SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

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# FORM 10-Q

(Mark One)

[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1997

[ ] 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 AND COMPANY, INCORPORATED
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 94-1499887 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

120 North Redwood Drive, San Rafael, California 94903
(Address of principal executive offices) (Zip Code)

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

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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 x No .

The number of shares of Common Stock, $0.01 par value per share, outstanding on February 9, 1998, was 13,648,300.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

FAIR, ISAAC AND COMPANY, INCORPORATED
CONSOLIDATED BALANCE SHEETS
December 31, 1997 and September 30, 1997

(dollars in thousands)

| | December 31 | September 30 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,497 | $ 13,209 |
| Short-term investments | 5,110 | 6,108 |
| Accounts receivable, net | 35,827 | 36,147 |
| Unbilled work in progress | 19,254 | 18,176 |
| Prepaid expenses and other current assets | 3,873 | 3,673 |
| Deferred income taxes | 4,506 | 4,517 |
| Total current assets | 80,067 | 81,830 |
| Long-term investments | 12,591 | 13,261 |
| Property and equipment, net | 38,629 | 34,486 |
| Intangibles, net | 8,242 | 8,361 |
| Deferred income taxes | 3,369 | 3,369 |
| Other assets | 3,966 | 3,921 |
| | $ 146,864 | $ 145,228 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and other accrued liabilities | $ 11,721 | $ 8,228 |
| Accrued compensation and employee benefits | 12,275 | 19,160 |
| Billings in excess of earned revenues | 7,097 | 6,346 |
| Capitalized leases | 396 | 369 |
| Total current liabilities | 31,489 | 34,103 |
| Other liabilities | 6,258 | 6,753 |
| Capitalized leases | 1,102 | 1,183 |
| Commitments and contingencies | -- | -- |
| Total liabilities | 38,849 | 42,039 |
| Stockholders' equity: | | |
| Preferred stock | -- | -- |
| Common stock | 135 | 135 |
| Paid in capital in excess of par value | 27,088 | 26,025 |
| Retained earnings | 81,150 | 77,453 |
| Less treasury stock (11,933 shares at cost at 12/31/97; 12,114 at 9/30/97) | (426) | (433) |
| Cumulative translation adjustments | (264) | (308) |
| Unrealized gains on investments | 332 | 317 |
| Total stockholders' equity | 108,015 | 103,189 |
| | $ 146,864 | $ 145,228 |

See accompanying notes to the consolidated financial statements.

FAIR, ISAAC AND COMPANY, INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME

For the three months ended December 31, 1997 and 1996
(dollars in thousands, except per share data)

| | Three Months Ended December 31 | |
|---|---|---|
| | 1997 | 1996 |
| Revenues | $ 53,511 | $ 43,337 |
| Costs and expenses: | | |
| Cost of revenues | 20,008 | 16,372 |
| Sales and marketing | 8,604 | 6,005 |
| Research and development | 6,598 | 3,543 |
| General and administrative | 11,398 | 9,482 |
| Amortization of intangibles | 321 | 336 |
| Total costs and expenses | 46,929 | 35,738 |
| Income from operations | 6,582 | 7,599 |
| Other income, net | 29 | 107 |
| Income before income taxes | 6,611 | 7,706 |
| Provision for income taxes | 2,644 | 3,008 |
| Net income | $ 3,967 | $ 4,698 |
| Earnings per share: | | |
| Diluted | $ .28 | $ .33 |
| Basic | $ .29 | $ .35 |
| Shares used in computing earnings per share: | | |
| Diluted | 14,346,000 | 14,155,000 |
| Basic | 13,489,000 | 13,291,000 |

See accompanying notes to the consolidated financial statements.

FAIR, ISAAC AND COMPANY, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended December 31, 1997 and 1996
(dollars in thousands)

| | Three Months Ended December 31 | |
|---|---|---|
| | 1997 | 1996 |
| Cash flows from operating activities: | | |
| Net income | $ 3,967 | $ 4,698 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 3,474 | 2,617 |
| Deferred compensation | 240 | -- |
| Equity loss in investment | 170 | 461 |
| Deferred income taxes | 26 | (92) |
| Change to reflect change in Risk Management Technologies fiscal year | -- | (214) |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 364 | 1,568 |
| Increase in unbilled work in progress | (1,078) | (1,188) |
| Decrease (increase) in prepaid expenses and other assets | (200) | 657 |
| Increase in other assets | (45) | (711) |
| Increase in accounts payable and other accrued liabilities | 3,083 | 1,284 |
| Decrease in accrued compensation and employee benefits | (6,885) | (6,724) |
| Increase in billings in excess of earned revenues | 751 | 1,690 |
| Increase (decrease) in other liabilities | (1,119) | 91 |
| Net cash provided by operating activities | 2,748 | 4,137 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (6,008) | (3,556) |
| Purchase of DynaMark, Printronic and CRMA | (91) | (78) |
| Purchases of investments | (351) | -- |
| Proceeds from maturities of investments | 2,019 | 3,459 |
| Net cash used by investing activities | (4,431) | (175) |
| Cash flows from financing activities: | | |
| Principal payments of capital lease obligations | (94) | (125) |
| Issuance of common stock | 335 | 98 |
| Dividends paid | (270) | (252) |
| Net cash used by financing activities | (29) | (279) |
| Increase (decrease) in cash and cash equivalents | (1,712) | 3,683 |
| Cash and cash equivalents, beginning of period | 13,209 | 11,487 |
| Cash and cash equivalents, end of period | $ 11,497 | $ 15,170 |

See accompanying notes to the consolidated financial statements.

FAIR, ISAAC AND COMPANY, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Earnings Per Share

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

| (in thousands, except per share data) | Three months ended December 31, 1997 | 1996 |
|---|---|---|
| Numerator - Net income | $ 3,967 | $ 4,698 |
| Denominator - Shares: | | |
| Diluted weighted-average shares and assumed conversions of stock options | 14,346 | 14,155 |
| Effect of dilutive securities - employee stock options | (857) | (864) |
| Basic weighted-average shares | 13,489 | 13,291 |
| Earnings per share: | | |
| Diluted | $ .28 | $ .33 |
| Basic | $ .29 | $ .35 |

Options to purchase 132,000 and 59,000 shares of common stock at prices ranging from $41.88 to $45.63 and $40.00 to $41.88 were outstanding at December 31, 1997 and 1996, respectively. The options were not included in the computation of diluted EPS because the option's exercise price was greater than the average market price of the common shares for the three-months ended December 31, 1997 and 1996.

Note 2 Cash Flow Statement

Supplemental disclosure of cash flow information:

| (dollars in thousands) | Three months ended December 31, 1997 | 1996 |
|---|---|---|
| Income tax payments | $ 1,058 | $ 902 |
| Interest paid | $ 31 | $ 85 |
| Non-cash investing and financing activities: | | |
| Tax benefit of stock options | $ 384 | $ -- |
| Purchase of CRMA with common stock | $ 111 | $ -- |
| Capital lease obligations | $ 40 | $ -- |
| Issuance of common stock to ESOP | $ -- | $ 969 |
| Contributions of treasury stock to ESOP | $ -- | $ 499 |

Note 3 Merger

In July 1997, the Company issued 1,252,665 shares of its common stock (including 544,218 shares underlying options assumed by the Company) in connection with the merger with Risk Management Technologies (RMT). The acquisition has been accounted for under the pooling-of-interests method. Accordingly, the financial statements have been restated for all prior periods to include RMT. Further, all common share and per share data have been restated for prior periods.

RMT previously used the fiscal year ended December 31 for its financial reporting. RMT's operating results for the year ended December 31, 1996 are included in the accompanying balance sheet in the line item retained earnings. The statement of income's comparative 1997 results reflect the operations of the Company and RMT for the three-month period ended December 31, 1996. Accordingly, the duplication of RMT's net income, for the three months ended December 31, 1996, has been adjusted by a $214,000 charge to retained earnings in fiscal 1997. The balance sheet at September 30, 1996 has been derived from the combination of the audited consolidated financial statements of the Company at that date and the audited financial statements of RMT at December 31, 1996.

Note 4 Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130, iReporting Comprehensive Income.i SFAS No. 130 established standards for reporting comprehensive income and its components in financial statements. This statement requires that all items which are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is equal to net income plus the change in iother comprehensive income.i SFAS No. 130 requires that an entity: (a) classify items of other comprehensive income by their nature in a financial statement, and (b) report the accumulated balance of other comprehensive income separately from common stock and retained earnings in the equity section of the statement of financial position. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. Management intends to conform its consolidated financial statements to this pronouncement.

In June 1997, the FASB issued SFAS No. 131, iDisclosures about Segments of an Enterprise and Related Information.i This statement establishes standards for publicly held entities to follow in reporting information about operating segments in annual financial statements and requires that those entities report selected information about operating segments in interim financial statements. This statement also establishes standards for related disclosures about products and services, geographic areas and major customers. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. Management intends to conform its consolidated financial statements to this pronouncement.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position No. 97-2, "Software Revenue Recognition." This statement establishes standards for when to recognize revenue on software transactions and in what amounts for licensing, selling, leasing or otherwise marketing computer software. This statement is effective for financial statements issued for fiscal years beginning after December 15, 1997. Management intends to conform its consolidated financial statements to this pronouncement. The Company is currently evaluating the impact of the statement in the accompanying consolidated financial statements.

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

### General

Fair, Isaac and Company, Incorporated, provides products and services designed to help a variety of businesses use data to make better decisions on their customers, prospective customers and existing portfolios. The Company's products include statistically derived, rule-based analytical tools, software designed to implement those analytical tools and consulting services to help clients use and track the performance of those tools. The Company also provides a range of credit scoring and credit account management services in conjunction with credit bureaus and credit card processing agencies. Its DynaMark subsidiary provides data processing and database management services to businesses engaged in direct marketing activities, many of which are in the credit and insurance industries.

On July 21, l997, the Company acquired Risk Management Technologies (RMT), a privately held company, which provides enterprise-wide risk management and performance measurement solutions to major financial institutions. The Company's historical statements for prior periods have been restated to account for the Company's merger with RMT on a pooling-of-interests basis.

The Company is organized into business units that correspond to its principal markets: consumer credit, insurance, direct marketing (DynaMark), enterprise-wide financial risk management (RMT) and a new unit, healthcare information. Sales to the consumer credit industry have traditionally accounted for the bulk of the Company's revenues. Products developed specifically for a single user in this market are generally sold on a fixed-price basis. Such products include application and behavior scoring algorithms (also known as "analytic products" or "scorecards"), credit application processing systems (ASAP(TM) and CreditDesk(R)) and custom credit account management systems, including those marketed under the name TRIAD(TM). Software systems usually also have a component of ongoing maintenance revenue, and CreditDesk systems have also been sold under time- or volume-based price arrangements. Credit scoring and credit account management services sold through credit bureaus and third-party credit card processors are generally priced based on usage. Products sold to the insurance industry are generally priced based on the number of policies in force, subject to contract minimums. DynaMark and RMT employ a combination of fixed-fee and usage-based pricing, and the Healthcare Information unit intends to employ a combination of fixed-fee and usage-based pricing for its products.

Both internal and external factors accounted for the decrease in the Company's operating margin during the quarter ended December 31, 1997 compared with the same period in fiscal l997. The Company implemented hiring and investment plans based on greater planned revenue growth than was achieved. Reflecting heavy investment in future revenue streams, research and development costs and sales and marketing costs for the quarter were significantly higher than in the first three months of fiscal 1997. The Company's operating margin during the quarter was also impacted by external factors such as financial services industry consolidations and focus by Company's clients on Year 2000 compliance.

This discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes. In addition to historical information, this report includes certain forward-looking statements regarding events and trends that may affect the Company's future results. Such statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially. Such factors include, but are not limited to, those described in this discussion and analysis.

## Results of Operations

### Revenues

The following table sets forth for the fiscal periods indicated (a) the percentage of revenues represented by fixed-price and usage-priced revenues from the Credit business unit, and the percentage of revenues contributed by the DynaMark, RMT, Insurance and Healthcare Information business units; and (b) the percentage change in revenues within each category from the corresponding period in the prior fiscal year. Credit fixed-price revenues include all revenues from custom scorecard, software and consulting projects. Most credit usage revenues are generated through third-party alliances such as those with credit bureaus and third-party credit card processors. In addition, some credit scorecards and software products are licensed under volume-based fee arrangements and these are included in credit usage-priced revenues.

| | Percentage of Revenue Quarter Ended December 31, | | Period-to-Period Percentage Changes Quarter Ended 12/31/97 Compared to 12/31/96 |
|---|---|---|---|
| | 1997 | 1996 | |
| Credit | | | |
| Fixed-price | 23% | 29% | (1%) |
| Usage-priced | 52% | 50% | 28% |
| DynaMark | 17% | 14% | 57% |
| RMT | 3% | 4% | (22%) |
| Insurance | 4% | 3% | 77% |
| Healthcare Information | 1% | -- | NM |
| Total revenues | 100% | 100% | 23% |

NM = Not meaningful

A decline in sales of credit application scorecards and credit application processing primarily accounted for the decreases in fixed-price credit revenues in the quarter ended December 31, 1997. Revenues from sales of credit application scorecards and credit application processing software decreased by approximately 16 percent in the quarter, compared with the same period of fiscal 1997 due primarily to a decline in revenues derived from markets outside the United States. Revenues from end-user credit account management systems ("TRIAD") and behavior scoring projects in the three-month period ended December 31, 1997, were up 24 percent from the same period of fiscal 1997 due primarily to the release of the next version of TRIAD software.

The increase in usage revenues from the Credit business unit in the quarter ended December 31, 1997, compared with the same period the prior year, was due to continuing growth in (a) usage of the Company's scoring services distributed through the three major credit bureaus in the United States and (b) the number of bankcard accounts being managed by the Company's account management services delivered through third-party processors. Revenues for the credit bureau scoring services in the three-months ended December 31, 1997, were approximately 27 percent higher than in the first three months of fiscal 1997; approximately one-third of this increase was due to the receipt of usage revenue pertaining to prior years from audits of clients. Revenues from credit account management services delivered through third-party processors in the most recent three months were 25 percent higher than in the corresponding period of fiscal 1997.

Revenues from credit bureau-related services have increased rapidly in each of the last three fiscal years and accounted for approximately 35 percent of revenues in fiscal 1997. Revenues from services provided through bankcard processors also increased in each of these years, due primarily to increases in the number of accounts at each of the major processors.

Revenues derived from alliances with credit bureaus and credit card processors have accounted for much of the Company's revenue growth and improvement in operating margins over the last three fiscal years. While the Company has been very successful in extending or renewing such agreements in the past, and believes it will generally be able to do so in the future, the loss of one or more such alliances could have a significant impact on revenues and operating margin. Revenues generated through the Company's alliances with Equifax, Inc., Experian Information Solutions, Inc. (formerly TRW Information Systems & Services), and Trans Union Corporation each accounted for approximately eight to ten percent of the Company's total revenues in fiscal 1996 and 1997.

On November 14, 1996, it was announced that Experian had been acquired by CCN Group Ltd., a subsidiary of Great Universal Stores, PLC. CCN is the Company's largest competitor, worldwide, in the area of credit scoring. TRW/Experian has offered scoring products developed by CCN in competition with those of the Company for several years. The acquisition has had no apparent impact on the Company's revenues from Experian.

On September 30, 1997, amendments to the federal Fair Credit Reporting Act became effective. The Company believes these changes to the federal law regulating credit reporting will be favorable to the Company and its clients. Among other things, the new law expressly permits the use of credit bureau data to prescreen consumers for offers of credit and insurance and allows affiliated companies to share consumer information with each other subject to certain conditions. There is also a seven-year moratorium on new state legislation on certain issues. However, the states remain free to regulate the use of credit bureau data in connection with insurance underwriting. The Company believes enacted or proposed state regulation of the insurance industry has had a negative impact on its efforts to sell insurance risk scores through credit reporting agencies.

Since its acquisition, DynaMark has taken on an increasing share of the mainframe batch processing requirements of the Company's other business units. During fiscal 1997, such intercompany revenue represented more than fourteen percent of DynaMark's total revenues. Accordingly, DynaMark's externally reported revenues tend to understate DynaMark's growth and contribution to the Company as a whole. The increase in DynaMark's revenues shown in the foregoing table, which excludes such intercompany revenues, was due primarily to increased revenues from customers in the financial services industry. RMT's revenues decreased in the quarter ended December 31, l997 due to the impact of bank consolidations.

The increases in Insurance revenues for the three-month period ended December 31, 1997, compared with the same period in fiscal 1997, were due primarily to strong growth in insurance scoring services offered through consumer reporting agencies. In the quarter ended December 31, l997, the Company's new business unit, Healthcare Information, introduced a receivables management system for hospitals and healthcare providers and derived revenues from providing analytical marketing services to a large pharmaceuticals manufacturer to help improve customer relationships and management of prescription compliance (i.e., patient's fulfillment of prescriptions and taking them to completion). This unit had no recorded revenues in the corresponding quarter in fiscal 1997.

Revenues derived from outside of the United States represented approximately 17 percent of total revenues in the quarter ended December 31, 1997, compared with 16 percent of total revenues in the same period a year earlier.

Revenues from software maintenance and consulting services each accounted for less than 10 percent of revenues in each of the three years in the period ended September 30, 1997, and in the three-months ended December 31, 1997. The Company does not expect revenues from either of these sources to exceed 10 percent of revenues in the foreseeable future.

During the period since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of the Company's largest institutional clients have merged and consolidated, the Company has generated above-average growth in revenues--even after adjusting for the effect of acquisitions--from its bankcard-related scoring and account management business by deepening its penetration of large banks and other credit issuers. The Company believes much of its future growth prospects will rest on its ability to: (1) develop new, high-value products, (2) increase its penetration of established or emerging credit markets outside the U.S. and Canada and (3) expand--either directly or through further acquisitions--into relatively undeveloped or underdeveloped markets for its products and services, such as direct marketing, insurance, small business lending and healthcare information management.

Over the long term, in addition to the factors discussed above, the Company's rate of revenue growth--excluding growth due to acquisitions--is limited by the rate at which it can recruit and absorb additional professional staff. Management believes this constraint will continue to exist indefinitely. On the other hand, despite the high penetration the Company has already achieved in certain markets, the opportunities for application of its core competencies are much greater than it can pursue. Thus, the Company believes it can continue to grow revenues, within the personnel constraint, for the foreseeable future. At times management may forego short-term revenue growth in order to devote limited resources to opportunities that it believes have exceptional long-term potential. This occurred in the period from 1988 through 1990 when the Company devoted significant resources to developing the usage-priced services distributed through credit bureaus and third-party processors.

Expenses

The following table sets forth for the periods indicated (a) the percentage of revenues represented by certain line items in the Company's consolidated statements of income and (b) the percentage change in such items from the same quarter in the prior fiscal year.

| | Percentage of Revenue | | Period-to-Period Percentage Changes |
|---|---|---|---|
| | Quarter Ended December 31, | | Quarter Ended 12/31/97 Compared to Quarter Ended 12/31/96 |
| | 1997 | 1996 | |
| Revenues | 100% | 100% | 23% |
| Costs and expenses: | | | |
| Cost of revenues | 38 | 38 | 22 |
| Sales and marketing | 16 | 14 | 43 |
| Research and development | 12 | 8 | 86 |
| General and administrative | 21 | 22 | 20 |
| Amortization of intangibles | 1 | 1 | (4) |
| Total costs and expenses | 88 | 83 | 31 |
| Income from operations | 12 | 17 | (13) |
| Other income, net | <1 | <1 | (73) |
| Income before income taxes | 12 | 17 | (14) |
| Provision for income taxes | 5 | 7 | (12) |
| Net income | 7% | 10% | (16) |

Cost of Revenues

Cost of revenues consists primarily of personnel, travel, and related overhead costs; costs of computer service bureaus; and the amounts paid by the Company to credit bureaus for scores and related information in connection with the ScoreNet(R) service. The cost of revenues, as a percentage of revenues, was essentially unchanged in the quarter ended December 31, 1997, as compared with the same quarter a year earlier. Costs of ScoreNet data, as a percentage of revenues, declined from the December 1996 quarter, but this was offset by increased production costs due to above-average growth at DynaMark.

Sales and Marketing

Sales and marketing expenses consist principally of personnel, travel, overhead, advertising and other promotional expenses. These expenses, as a percentage of revenues, increased in the three-month period ended December 31, 1997, compared with the same period in fiscal 1997, primarily due to increases in media advertising for introduction of new products and increased visibility of the Company's brand, and the costs of researching market opportunities outside the United States.

Research and Development

Research and development expenses include the personnel and related overhead costs incurred in developing products, researching mathematical and statistical algorithms, and developing software tools that are aimed at improving productivity and management control. Research and development expenses increased significantly over the corresponding three-month period of fiscal 1997. After several years of concentrating on developing new markets--either geographical or by industry--for its existing technologies, the Company has increased emphasis on developing new technologies, especially in the area of software development. Research and development expenditures in the three month period ending December 31, l998 were primarily related to new bankruptcy scoring products for Visa (Integrated Solutions Concepts) and Trans Union, and joint product development with Deluxe Financial Services, Inc.

General and Administrative

General and administrative expenses consist mainly of compensation expenses for certain senior management, corporate facilities expenses, the costs of administering certain benefit plans, legal expenses, expenses associated with the exploration of new business opportunities and the costs of operating administrative functions such as finance and computer information systems. As a percentage of revenues, these expenses for the three-month period ended December 31, 1997, were sightly lower than in the corresponding period of fiscal 1997 due primarily to decreased expenditures for facilities expansion.

Amortization of intangibles

The Company is amortizing the intangible assets arising from various acquisitions over periods ranging from two to fifteen years. The level of amortization expense in future years will depend, in part, on the amount of additional payments (earnouts) to the former shareholders of Credit & Risk Management Associates, Inc., a privately held company acquired in 1996.

Other Income and expense

Interest income, derived from the investment of funds surplus to the Company's immediate operating requirements, was essentially the same as in the three-month period a year earlier. However, interest income was offset by the increase in the Company's share of operating losses from equity investments in certain early stage development companies and foreign currency losses. The Company expects that operating losses from equity investments will not be material in the foreseeable future.

Provision for income taxes

The Company's effective tax rate increased from 39% to 40% for the three months ended December 31, 1997 compared to December 31, 1996, primarily because net operating losses carryforward deductions were exhausted in fiscal l997.

Financial Condition

Working capital increased from $47,727,000 at September 30, 1997 to $48,578,000 at December 31, 1997. Cash and marketable investments decreased from $27,941,000 at September 30, 1997, to $26,219,000 at December 31, 1997, due primarily to expenditures for officer and employee incentive plans payouts, computer hardware and software, and leasehold improvements and furniture and equipment for additional office space. The Company's long-term debt is mainly due to lease and employee incentive and benefit obligations.

On December 1, 1997, the Company exercised an option to purchase undeveloped land in San Rafael, California, with the intention of constructing an office complex to accommodate future growth. Development is expected to commence in fiscal 1998 and will involve a material capital commitment by the Company. The Company intends to fund the acquisition and development of this land using long-term debt, equity or other financing. Excepting external financing of this capital commitment, the Company believes that the cash and marketable securities on hand, along with cash expected to be generated by operations, will be adequate to meet its capital and liquidity needs for both the current year and the foreseeable future.

Interim Periods

The Company believes that all the necessary adjustments have been included in the amounts shown in the consolidated financial statements contained in Item 1 above for the three-month periods ended December 31, 1997 and 1996, to state fairly the results for such interim periods. This includes all normal recurring adjustments that the Company considers necessary for a fair statement thereof, in accordance with generally accepted accounting principles. This report should be read in conjunction with the Company's 1997 Form 10-K.

Quarterly results may be affected by fluctuations in revenues associated with credit card solicitations, by the timing of orders for and deliveries of certain ASAP and TRIAD systems, and by the seasonality of ScoreNet purchases. With the exception of the cost of ScoreNet data purchased by the Company, most of its operating expenses are not affected by short-term fluctuations in revenues; thus short-term fluctuations in revenues may have a significant impact on operating results. However, in recent years, these fluctuations were generally offset by the strong growth in revenues from services delivered through credit bureaus and third-party bankcard processors. Management believes that neither the quarterly variation in revenues and net income, nor the results of operations for any particular quarter, are necessarily indicative of results of operations for full fiscal years. Accordingly, management believes that the Company's results should be evaluated on an annual basis.

## PART II - OTHER INFORMATION

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

At the Annual Meeting of Stockholders of the Company held on February 3, 1998, the Company's stockholders voted in favor of: (i) the election of nine directors to the Company's Board of Directors, (ii) amendments to the Company's Long-term Incentive Plan and (iii) the ratification of KPMG Peat Marwick LLP as the Company's independent auditors. The number of votes for, withheld and against, as well as the number of abstentions and broker non-votes as to each matter approved at the Annual Meeting of Stockholders were as follows:

| Matter | For | Withheld | Against | Abstain | Broker Non-votes |
|---|---|---|---|---|---|
| Election of Directors | | | | | |
| A. George Battle | 11,654,345 | 37,559 | N/A | N/A | 0 |
| Bryant J. Brooks, Jr. | 11,633,550 | 58,354 | N/A | N/A | 0 |
| H. Robert Heller | 11,633,432 | 58,472 | N/A | N/A | 0 |
| Guy R. Henshaw | 11,654,995 | 36,909 | N/A | N/A | 0 |
| David S.P. Hopkins | 11,654,965 | 36,939 | N/A | N/A | 0 |
| Robert M. Oliver | 11,627,222 | 64,682 | N/A | N/A | 0 |
| Larry E. Rosenberger | 11,627,695 | 64,209 | N/A | N/A | 0 |
| Robert D. Sanderson | 11,610,375 | 81,529 | N/A | N/A | 0 |
| John D. Woldrich | 11,626,630 | 65,274 | N/A | N/A | 0 |
| Approval of Amendments to Company's Long-term Incentive Plan | | | | | |
| | 7,901,474 | N/A | 2,097,058 | 249,162 | 1,444,210 |
| Ratification of Auditors | | | | | |
| | 11,481,843 | N/A | 137,999 | 72,062 | 0 |

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:
24.1 Power of Attorney (see page 14 of this Form 10-Q).
27 Financial Data Schedule.

(b) Reports on Form 8-K:

Two reports on Form 8-K were filed during the quarter ended December 31, 1997. On December 11, 1997, the Company filed a report announcing that it had exercised an option to purchase undeveloped land in San Rafael, with the intention of constructing an office complex to accommodate future growth. The Company filed a report on

December 16, l997 covering a press release issued December 16, l997 announcing that it expected healthy revenue growth but lower operating margin in the quarter ending December 31, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FAIR, ISAAC AND COMPANY, INCORPORATED

DATE: February 12, 1998

By /s/ PETER L. MCCORKELL
--------------------------------------
Peter L. McCorkell
Senior Vice President and Secretary

POWER OF ATTORNEY

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

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

DATE: February 12, 1998

By /s/ PATRICIA COLE
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Patricia Cole
Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

TO FAIR, ISAAC AND COMPANY, INCORPORATED

REPORT ON FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 1997

| Exhibit No. | Exhibit | Sequentially Numbered Page |
|---|---|---|
| 24.1 | Power of Attorney | 14 |
| 27 | Financial Data Schedule | 16 |

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND INCOME STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

1,000

3-MOS
SEP-30-1998
OCT-01-1997
DEC-31-1997
11,497
5,110
36,597
770
0
80,067
71,136
32,507
146,864
31,489
1,102
0
0
135
107,700
146,864
0
53,511
0
20,008
8,604
100
131
6,611
2,644
3,967
0
0
0
3,967
.29
.28