were recorded to goodwill in connection with our allocation of the Braun and London Bridge purchase prices.

The following table summarizes our restructuring and acquisition-related accruals associated with the above actions. The current portion and non-current portion was recorded in other accrued current liabilities and other long-term liabilities within the accompanying consolidated balance sheets.

| | Accrual at September 30, 2004 | Goodwill Additions | Cash Payments | Accrual at September 30, 2005 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Facilities charges | $ 6,439 | $ 5,734 | $ (5,812) | $ 6,361 |
| Employee separation | 1,171 | 1,308 | (2,479) | — |
| | 7,610 | $ 7,042 | $ (8,291) | 6,361 |
| Less: current portion | (3,994) | | | (3,721) |
| Non-current | $ 3,616 | | | $ 2,640 |

| | Accrual at September 30, 2005 | Expense Additions | Cash Payments | Expense Reversals | Accrual at September 30, 2006 |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Facilities charges | $ 6,361 | $ 13,014 | $ (4,117) | $ (164) | $ 15,094 |
| Employee separation | — | 5,138 | (5,048) | — | 90 |
| | 6,361 | $ 18,152 | $ (9,165) | $ (164) | 15,184 |
| Less: current portion | (3,721) | | | | (6,161) |
| Non-current | $ 2,640 | | | | $ 9,023 |

| | Accrual at September 30, 2006 | Expense Additions | Cash Payments | Accrual at September 30, 2007 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Facilities charges | $ 15,094 | $ 1,206 | $ (6,006) | $ 10,294 |
| Employee separation | 90 | 1,012 | (90) | 1,012 |
| | 15,184 | $ 2,218 | $ (6,096) | 11,306 |
| Less: current portion | (6,161) | | | (4,051) |
| Non-current | $ 9,023 | | | $ 7,255 |

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### 12. Income Taxes

The provision for income taxes was as follows during fiscal 2007, 2006 and 2005:

| | 2007 | 2006 (In thousands) | 2005 |
|---|---|---|---|
| **Current:** | | | |
| Federal | $ 32,762 | $ 44,832 | $ 40,213 |
| State | 4,183 | 8,346 | 5,771 |
| Foreign | 4,267 | 1,403 | 277 |
| | 41,212 | 54,581 | 46,261 |
| **Deferred:** | | | |
| Federal | 4,423 | 2,336 | 13,396 |
| State | (623) | (1,211) | (117) |
| | 3,800 | 1,125 | 13,279 |
| **Total provision** | $ 45,012 | $ 55,706 | $ 59,540 |

The foreign provision was based on foreign pretax earnings (loss) of $2.7 million, $3.8 million and $(9.8) million in fiscal 2007, 2006 and 2005, respectively. Current foreign tax expense related to foreign tax withholding was $2.3 million, $4.1 million and $2.3 million in fiscal year 2007, 2006 and 2005, respectively.

During fiscal 2007, 2006 and 2005, we realized certain tax benefits related to nonqualified and incentive stock options in the amounts of $16.7 million, $10.6 million and $12.7 million, respectively, that were credited directly to paid-in-capital.

Deferred tax assets and liabilities at September 30, 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| **Deferred tax assets:** | | |
| Net operating loss carryforwards | $ 26,000 | $ 34,987 |
| Research credit carryforwards | 14,039 | 15,928 |
| Capital loss carryforward | 7,358 | 11,280 |
| Investments | 789 | 2,483 |
| Accrued compensation | 4,161 | 3,088 |
| Share-based compensation | 23,686 | 14,914 |
| Deferred revenue | 1,280 | 3,896 |
| Accrued lease costs | 5,000 | 5,756 |
| Property and equipment | 3,872 | — |
| Capitalized research and development | 4,133 | 7,957 |
| Other | 10,182 | 9,871 |
| | 100,500 | 110,160 |
| Less valuation allowance | (23,983) | (26,927) |
| | 76,517 | 83,233 |
| **Deferred tax liabilities:** | | |
| Intangible assets | (23,579) | (28,576) |
| Convertible notes | (23,904) | (18,710) |
| Property and equipment | — | (1,920) |
| Prepaid expense | (4,132) | (10,597) |
| Other | (13,062) | (7,311) |
| | (64,677) | (67,114) |
| Deferred tax assets, net | $ 11,840 | $ 16,119 |

Based upon the level of historical taxable income and projections for future taxable income over the periods that the deferred tax assets will reverse, management believes it is more likely than not that we will realize the benefits of the deferred tax asset, net of the existing valuation allowance at September 30, 2007.

For fiscal 2007, the decrease in the valuation allowance was primarily due to a partial utilization of the U.S. Capital Loss carryforward. The remaining valuation allowance is associated with foreign operations and acquired federal and state research and development credits and remaining capital loss carryforwards for which realization also remains uncertain.

For fiscal 2007, the change in the balance of the NOL carryforward was due to utilization. We acquired NOL and research credit carryforwards in connection with our acquisitions of Braun, London Bridge, and HNC in fiscal 2005, 2004 and 2002, respectively. As of September 30, 2007, we had available U.S. federal, state and foreign NOL carryforwards of approximately $49.8 million, $14.4 million and $32.3 million, respectively. We also have available U.S. federal and state research credit carryforwards of approximately $8.9 million and $7.8 million, respectively. The U.S. federal NOL carryforwards will expire at various dates beginning in fiscal 2010 through fiscal 2024, if not utilized. The state NOL carryforwards will begin to expire in fiscal 2008 through fiscal 2024, if not utilized. The U.S. federal research credit carryforwards will begin to expire in fiscal 2008 through 2022, if not utilized. Utilization of the U.S. federal and state NOL and research credit carryforwards are subject to an annual limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986 (the “Code”), as amended, and similar state provisions. In addition, certain limitations apply to our ability to utilize the foreign NOL carryforwards.

We are currently under examination by the IRS for tax returns filed for fiscal 2002 through 2006 and by the California Franchise Tax Board for fiscal 2003 through 2005. Although the final outcome of theses examination remains unknown, we have reserved for potential adjustments that may result from the examinations and believe the final resolution will not have a material effect on our results of operations. We assess the adequacy of these reserves in each reporting period based on then-current information. Adjustments to the reserves are recognized in our income tax provision in the period in which such determination is made.

The reconciliation between the U.S. federal statutory income tax rate of 35% and our effective tax rate is shown below for fiscal 2007, 2006 and 2005:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | (In thousands) | |
| Income tax provision at U.S. federal statutory rates | $ 52,381 | $ 55,717 | $ 67,931 |
| State income taxes, net of U.S. federal benefit | 2,839 | 4,638 | 2,964 |
| Foreign taxes | (1,944) | (1,472) | (2,804) |
| Extraterritorial income exclusion | (491) | (4,600) | (11,505) |
| Research credits | (7,454) | (183) | (2,217) |
| Manufacturing deduction | (944) | (1,058) | — |
| Valuation allowance for foreign losses | — | 138 | 3,253 |
| Other | 625 | 2,526 | 1,918 |
| Recorded income tax provision | $ 45,012 | $ 55,706 | $ 59,540 |

The decrease in our effective tax rate in fiscal 2007 compared with fiscal 2006 was due to the recognition in fiscal 2007 of $8.2 million of tax benefits. The tax benefits included favorable settlements of the fiscal 1998 through 2001 U.S. federal examinations and the fiscal 1999 through 2002 California Franchise Tax Board examinations. Our effective tax rate, however, was adversely impacted by the sale of our mortgage banking solutions product line, due to $3.3 million of goodwill associated with the product line that was not deductible for income tax purposes. These items reduced our effective tax rate in fiscal 2007 by 5.4%. In addition to the tax benefits, our effective tax rate in fiscal 2007 was also affected by the repeal of the Extraterritorial Income Exclusion, which was effective December 31, 2006.

### 13. Earnings Per Share

The following reconciles the numerators and denominators of basic and diluted earnings per share (“EPS”) during fiscal 2007, 2006 and 2005:

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| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | (In thousands, except per share data) | | |
| Numerator for basic earnings per share — net income | $ 104,650 | $ 103,486 | $ 134,548 |
| Interest expense on Senior Notes, net of tax | 4 | 4 | 2,508 |
| Numerator for diluted earnings per share | $ 104,654 | $ 103,490 | $ 137,056 |
| Denominator — shares: | | | |
| Basic weighted-average shares | 56,054 | 63,579 | 66,556 |
| Effect of dilutive securities | 1,494 | 1,546 | 7,028 |
| Diluted weighted-average shares | 57,548 | 65,125 | 73,584 |
| Earnings per share: | | | |
| Basic | $ 1.87 | $ 1.63 | $ 2.02 |
| Diluted | $ 1.82 | $ 1.59 | $ 1.86 |

The computation of diluted EPS for fiscal 2007, 2006 and 2005 excludes options to purchase approximately 3,660,000, 3,194,000 and 3,211,000 shares of common stock, respectively, because the options' exercise prices exceeded the average market price of our common stock in these fiscal years and their inclusion would be antidilutive. On October 13, 2004, the FASB ratified the consensus reached by the EITF with respect to Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*. This consensus requires us to consider all instruments with contingent conversion features that are based on the market price of our own stock in our diluted earnings per share calculation, regardless of whether the market price conversion triggers are then met. The computation for diluted EPS for fiscal 2005 includes approximately 4,529,000 shares of common stock issuable upon conversion of our Senior Notes. Effective with the completed exchange offer on March 31, 2005, the dilutive effect of the New Notes are calculated using the treasury stock method.

## 14. Stockholders' Equity

### *Common Stock*

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During fiscal 2007, 2006 and 2005, we expended $451.1 million, $256.5 million and $328.5 million, respectively, in connection with our repurchase of common stock under such programs. See Note 21 regarding a new stock repurchase program approved subsequent to September 30, 2007.

We paid quarterly dividends on common stock of two cents per share, or eight cents per year, during each of fiscal 2007, 2006 and 2005.

### *Stockholder Rights Plan*

We maintain a stockholder rights plan pursuant to which one right to purchase preferred stock was distributed for each outstanding share of common stock held of record on August 21, 2001. Since this distribution, all newly issued shares of common stock have been accompanied by a preferred stock purchase right. In general, the rights will become exercisable and trade independently from the common stock if a person or group acquires or obtains the right to acquire 15 percent or more of the outstanding shares of common stock or commences a tender or exchange offer that would result in that person or group acquiring 15 percent or more of the outstanding shares of common stock, either event occurring without the consent of the Board of Directors. Each right represents a right to purchase Series A Participating Preferred Stock in an amount and at an exercise price that are subject to adjustment. The person or group who acquired 15 percent or more of the outstanding shares of common stock would not be entitled to make this purchase. The rights will expire in August 2011, or they may be redeemed by the Company at a price of $0.001 per right prior to that date.

## 15. Employee Benefit Plans

### *Defined Contribution Plans*

We sponsor a Fair Isaac 401(k) plan for eligible employees. Under this plan, eligible employees may contribute up to 25% of

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compensation, not to exceed statutory limits. We also provide a company matching contribution. Investment in Fair Isaac common stock is not an option under this plan. Our contributions into all 401(k) plans, including former acquired company sponsored plans that have since merged into the Fair Isaac 401(k) plan or have been frozen, totaled $7.5 million, $7.4 million and $6.8 million during fiscal 2007, 2006 and 2005, respectively.

***Employee Incentive Plans***

We maintain various employee incentive plans for the benefit of eligible employees, including officers. The awards generally are based on the achievement of certain financial and performance objectives subject to the discretion of management. Total expenses under our employee incentive plans were $12.8 million, $8.6 million and $6.9 million during fiscal 2007, 2006 and 2005, respectively.

## 16. Stock-Based Employee Benefit Plans

***Description of Stock Option and Share Plans***

We maintain the 1992 Long-term Incentive Plan (the "1992 Plan") under which we may grant stock options, stock appreciation rights, restricted stock, restricted stock units and common stock to officers, key employees and non-employee directors. Under the 1992 Plan, a number of shares equal to 4% of the number of shares of Fair Isaac common stock outstanding on the last day of the preceding fiscal year is added to the shares available under this plan each fiscal year, provided that the number of shares for grants of incentive stock options for the remaining term of this plan shall not exceed 5,062,500 shares. As of September 30, 2007, 2,665,941 shares remained available for grants under this plan. The 1992 Plan will terminate in February 2012. In November 2003, our Board of Directors approved the adoption of the 2003 Employment Inducement Award Plan (the "2003 Plan"). The 2003 Plan reserves 2,250,000 shares of common stock solely for the granting of inducement stock options and other awards, as defined, that meet the "employment inducement award" exception to the New York Stock Exchange's listing standards requiring shareholder approval of equity-based inducement incentive plans. Except for the employment inducement award criteria, awards under the 2003 Plan will be generally consistent with those made under our 1992 Plan. As of September 30, 2007, 1,563,116 shares remained available for grants under this plan. The 2003 Plan shall remain in effect until terminated by the Board of Directors. We also maintain individual stock option plans for certain of our executive officers and the chairman of the board. There are no shares available for future grants under these plans. Stock option awards granted during fiscal 2007 typically had a maximum term of seven years and vested ratably over four years. Stock option awards granted prior to October 1, 2005, typically had a maximum term of ten years and vested ratably over four years.

We assumed all outstanding stock options held by former employees and non-employee directors of HNC, who as of our acquisition date, held unexpired and unexercised stock option grants under the various HNC stock option plans. As of September 30, 2007, 1,324,864 shares remained available for future grant under these option plans.

***Description of Employee Stock Purchase Plan***

Under our Purchase Plan, we are authorized to issue up to 5,062,500 shares of common stock to eligible employees. Employees may have up to 10% of their base salary withheld through payroll deductions to purchase Fair Isaac common stock during semi-annual offering periods. The purchase price of the stock is the lower of 85% of (i) the fair market value of the common stock on the enrollment date (the first day of the offering period), or (ii) the fair market value on the exercise date (the last day of each offering period). Offering period means approximately six-month periods commencing (a) on the first trading day on or after January 1 and terminating on the last trading day in the following June, and (b) on the first trading day on or after July 1 and terminating on the last trading day in the following December.

A total of approximately 276,000, 300,000 and 298,000 shares of our common stock with a weighted average purchase price of $32.33, $30.88 and $29.12 per share were issued under the Purchase Plan during fiscal 2007, 2006 and 2005, respectively. At September 30, 2007, 3,283,000 shares remained available for issuance.

***Description of Employee Stock Ownership Plan***

We maintain a Non-U.S. Employee Stock Ownership Plan ("Non-U.S. ESOP") that covers eligible employees working in the United Kingdom and contributions into the Non-U.S. ESOP are determined annually by our Board of Directors. There were no contributions into this plan during fiscal 2007, 2006 and 2005.

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***Impact of SFAS No. 123(R)***

At the beginning of 2006, we adopted SFAS No. 123(R), as described in Note 1. In accordance with SFAS No. 123(R), we recorded $36.3 million and $42.1 million of share-based compensation expense for stock options, restricted stock units, non-vested shares and purchases under the Purchase Plan in fiscal 2007 and 2006, respectively. In comparison, we recorded share-based compensation of $2.9 million during fiscal 2005. The total tax benefit related to this share-based compensation expense was $13.4 million, $15.4 million and $1.1 million in fiscal 2007, 2006 and 2005, respectively. As of September 30, 2007, there was $57.6 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average period of 1.5 years.

SFAS No. 123(R) also requires companies to calculate an initial "pool" of excess tax benefits available at the adoption date to absorb any tax deficiencies that may be recognized under SFAS No. 123(R). The pool includes the net excess tax benefits that would have been recognized if we had adopted SFAS No. 123 for recognition purposes on its effective date. We have elected to calculate the pool of excess tax benefits under the alternative transition method described in FASB Staff Position 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards,* which also specifies the method we must use to calculate excess tax benefits reported on the statement of cash flows.

Prior to the adoption of SFAS No. 123(R), we presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows within our consolidated statements of cash flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. Accordingly, the $12.6 million and $7.1 million of excess tax benefits that are classified as financing cash inflows in the accompanying consolidated statements of cash flows in fiscal 2007 and 2006, respectively, were classified as operating cash inflows prior to the adoption of SFAS No. 123(R).

***Determining Fair Value***

We estimate the fair value of options granted using the Black-Scholes option valuation model. We estimate the volatility of our common stock at the date of grant based on a combination of the implied volatility of publicly traded options on our common stock and our historical volatility rate, consistent with SFAS No. 123(R) and Securities and Exchange Commission Staff Accounting Bulletin No. 107 ("SAB 107"). Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. We estimate expected term consistent with the simplified method identified in SAB 107 for share-based awards granted during the fiscal year ended September 30, 2007. We elected to use the simplified method as we changed the contractual life for share-based awards from ten to seven years starting in fiscal 2006. The simplified method calculates the expected term as the average of the vesting and contractual terms of the award. Previously, we estimated expected term based on historical exercise patterns. The dividend yield assumption is based on historical dividend payouts. The risk-free interest rate assumption is based on observed interest rates appropriate for the term of our employee options. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. For options granted, we amortize the fair value on a straight-line basis over the vesting period of the options.

We used the following assumptions to estimate the fair value of share-based payment awards during fiscal 2007, 2006 and 2005:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Stock Options:** | | | |
| Average expected term (years) | 4.79 | 4.75 | 4.00 |
| Expected volatility (range) | 28- 31% | 28- 30% | 39- 52% |
| Weighted average volatility | 29% | 29% | 50% |
| Risk-free interest rate (range) | 3.9- 5.0% | 4.2- 5.2% | 3.2- 4.0% |
| Expected dividend yield | 0.2% | 0.2% | 0.2% |

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| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Employee Stock Purchase Plan:** | | | |
| Average expected term (years) | 0.5 | 0.5 | 0.5 |
| Expected volatility (range) | 21-23% | 22-23% | 18-46% |
| Weighted average volatility | 23% | 23% | 31% |
| Risk-free interest rate (range) | 4.9- 5.3% | 4.4- 5.3% | 2.5-3.2% |
| Expected dividend yield | 0.2% | 0.2% | 0.2% |

***Stock-Based Activity***

The following table summarizes option activity during fiscal 2007:

| | Shares (In thousands) | Weighted-average Exercise Price | Weighted-average Remaining Contractual Term (In years) | Aggregate Intrinsic Value (In thousands) |
|---|---|---|---|---|
| Outstanding at October 1, 2006 | 13,785 | $ 32.25 | | |
| Granted | 1,469 | 39.99 | | |
| Exercised | (3,137) | 23.95 | | |
| Forfeited | (1,502) | 40.49 | | |
| Outstanding at September 30, 2007 | 10,615 | 34.61 | 5.23 | $ 41,156 |
| Options exercisable at September 30, 2007 | 5,945 | 31.70 | 4.67 | $ 35,184 |

The weighted average fair value of options granted during fiscal 2007, 2006 and 2005 were $13.23, $13.79 and $13.61, respectively. The aggregate intrinsic value of options outstanding at September 30, 2007 was calculated as the difference between the exercise price of the underlying options and the market price of our common stock for the 6.3 million shares that had exercise prices that were lower than the $36.11 market price of our common stock at September 30, 2007. The total intrinsic value of options exercised during fiscal 2007, 2006 and 2005 was $49.6 million, $35.8 million and $55.8 million, respectively, determined as of the date of exercise.

The following table summarizes non-vested share activity during fiscal 2007:

| | Shares (In thousands) | Weighted-average Price |
|---|---|---|
| Outstanding at October 1, 2006 | 122 | $35.56 |
| Granted | 20 | 41.37 |
| Released | (28) | 35.56 |
| Forfeited | (23) | 35.61 |
| Outstanding at September 30, 2007 | 91 | $36.84 |

The following table summarizes restricted stock unit activity during fiscal 2007:

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| | Shares (In thousands) | Weighted-average Price |
|---|---|---|
| Outstanding at October 1, 2006 | — | $ — |
| Granted | 509 | 40.07 |
| Released | — | — |
| Forfeited | (41) | 41.74 |
| Outstanding at September 30, 2007 | 468 | $39.92 |

We received $84.1 million in cash from option exercises and issuances of stock under the Purchase Plan in fiscal 2007. The actual tax benefit that we realized for the tax deductions from option exercises of the share-based payment arrangements totaled $19.8 million for that period.

Due primarily to our ongoing program of repurchasing shares on the open market, we had approximately 37.8 million treasury shares at September 30, 2007. We satisfy stock option exercises and Purchase Plan issuances from this pool of treasury shares.

***Comparable Disclosures***

The following table illustrates the effect on our net income and earnings per share for fiscal 2005 as if we had applied the fair value recognition provisions of SFAS No. 123 to share-based compensation using the Black-Scholes valuation model.

| | Fiscal 2005 (In thousands, except per share data) |
|---|---|
| Net income, as reported | $ 134,548 |
| Add: Share-based employee compensation expense included in reported net income, net of tax | 1,815 |
| Deduct: Share-based employee compensation expense determined under fair value based method for all awards, net of tax | (28,131) |
| Proforma net income including share-based compensation | $ 108,232 |
| | |
| Earnings per share, as reported: | |
| Basic | $ 2.02 |
| Diluted | $ 1.86 |
| | |
| Proforma earnings per share — including share-based compensation: | |
| Basic | $ 1.63 |
| Diluted | $ 1.51 |

**17. Segment Information**

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

- *Strategy Machine™ Solutions.* These are pre-configured EDM applications designed for a specific type of business problem or process, such as marketing, account origination, customer management, fraud and medical bill review. This segment also includes our myFICO solutions for consumers.

- *Scoring Solutions.* Our scoring solutions give our clients access to analytics that can be easily integrated into their transaction streams and decision-making processes. Our scoring solutions are distributed through major credit reporting agencies, as well

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as services through which we provide our scores to lenders directly.

- *Professional Services.* Through our professional services, we tailor our EDM products to our clients' environments, and we design more effective decisioning environments for our clients. This segment includes revenues from custom engagements, business solution and technical consulting services, systems integration services, and data management services.
- *Analytic Software Tools.* This segment is composed of software tools that clients can use to create their own custom EDM applications.

Our Chief Executive Officer evaluates segment financial performance based on segment revenues and operating income. Segment operating expenses consist of direct and indirect costs principally related to personnel, facilities, consulting, travel, depreciation and amortization. Indirect costs are allocated to the segments generally based on relative segment revenues, fixed rates established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. We do not allocate share-based compensation expense, restructuring and acquisition-related expense and certain other income and expense measures to our segments. These income and expense items are not allocated because they are not considered in evaluating the segment's operating performance. Our Chief Executive Officer does not evaluate the financial performance of each segment based on its respective assets or capital expenditures; rather, depreciation and amortization amounts are allocated to the segments from their internal cost centers as described above.

During the fourth quarter of fiscal 2007, we changed responsibility for our medical bill review services, resulting in this service being reflected as a part of our Professional Services segment. These services were previously reflected in our Strategy Machines Solutions segment. Prior period amounts have been restated to reflect this change.

The following tables summarize segment information for fiscal 2007, 2006 and 2005:

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Strategy Machine Solutions | Scoring Solutions | Professional Services | Analytic Software Tools | Total |
| | | | (In thousands) | | |
| Revenues | $ 439,273 | $ 180,444 | $ 151,086 | $ 51,433 | $ 822,236 |
| Operating expenses | (377,068) | (65,127) | (144,030) | (50,362) | (636,587) |
| Segment operating income | $ 62,205 | $ 115,317 | $ 7,056 | $ 1,071 | 185,649 |
| Unallocated share-based compensation expense | | | | | (36,261) |
| Unallocated restructuring and acquisition-related expense | | | | | (2,455) |
| Unallocated gain on sale of product line assets | | | | | 1,541 |
| Operating income | | | | | 148,474 |
| Unallocated interest income | | | | | 13,527 |
| Unallocated interest expense | | | | | (12,766) |
| Unallocated other income, net | | | | | 427 |
| Income before income taxes | | | | | $ 149,662 |
| Depreciation and amortization | $ 31,655 | $ 8,301 | $ 7,039 | $ 3,229 | $ 50,224 |

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| | 2006 | | | | |
|---|---|---|---|---|---|
| | Strategy Machine Solutions | Scoring Solutions | Professional Services | Analytic Software Tools | Total |
| | | | (In thousands) | | |
| Revenues | $ 453,232 | $ 177,152 | $ 149,250 | $ 45,731 | $ 825,365 |
| Operating expenses | (367,654) | (64,739) | (135,520) | (42,982) | (610,895) |
| Segment operating income | $ 85,578 | $ 112,413 | $ 13,730 | $ 2,749 | 214,470 |
| Unallocated share-based compensation expense | | | | | (42,085) |
| Unallocated restructuring and acquisition-related expense | | | | | (19,662) |
| Operating income | | | | | 152,723 |
| Unallocated interest income | | | | | 15,248 |
| Unallocated interest expense | | | | | (8,569) |
| Unallocated other expense, net | | | | | (210) |
| Income before income taxes | | | | | $ 159,192 |
| Depreciation and amortization | $ 31,213 | $ 7,887 | $ 6,669 | $ 3,036 | $ 48,805 |

| | 2005 | | | | |
|---|---|---|---|---|---|
| | Strategy Machine Solutions | Scoring Solutions | Professional Services | Analytic Software Tools | Total |
| | | | (In thousands) | | |
| Revenues | $ 449,139 | $ 167,270 | $ 134,231 | $ 48,031 | $ 798,671 |
| Operating expenses | (385,696) | (66,750) | (115,375) | (34,912) | (602,733) |
| Segment operating income | $ 63,443 | $ 100,520 | $ 18,856 | $ 13,119 | 195,938 |
| Unallocated share-based compensation expense | | | | | (2,927) |
| Operating income | | | | | 193,011 |
| Unallocated interest income | | | | | 8,402 |
| Unallocated interest expense | | | | | (8,347) |
| Unallocated other income, net | | | | | 1,022 |
| Income before income taxes | | | | | $ 194,088 |
| Depreciation and amortization | $ 30,911 | $ 11,213 | $ 6,544 | $ 2,849 | $ 51,517 |

Our revenues and percentage of revenues by reportable market segments were as follows for fiscal 2007, 2006 and 2005, the majority of which were derived from the sale of products and services within the consumer credit, financial services and insurance industries:

| | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| Strategy Machine Solutions | $ 439,273 | 54% | $ 453,232 | 55% | $ 449,139 | 56% |
| Scoring Solutions | 180,444 | 22% | 177,152 | 21% | 167,270 | 21% |
| Professional Services | 151,086 | 18% | 149,250 | 18% | 134,231 | 17% |
| Analytic Software Tools | 51,433 | 6% | 45,731 | 6% | 48,031 | 6% |
| | $ 822,236 | 100% | $ 825,365 | 100% | $ 798,671 | 100% |

Within our Strategy Machine Solutions segment our customer management solutions accounted for 9% of total revenues in each of fiscal 2007, 2006 and 2005, and our fraud solutions accounted for 15%, 14% and 13% of total revenues in these periods, respectively.

Our revenues and percentage of revenues on a geographical basis are summarized below for fiscal 2007, 2006 and 2005. No individual country outside of the United States accounted for 10% or more of revenue in any of these years.

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| | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| United States | $581,725 | 71% | $595,202 | 72% | $597,159 | 75% |
| International | 240,511 | 29% | 230,163 | 28% | 201,512 | 25% |
| | $822,236 | 100% | $825,365 | 100% | $798,671 | 100% |

During fiscal 2007, 2006 and 2005, no individual customer contributed to 10% or more of our total revenues, however, we derive a substantial portion of our revenues from our contracts with the three major credit reporting agencies, TransUnion, Equifax and Experian. Revenues collectively generated by agreements with these customers accounted for 19% of our total revenues in fiscal 2007. At September 30, 2007 and 2006, no individual customer contributed to 10% or more of total consolidated receivables.

Our property and equipment, net, on a geographical basis are summarized below at September 30, 2007 and 2006. At September 30, 2007 and 2006, no individual country outside of the United States accounted for 10% or more of total consolidated net property and equipment.

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | | (In thousands) | | |
| United States | $ 46,992 | 90% | $ 50,996 | 90% |
| International | 5,165 | 10% | 5,615 | 10% |
| | $ 52,157 | 100% | $ 56,611 | 100% |

## 18. Commitments

Minimum future commitments under non-cancelable operating leases were as follows at September 30, 2007:

| Fiscal Year | Future Minimum Lease Payments |
|---|---|
| | (In thousands) |
| 2008 | $ 23,601 |
| 2009 | 22,671 |
| 2010 | 20,852 |
| 2011 | 15,469 |
| 2012 | 11,923 |
| Thereafter | 29,143 |
| | $ 123,659 |

The above amounts have not been reduced by contractual sublease commitments totaling $2.0 million, $1.2 million, $1.2 million, $1.3 million and $0.5 million in fiscal 2008 through 2012, respectively. We occupy the majority of our facilities under non-cancelable operating leases with lease terms in excess of one year. Such facility leases generally provide for annual increases based upon the Consumer Price Index or fixed increments. Rent expense under operating leases, including month-to-month leases, totaled $25.6 million, $28.2 million and $28.4 million during fiscal 2007, 2006 and 2005, respectively.

We are also a party to a management agreement with 33 of our executives providing for certain payments and other benefits in the event of a qualified change in control of Fair Isaac, coupled with a termination of the officer during the following year.

## 19. Contingencies

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

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***Customer Claims***

We were a party to a lawsuit involving a customer who asserted that our performance under a professional services contract caused them to incur damages. The lawsuit was filed as a counterclaim to a collection lawsuit that we commenced in the United States District Court for the Southern District of Texas. This customer claimed damages in excess of $10 million. On November 21, 2007, the parties finalized a settlement agreement that includes a release of all claims, and the parties will be filing shortly a joint motion to dismiss the litigation with prejudice. We incurred a $3.8 million after-tax charge in fiscal 2007 as a result of this settlement agreement.

***Braun Consulting, Inc.***

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

However, since December 2006, certain procedural matters concerning the class status have been decided in the district and appellate courts of the Second Circuit, with the courts ultimately determining that no class status exists for the plaintiffs. Since there is no class status, there can be no agreement, thus the District Court entered an order formally denying the motion for final approval of the settlement agreement. We cannot predict whether the issuers and their insurers will be able to renegotiate a settlement that would comply with the appellate court's ruling. Plaintiffs plan to replead their complaints and move for class certification again.

We intend to continue to defend vigorously against these claims. However, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of the litigation.

***Putative Consumer Class Action Lawsuits***

We were a defendant in a lawsuit captioned as Robbie Hillis v. Equifax Consumer Services, Inc. and Fair Isaac, Inc., filed in the U.S. District Court for the Northern District of Georgia. The plaintiff claimed that the defendants jointly sold the Score Power® credit score product in violation of certain procedural requirements under the Credit Repair Organizations Act ("CROA"), and in violation of the antifraud provisions of that statute. On June 13, 2007, the Court granted final approval of a settlement agreed to by the parties and directed that final judgment be entered. An appeal was filed on July 11, 2007. The appeal was dismissed, and the settlement agreement is final.

We were a defendant in a lawsuit captioned as Christy Slack v. Fair Isaac Corporation and MyFICO Consumer Services, Inc., which was filed in the United States District Court for the Northern District of California. As in the Hillis matter, the plaintiff is claiming that the defendants violated certain procedural requirements of CROA, and violated the antifraud provisions of CROA, with respect to the sale of credit score products on our myfico.com website. This matter was covered by the settlement agreement in the Robbie Hillis lawsuit, as described above.

**20. Guarantees**

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

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

### 21. Subsequent Events

In November 2007, our Board of Directors approved a new common stock repurchase program that replaces our previous program and allows us to purchase shares of our common stock up to an aggregate cost of $250.0 million in the open market or through negotiated transactions.

### 22. Supplementary Financial Data (Unaudited)

The following table presents selected unaudited consolidated financial results for each of the eight quarters in the two-year period ended September 30, 2007. In the opinion of management, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments, except as noted below) necessary for a fair statement of the consolidated financial information for the period presented.

| | Dec. 31, 2006 | Mar. 31, 2007 | Jun. 30, 2007 | Sept. 30, 2007 (2) |
|---|---|---|---|---|
| | | (In thousands, except per share data) | | |
| Revenues | $ 208,227 | $ 201,000 | $ 205,782 | $ 207,227 |
| Cost of revenues | 70,569 | 74,172 | 73,731 | 75,010 |
| Gross profit | $ 137,658 | $ 126,828 | $ 132,051 | $ 132,217 |
| Net income | $ 31,225 | $ 21,438 | $ 23,768 | $ 28,219 |
| Earnings per share (1): | | | | |
| Basic | $ 0.54 | $ 0.38 | $ 0.43 | $ 0.53 |
| Diluted | $ 0.52 | $ 0.37 | $ 0.42 | $ 0.52 |
| Shares used in computing earnings per share: | | | | |
| Basic | 58,057 | 56,940 | 55,776 | 53,459 |
| Diluted | 59,985 | 58,659 | 56,896 | 54,669 |

| | Dec. 31, 2005 | Mar. 31, 2006 | Jun. 30, 2006 | Sept. 30, 2006 |
|---|---|---|---|---|
| | | (In thousands, except per share data) | | |
| Revenues | $ 202,790 | $ 208,157 | $ 207,129 | $ 207,289 |
| Cost of revenues | 67,045 | 73,144 | 71,497 | 70,291 |
| Gross profit | $ 135,745 | $ 135,013 | $ 135,632 | $ 136,998 |
| Net income (3) | $ 28,457 | $ 26,973 | $ 26,003 | $ 22,053 |
| Earnings per share (1): | | | | |
| Basic | $ 0.44 | $ 0.41 | $ 0.41 | $ 0.36 |
| Diluted | $ 0.43 | $ 0.40 | $ 0.40 | $ 0.35 |
| Shares used in computing earnings per share: | | | | |
| Basic | 64,211 | 65,052 | 63,664 | 61,423 |
| Diluted | 66,219 | 66,834 | 64,973 | 62,506 |

(1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts may not equal the totals for the respective years.

(2) The results for the quarter ended September 30, 2007 included $7.3 million of tax benefits, a $5.9 million charge associated with the resolution of a customer lawsuit and a $2.5 million charge for restructuring and acquisition-related expenses.

(3) Restructuring and acquisition-related expenses for the quarters ended December 31, 2005, March 31, 2006, June 30, 2006 and September 30, 2006 were $(0.7) million, $2.2 million, $5.3 million and $12.9 million, respectively.

### Item 9A. *Controls and Procedures*

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

No change in Fair Isaac's internal control over financial reporting was identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2007, that has materially affected, or is reasonably likely to materially affect, Fair Isaac's internal control over financial reporting.

### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation management has concluded that our internal control over financial reporting was effective as of September 30, 2007.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of September 30, 2007, as stated in their attestation report included in Part II, Item 8 of this Annual Report on Form 10-K.

### Item 15. *Exhibits and Financial Statement Schedules*

**Exhibits:**

| Exhibit Number | Description |
|---|---|
| 3.1 | By-laws of the Company. (Incorporated by reference to Exhibit 4.2 to the Company's Form S-8 Registration Statement, File No. 333-114364, filed April 9, 2004, and Exhibit 3.2 to the Company's Form 8-K filed on November 7, 2006.) |
| 3.2 | Composite Certificate of Incorporation of Fair Isaac Corporation. (Incorporated by reference to Exhibit 4.1 to the Company's Form S-8 Registration Statement, File No. 333-114364, filed April 9, 2004.) |
| 4.1 | Rights Agreement dated as of August 8, 2001, between Fair, Isaac and Company, Incorporated and Mellon Investor Services LLC, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights. (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A relating to the Series A Participating Preferred Stock Purchase Rights filed August 10, 2001.) |
| 4.2 | Form of Rights Certificate. (Included in Exhibit 4.1.) |
| 4.3 | Indenture, dated as of August 6, 2003, between the Company and Wells Fargo Bank Minnesota, N.A., as Trustee. (Incorporated by reference to Exhibit 4.6 to the Company's report on Form 10-K for the fiscal year ended September 30, 2003.) |

| Exhibit Number | Description |
|---|---|
| 4.4 | Form of 1.5% Senior Convertible Note due August 15, 2023. (Included in Exhibit 4.3.) |
| 4.5 | Indenture, dated as of March 31, 2005, between Fair Isaac and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 10.1 to Fair Isaac's Form 8-K filed on April 5, 2005.) |
| 10.1 | HNC's 2001 Equity Incentive Plan and related form of Stock Option Agreement. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-62492, filed June 7, 2001.) (1) |
| 10.2 | HNC's 1995 Directors Stock Option Plan, as amended through April 30, 2000. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-40344, filed June 28, 2000.) (1) |
| 10.3 | HNC's Form of 1995 Directors Stock Option Plan Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 10.01 to HNC's Form 10-Q for the quarter ended June 30, 1999.) (1) |
| 10.4 | HNC's 1998 Stock Option Plan, as amended through September1, 2000, and related form of option agreement. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-45442, filed September 8, 2000.) (1) |
| 10.5 | Aptex Software Inc. 1996 Equity Incentive Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-71923, filed February 5, 1999.) (1) |
| 10.6 | Form of Aptex Software Inc. 1996 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-71923, filed February 5, 1999.) (1) |
| 10.7 | Form of Advanced Information Management Solutions, Inc. Stock Option Agreement. (Incorporated by reference to Exhibit 4.02 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.) (1) |
| 10.8 | ONYX Technologies, Inc. 1999 Stock Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.) (1) |
| 10.9 | Form of ONYX Technologies, Inc. Stock Option Agreement. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.) (1) |
| 10.10 | Fair, Isaac Supplemental Retirement and Savings Plan and Trust Agreement effective November 1, 1994. (Incorporated by reference to Exhibit 10.20 to the Company's report on Form 10-K for the fiscal year ended September 30, 2001.) (1) |
| 10.11 | The Center for Adaptive Systems Applications, Inc. 1995 Stock Option Plan assumed by HNC. (Incorporated by reference to Exhibit 4.05 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.) (1) |
| 10.12 | Forms of The Center for Adaptive Systems Applications, Inc. Stock Option Agreements. (Incorporated by reference to Exhibit 4.06 to HNC's Form S-8 Registration Statement, File No. 333-33952, filed April 4, 2000.) (1) |
| 10.13 | eHNC Inc. 1999 Equity Incentive Plan, as amended, assumed by HNC. (Incorporated by reference to Exhibit 4.01 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.) (1) |
| 10.14 | Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Equity Incentive Plan. (Incorporated by reference to Exhibit 4.02 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.) (1) |
| 10.15 | eHNC Inc. 1999 Executive Equity Incentive Plan assumed by HNC. (Incorporated by reference to Exhibit 4.03 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.) (1) |
| 10.16 | Forms of eHNC Inc. Stock Option Agreements and Stock Option Exercise Agreements under the eHNC Inc. 1999 Executive Equity Incentive Plan. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-41388, filed July 13, 2000.) (1) |
| 10.17 | Systems/Link Corporation 1999 Stock Option Plan assumed by HNC and related forms of agreements. (Incorporated by reference to Exhibit 4.04 to HNC's Form S-8 Registration Statement, File No. 333-45442, filed September 8, 2000.) (1) |

| Exhibit Number | Description |
| --- | --- |
| 10.18 | Form of Management Agreement entered into with each of the Company's executive officers (except Mark Greene). (1) |
| 10.19 | Strategic Partnership Agreement dated as of October 23, 2000, between HNC and GeoTrust, Inc., as amended by Amendment No. 1 dated March 6, 2001. (Incorporated by reference to Exhibit 10.35 to HNC's Form 10-K, as amended, for the year ended December 31, 2000.) |
| 10.20 | Form of Indemnity Agreement entered into by the Company with the Company's directors and executive officers. (Incorporated by reference to Exhibit 10.49 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.) |
| 10.21 | Thomas G. Grudnowski Stock Option Plan. (Incorporated by reference to the Company's Form S-8 Registration Statement, File No. 333-32396, filed March 14, 2000.) (1) |
| 10.22 | Thomas G. Grudnowski Stock Option Plan. (Incorporated by reference to the Company's Form S-8 Registration Statement, File No. 333-66332, filed July 31, 2001.) (1) |
| 10.23 | 2002 Stock Bonus Plan of the Company. (Incorporated by reference to Exhibit 99.1 of the Company's Form S-8 Registration Statement, File No. 333-97695, filed August 6, 2002.) (1) |
| 10.24 | Stock Option Agreement with A. George Battle entered into as of February 5, 2002. (Incorporated by reference to Exhibit 10.58 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.) (1) |
| 10.25 | Nonstatutory Stock Option Agreement with Thomas G. Grudnowski entered into as of November 16, 2001. (Incorporated by reference to Exhibit 10.59 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.) (1) |
| 10.26 | Employment Agreement entered into effective January 30, 2004, by and between Fair Isaac Corporation and Thomas G. Grudnowski. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended December 31, 2003.) (1) |
| 10.27 | Agreement and Plan of Merger, dated as of September 20, 2004, among Braun Consulting, Inc., Fair Isaac Corporation and HSR Acquisition, Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed September 24, 2004.) |
| 10.28 | Braun's Amended and Restated 1995 Director Stock Option Plan. (Incorporated by reference to Exhibit 10.6 to Braun's Form S-1 Registration Statement, File No. 333-31824, filed March 6, 2000.) (1) |
| 10.29 | Braun's 1998 Employee Long-Term Stock Investment Plan. (Incorporated by reference to Exhibit 10.7 to Braun's Form S-1 Registration Statement, File No. 333-79251, filed May 25, 1999.) (1) |
| 10.30 | Braun's 1998 Executive Long-Term Stock Investment Plan. (Incorporated by reference to Exhibit 10.8 to Braun's Form S-1 Registration Statement, File No. 333-79251, filed May 25, 1999.) (1) |
| 10.31 | Braun's 1999 Independent Director Stock Option Plan. (Incorporated by reference to Exhibit 10 to Braun's Form 10-Q for the fiscal quarter ended September 30, 1999.) (1) |
| 10.32 | Braun's Non Qualified Stock Option Plan of Emerging Technologies Consultants, Inc. (Incorporated by reference to Exhibit 99.5 to Braun's Form S-8 Registration Statement, File No. 333-30788, filed February 18, 2000.) (1) |
| 10.33 | Braun's 2002 Employee Long-Term Stock Investment Plan, as amended. (Incorporated by reference to Exhibit 99.1 to Braun's Form S-8 Registration Statement, File No. 333-110448, filed November 11, 2003.) (1) |
| 10.34 | Fair Isaac Supplemental Retirement and Savings Plan (As Amended And Restated Effective December 1, 2004). (Incorporated by reference to Exhibit 99.1 to Fair Isaac's Form 8- K filed on December 30, 2004.) |
| 10.35 | Perleberg Expatriate Agreement. (Incorporated by reference to Exhibit 99.1 to Fair Isaac's Form 8-K filed on March 14, 2005.) |
| 10.36 | Letter providing terms of offer of employment by the Company to Michael H. Campbell dated April 15, 2005. (Incorporated by reference to Exhibit 10.01 to Fair Isaac's Form 8-K filed on April 21, 2005.) |

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| Exhibit Number | Description |
|---|---|
| 10.37 | 2001 Equity Incentive Plan as adopted April 10, 2001, and amended May 15, 2005. (Incorporated by reference to Exhibit 10.1 to Fair Isaac's Form 10-Q for the fiscal quarter ended June 30, 2005.) |
| 10.38 | 2003 Employment Inducement Award Plan as amended effective May 15, 2005. (Incorporated by reference to Exhibit 10.2 to Fair Isaac's Form 10-Q for the fiscal quarter ended June 30, 2005.) |
| 10.39 | 1992 Long-Term Incentive Plan as amended effective December 3, 2006. |
| 10.40 | Description of Outside Director compensation program. (Incorporated by reference to Item 1.01 of Fair Isaac's Form 8-K filed on September 1, 2005.) |
| 10.41 | Pautsch Retention Agreement. (Incorporated by reference to Exhibit 10.46 to Fair Isaac's Form 10-K for the fiscal year ended September 30, 2005.) |
| 10.42 | Form of Non-Qualified Stock Option Agreement under 1992 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.42 to the Company's Annual Report of Form 10-K for the period ended September 30, 2006.) (1) |
| 10.43 | Form of Restricted Stock Agreement under 1992 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.43 to the Company's Annual Report of Form 10-K for the period ended September 30, 2006.) (1) |
| 10.44 | Transition Agreement dated November 1, 2006, by and between Fair Isaac Corporation and Thomas G. Grudnowski. (Incorporated by reference to Exhibit 10 to Fair Isaac's Form 8-K filed on November 7, 2006.) (1) |
| 10.45 | Credit Agreement among Fair Isaac, Wells Fargo Bank, National Association, U.S. Bank National Association, Bank of America, N.A., and JPMorgan Chase Bank, N.A., dated October 20, 2006. (Incorporated by reference to Exhibit 10.1 to Fair Isaac's Form 8-K filed on October 23, 2006.) |
| 10.46 | Management Incentive Plan, Fiscal 2006. (1) |
| 10.47 | Management Incentive Plan, Fiscal 2007. (Incorporated by reference to Exhibit 10.47 to the Company's Annual Report of Form 10-K for the period ended September 30, 2006.) (1) |
| 10.48 | Transition Agreement dated December 8, 2006, by and between Fair Isaac and Gresham T. Brebach, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2006). (1) |
| 10.49 | Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2006). (1) |
| 10.50 | Employment Agreement dated February 13, 2007, by and between Fair Isaac and Dr. Mark Greene (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 14, 2007). (1) |
| 10.51 | Management Agreement dated February 14, 2007, by and between Fair Isaac and Dr. Mark Greene (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 14, 2007). (1) |
| 10.52 | Amended and Restated Credit Agreement among Fair Isaac, Wells Fargo Bank, N.A., U.S. Bank N.A., Bank of America, N.A., JPMorgan Chase Bank, N.A. and Deutsche Bank AG, NY Branch, dated July 23, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on July 25, 2007). |
| 10.53 | Letter Agreement entered into on October 18, 2007 by and between Fair Isaac Corporation and Michael H. Campbell (incorporated by reference to Exhibit 10 to the Company's Form 8-K filed with the SEC on October 22, 2007). (1) |
| 10.54 | Management Incentive Plan, Fiscal 2008 (1) |
| 12.1 | Computations of ratios of earnings to fixed charges. |
| 21.1 | List of Company's subsidiaries. |
| 23.1* | Consent of Deloitte & Touche LLP, independent registered public accounting firm. |

| Exhibit Number | Description |
|---|---|
| 31.1* | Rule 13a-14(a)/15d-14(a) Certifications of CEO. |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certifications of CFO. |
| 32.1* | Section 1350 Certification of CEO. |
| 32.2* | Section 1350 Certification of CFO. |

(1) Management contract or compensatory plan or arrangement.

* Filed herewith.

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**SIGNATURES**

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

FAIR ISAAC CORPORATION

By /s/ CHARLES M. OSBORNE
Charles M. Osborne
*Executive Vice President*
*and Chief Financial Officer*

DATE: April 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The directors signing below constitute a majority of the registrant's board of directors.

| | | |
|---|---|---|
| * <br> Dr. Mark N. Greene | Chief Executive Officer (Principal Executive Officer) and Director | April 29, 2008 |
| * <br> Charles M. Osborne | Executive Vice President. Chief Financial Officer (Principal Financial Officer) | April 29, 2008 |
| * <br> Michael J. Pung | Vice President, Finance (Principal Accounting Officer) | April 29, 2008 |
| * <br> A. George Battle | Director | April 29, 2008 |
| * <br> Tony J. Christianson | Director | April 29, 2008 |
| * <br> Alex W. Hart | Director | April 29, 2008 |
| * <br> Guy R. Henshaw | Director | April 29, 2008 |
| * <br> James Kirsner | Director | April 29, 2008 |
| * <br> William J. Lansing | Director | April 29, 2008 |
| * <br> Margaret L. Taylor | Director | April 29, 2008 |

* By: /s/ CHARLES M. OSBORNE
Charles M. Osborne
Attorney-in-Fact

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## EXHIBIT INDEX

**To Fair Isaac Corporation**
**Report On Form 10-K For The Fiscal Year Ended September 30, 2007**

| Exhibit Number | Description | |
|---|---|---|
| 3.1 | By-laws of the Company. | Incorporated by Reference |
| 3.2 | Composite Certificate of Incorporation of Fair Isaac Corporation. | Incorporated by Reference |
| 4.1 | Rights Agreement dated as of August 8, 2001, between Fair, Isaac and Company, Incorporated and Mellon Investor Services LLC, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights. | Incorporated by Reference |
| 4.2 | Form of Rights Certificate. (Included in Exhibit 4.1.) | Incorporated by Reference |
| 4.3 | Indenture, dated as of August 6, 2003, between the Company and Wells Fargo Bank Minnesota, N.A., as Trustee. | Incorporated by Reference |
| 4.4 | Form of 1.5% Senior Convertible Note due August 15, 2023. (Included in Exhibit 4.3.) | Incorporated by Reference |
| 4.5 | Indenture, dated as of March 31, 2005, between Fair Isaac and Wells Fargo Bank, National Association. | Incorporated by Reference |
| 10.1 | HNC's 2001 Equity Incentive Plan and related form of Stock Option Agreement. | Incorporated by Reference |
| 10.2 | HNC's 1995 Directors Stock Option Plan, as amended through April 30, 2000. | Incorporated by Reference |
| 10.3 | HNC's Form of 1995 Directors Stock Option Plan Option Agreement and Stock Option Exercise Agreement. | Incorporated by Reference |
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| 10.6 | Form of Aptex Software Inc. 1996 Equity Incentive Plan Stock Option Agreement and Stock Option Exercise Agreement. | Incorporated by Reference |
| 10.7 | Form of Advanced Information Management Solutions, Inc. Stock Option Agreement. | Incorporated by Reference |
| 10.8 | ONYX Technologies, Inc. 1999 Stock Plan assumed by HNC. | Incorporated by Reference |
| 10.9 | Form of ONYX Technologies, Inc. Stock Option Agreement. | Incorporated by Reference |
| 10.10 | Fair, Isaac Supplemental Retirement and Savings Plan and Trust Agreement effective November 1, 1994. | Incorporated by Reference |
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| 10.26 | Employment Agreement entered into effective January 30, 2004, by and between Fair Isaac Corporation and Thomas G. Grudnowski. | Incorporate by Reference |
| 10.27 | Agreement and Plan of Merger, dated as of September 20, 2004, among Braun Consulting, Inc., Fair Isaac Corporation and HSR Acquisition, Inc. | Incorporated by Reference |
| 10.28 | Braun's Amended and Restated 1995 Director Stock Option Plan. | Incorporated by Reference |
| 10.29 | Braun's 1998 Employee Long-Term Stock Investment Plan. | Incorporated by Reference |
| 10.30 | Braun's 1998 Executive Long-Term Stock Investment Plan. | Incorporated by Reference |
| 10.31 | Braun's 1999 Independent Director Stock Option Plan. | Incorporated by Reference |
| 10.32 | Braun's Non Qualified Stock Option Plan of Emerging. Technologies Consultants, Inc. | Incorporated by Reference |

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| 10.33 | Braun's 2002 Employee Long-Term Stock Investment Plan, as amended. | Incorporated by Reference |
| 10.34 | Fair Isaac Supplemental Retirement and Savings Plan (As Amended And Restated Effective December 1, 2004). | Incorporated by Reference |
| 10.35 | Perleberg Expatriate Agreement. | Incorporated by Reference |
| 10.36 | Letter providing terms of offer of employment by the Company to Michael H. Campbell dated April 15, 2005. | Incorporated by Reference |
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| 10.38 | 2003 Employment Inducement Award Plan as amended effective May 15, 2005. | Incorporated by Reference |
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| 10.43 | Form of Restricted Stock Agreement under 1992 Long-Term Incentive Plan. (1) | Incorporated by Reference |
| 10.44 | Transition Agreement dated November 1, 2006, by and between Fair Isaac Corporation and Thomas G. Grudnowski. | Incorporated by Reference |
| 10.45 | Credit Agreement among Fair Isaac, Wells Fargo Bank, National Association, U.S. Bank National Association, Bank of America, N.A., and JPMorgan Chase Bank, N.A., dated October 20, 2006. | Incorporated by Reference |
| 10.46 | Management Incentive Plan, Fiscal 2006. Incorporated by reference to Exhibit 10 to Fair Isaac's Form 8-K filed on March 3, 2006. (1) | Incorporated by Reference |
| 10.47 | Management Incentive Plan, Fiscal 2007. (1) | Incorporated by Reference |
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| 10.51 | Management Agreement dated February 14, 2007, by and between Fair Isaac and Dr. Mark Greene. | Incorporated by Reference. |
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| Exhibit Number | Description | |
|---|---|---|
| 10.53 | Letter Agreement entered into on October 18, 2007 by and between Fair Isaac Corporation and Michael H. Campbell | Incorporated by Reference |
| 10.54 | Management Incentive Plan, Fiscal 2008 | Incorporated by Reference |
| 12.1 | Computations of ratios of earnings to fixed charges. | Incorporated by Reference |
| 21.1 | List of Company's subsidiaries. | Incorporated by Reference |
| 23.1 | Consent of Deloitte & Touche LLP, independent registered public accounting firm. | Filed Electronically |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of CEO. | Filed Electronically |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of CFO. | Filed Electronically |
| 32.1 | Section 1350 Certifications of CEO. | Filed Electronically |
| 32.2 | Section 1350 Certifications of CFO. | Filed Electronically |

Exhibit 23.1

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-114365, No. 333-114364, No. 333-102849, No. 333-102848, No. 333-97695, No. 333-66332, No. 333-66348, No. 333-32398, No. 333-32396, No. 333-95889, No. 333-83905, No. 333-65179, No. 333-02121, No. 333-121243, No. 333-123750, and No. 333-123751, and No. 333-133268, on Form S-8 and in the Registration Statement No. 333-111460 on Form S-3 of our report relating to the consolidated financial statements of Fair Isaac Corporation and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting dated November 28, 2007, appearing in this Annual Report on Form 10-K/A of the Company for the year ended September 30, 2007.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
April 28, 2008

Exhibit 31.1

**CERTIFICATIONS**

I, Mark N. Greene, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Fair Isaac Corporation;

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

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

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

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: April 29, 2008

/s/ MARK N. GREENE

Mark N. Greene
*Chief Executive Officer*

Exhibit 31.2

**CERTIFICATIONS**

I, Charles M. Osborne, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Fair Isaac Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2008

/s/ CHARLES M. OSBORNE

Charles M. Osborne
*Chief Financial Officer*

Exhibit 32.1

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

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

Date: April 29, 2008

/s/ MARK N. GREENE
Mark N. Greene
Chief Executive Officer

Exhibit 32.2

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

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

| | |
|---|---|
| Date: April 29, 2008 | /s/ CHARLES M. OSBORNE |
| | Charles M. Osborne |
| | Chief Financial Officer |