FAIR ISAAC & COMPANY INC
Form S-3
September 24, 2002

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As filed with the Securities and Exchange Commission on September 24, 2002

Registration No. 333-72804
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Post-Effective Amendment No. 2 to Form S-3

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Fair, Isaac and Company, Incorporated
(Exact name of registrant on Form S-3 as specified in its charter)

HNC Software Inc.
(Exact name of registrant on Post-Effective Amendment No. 2 to Form S-3 as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

Delaware
(State or other jurisdiction of incorporation or organization)

94-1499887
(I.R.S. Employer Identification Number)

33-0248788
(I.R.S. Employer Identification Number)

200 Smith Ranch Road
San Rafael, California 94903
(415) 472-2211
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

5935 Cornerstone Court West
San Diego, California 92121
(858) 799-8000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Andrea M. Fike, Esq.

Vice President, General Counsel and Secretary
Fair, Isaac and Company, Incorporated
4295 Lexington Avenue North
St. Paul, Minnesota 55126
(651) 483-8593
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Blair W. White, Esq.
Pillsbury Winthrop LLP
50 Fremont Street
San Francisco, California 94105
(415) 983-1000

Approximate Date of Commencement of Proposed Sale to the Public: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
5.25% Convertible Subordinated Notes of HNC Software Inc.(1)	N/A(2)	N/A(2)	N/A(2)	N/A(2)
Guarantees by Fair, Isaac of the 5.25% Convertible Subordinated Notes(1)	$	$	$	$
Fair, Isaac common stock, par value $0.01 per share	2,703,190(3)	N/A	$92,800,513(4)	$8,538

(1) In connection with the merger of Northstar Acquisition Inc. a Delaware corporation and a wholly-owned subsidiary of Fair, Isaac, with and into HNC, Fair, Isaac, HNC and State Street Bank and Trust Company of California, N.A., as trustee, under the Indenture dated as of August 21, 2001 pursuant to which HNC s 5.25% Convertible Subordinated Notes Due September 1, 2008 (the HNC notes) were issued, entered into a supplemental indenture pursuant to which, among other things, the HNC notes become convertible into shares of Fair, Isaac common stock and Fair, Isaac unconditionally and irrevocably guaranteed, on a subordinated basis, the HNC notes. No consideration was received by Fair, Isaac from holders of the HNC notes or otherwise in connection with Fair, Isaac s issuance of its subordinated guarantees of the HNC notes (which guarantees are embodied in the supplemental indenture).

(2) A registration fee of $13,800 was paid in connection with the original filing by HNC of the Registration Statement on Form S-3 filed on November 6, 2001.

(3) Represents the number of shares of Fair, Isaac common stock presently issuable upon conversion of the HNC notes held by the selling securityholders from time to time named in the prospectus contained herein and any supplements thereto, calculated based on a conversion ratio of approximately 18.02 shares per $1,000 principal amount of the HNC notes, plus an additional indeterminate number of shares that may become issuable upon conversion by reason of anti-dilution adjustments.

(4) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act, based on the market value of Fair, Isaac common stock being registered, as established by the average of the high and low prices of Fair, Isaac common stock as reported on the New York Stock Exchange on September 18, 2002, which was $34.33.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Commission, acting pursuant to said section 8(a) may determine.

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EXPLANATORY NOTE

This registration statement and post-effective amendment is being filed under the Securities Act of 1933 jointly by Fair, Isaac and Company, Incorporated, a Delaware corporation, and HNC Software Inc., a Delaware corporation. On November 6, 2001, HNC filed a registration statement, Registration Statement No. 333-72804, registering $150,000,000 principal amount of 5.25% convertible subordinated notes issued by HNC.

On August 5, 2002, HNC became a wholly-owned subsidiary of Fair, Isaac through the merger of a wholly-owned subsidiary of Fair, Isaac with and into HNC, and each share of HNC common stock was converted into the right to receive 0.519 of a share of Fair, Isaac common stock. In connection with the merger, HNC s 5.25% convertible subordinated notes became convertible into shares of Fair, Isaac common stock at a conversion rate of approximately 18.02 shares of Fair, Isaac common stock per $1,000 principal amount of an HNC note, subject to anti-dilution adjustments. In addition, Fair, Isaac and HNC entered into a supplemental indenture whereby Fair, Isaac agreed to guarantee the notes on a subordinated basis.

This registration statement registers the Fair, Isaac common stock issuable upon conversion of the convertible notes and Fair, Isaac s guarantees of the convertible notes. This registration statement also is a post-effective amendment to HNC s registration statement with respect to the convertible notes which revises that registration statement to reflect the merger, the Fair, Isaac common stock, and the Fair, Isaac guarantees.

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The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to completion dated September 24, 2002)

HNC Software Inc.

$150,000,000

5.25% Convertible Subordinated Notes due September 1, 2008

Fair, Isaac and Company, Incorporated

2,703,190

Shares of Common Stock Issuable Upon Conversion of the Notes

$150,000,000

Guarantees

On August 5, 2002, HNC Software Inc. became a wholly-owned subsidiary of Fair, Isaac and Company, Incorporated through the merger of a wholly-owned subsidiary of Fair, Isaac with and into HNC, and each outstanding share of HNC common stock was converted into the right to receive 0.519 of a share of Fair, Isaac common stock. In connection with the merger, HNC s 5.25% Convertible Subordinated Notes due September 1, 2008 became convertible into shares of Fair, Isaac common stock at a conversion rate of approximately 18.02 shares of Fair, Isaac common stock per $1,000 principal amount of an HNC note, subject to anti-dilution adjustments, and Fair, Isaac issued its subordinated guarantees of $150,000,000 aggregate principal amount of the notes.

This prospectus relates to the notes, Fair, Isaac s subordinated guarantees of the notes, and to 2,703,190 shares of Fair, Isaac common stock issuable upon conversion of the notes held by certain selling securityholders, plus such additional indeterminate number of shares of Fair, Isaac common stock as may become issuable upon conversion of the notes as a result of anti-dilution adjustments. The notes and the shares of Fair, Isaac common stock issuable upon conversion of the notes may be sold from time to time by or on behalf of the selling securityholders named in this prospectus or in supplements to this prospectus. The Fair, Isaac guarantees are embodied in the first supplemental indenture to the indenture governing the notes and may be sold only together with the associated notes from time to time by or on behalf of the selling securityholders named in this prospectus or in supplements to this prospectus.

The selling securityholders may sell all or a portion of the shares of Fair, Isaac common stock issuable upon conversion of notes from time to time on the New York Stock Exchange, in negotiated transactions or otherwise, and at prices which will be determined by the prevailing market price for the shares or in negotiated transactions. The selling securityholders may sell all or a portion of their notes, together with the associated guarantees, in negotiated transactions or otherwise and at prices which will be determined in negotiated transactions.

The selling securityholders will receive all of the proceeds from the sale of shares of the notes, the Fair, Isaac common stock and the Fair, Isaac guarantees offered by this prospectus. Fair, Isaac will not receive any proceeds of the sale of the notes, the shares or the guarantees by the selling securityholders.

Fair, Isaac common stock is listed on the New York Stock Exchange under the trading symbol FIC and on September 23, 2002, its closing price was $33.23 per share. The notes are traded on the Portal℠ Market, a subsidiary of The Nasdaq Stock Market, Inc.

Investing in the notes or the Fair, Isaac common stock involves a high degree of risk. Please carefully consider the Risk Factors beginning on page 4 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission had approved or disapproved of these securities or passed upon adequacy or accuracy of this prospectus. Any representation of the contrary is a criminal offense.

The date of this prospectus is , 2002

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ADDITIONAL INFORMATION

This prospectus incorporates important business and financial information about Fair, Isaac and HNC from other documents that are not included in or delivered with this prospectus. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this prospectus through the Securities and Exchange Commission website at *www.sec.gov* or by requesting them in writing or by telephone from Fair, Isaac at the following address:

Fair, Isaac and Company, Incorporated

200 Smith Ranch Road
San Rafael, California 94903
Attention: Investor Relations
(415) 492-7122

References to we, us, and our in this prospectus are references to Fair, Isaac and Company, Incorporated, together with its subsidiary, HNC Software Inc. References to Fair, Isaac are references to Fair, Isaac and Company, Incorporated, and references to HNC are references to HNC Software Inc.

See Where You Can Find More Information on page 43.

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SUMMARY

This summary highlights selected information from this prospectus and may not contain all of the information that is important to you. You should carefully read this document and the documents we have referred you to. See Where You Can Find More Information on page 43.

Who We Are

Fair, Isaac and Company, Incorporated **200 Smith Ranch Road** **San Rafael, California 94903** **(415) 472-2211**	**HNC Software Inc.** **5935 Cornerstone Court West** **San Diego, California 92121** **(858) 799-8000**

We provide creative analytics that unlock value for people, businesses and industries. Our predictive modeling, decision analysis, intelligence management and decision engine systems power more than 14 billion decisions a year. Founded in 1956, we help thousands of companies in over 60 countries acquire customers more efficiently, increase customer value, reduce risk and credit losses, lower operating expenses and enter new markets more profitably. Leading banks and credit card issuers rely on our analytic solutions, as do many insurers, retailers, telecommunications providers and other customer-oriented companies. Through the www.myFICO.com website, consumers use our FICO scores, the standard measure of credit risk, to understand and manage their credit risk profile.

Merger Between Fair, Isaac and HNC

On August 5, 2002, Fair, Isaac consummated a merger with HNC Software Inc., a leading provider of high-end analytic and decision management software. In the merger, Fair, Isaac acquired HNC by merging a wholly-owned subsidiary of Fair, Isaac with and into HNC. As a consequence of the merger, HNC became a wholly-owned subsidiary of Fair, Isaac. In the merger, stockholders of HNC received approximately 0.519 of a share of Fair, Isaac common stock for each share HNC common stock that they owned. Immediately after the merger, former HNC stockholders owned approximately 36.4% of Fair, Isaac s outstanding common stock.

The Offering

SECURITIES Offered by this Prospectus:	$150,000,000 principal amount of HNC s 5.25% Convertible Subordinated Notes due September 1, 2008.
	$150,000,000 subordinated guarantees by Fair, Isaac of the notes.
	2,703,190 shares of Fair, Isaac common stock issuable upon conversion of the notes.
The Securities are being OFFERED by:	Certain holders of the securities. Each selling securityholder will set the offering price for a particular offer at the time of sale.
The Notes were ISSUED by:	HNC Software Inc. HNC originally issued and sold the notes in August and September 2001 in private transactions.
The Notes are GUARANTEED by:	Fair, Isaac, the sole stockholder of HNC. The notes are unconditionally and irrevocably guaranteed by Fair, Isaac on a subordinated basis.
The Notes are CONVERTIBLE into:	Fair, Isaac common stock, listed on the New York Stock Exchange under the symbol FIC.

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The Notes

Interest:	The annual interest rate is 5.25%. Interest is payable on March 1 and September 1 of each year, beginning March 1, 2002.
Maturity Date:	September 1, 2008.
Conversion Rights:	The notes are convertible at any time before maturity into shares of Fair, Isaac common stock at a conversion price of $55.49 per share, subject to adjustment. This price is equivalent to a conversion rate of approximately 18.02 shares per $1,000 principal amount of notes. On September 23, 2002, the last reported sale price of Fair, Isaac common stock on the New York Stock Exchange was $33.23 per share. Upon conversion, you will not receive any cash representing accrued interest other than in the case of a conversion in connection with a provisional redemption. See Description of the Notes Conversion of Notes.
Provisional Redemption:	We may redeem the notes, in whole or in part, at any time before September 5, 2004, at a redemption price equal to the principal amount of each note, only if: the closing price of Fair, Isaac common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of any 30 consecutive trading days ending on the trading day before we mail a provisional redemption notice, and the shelf registration statement covering resales of the notes and the Fair, Isaac common stock issuable upon conversion of the notes is effective, available for use, and expected to remain so for 30 days, unless registration is no longer required. Upon such provisional redemption, we will pay, in cash or Fair, Isaac common stock or both, the aggregate interest payable on the notes through September 1, 2004. We will make this additional payment on all notes called for redemption, including any notes converted between the notice date the redemption date. See Description of the Notes Provisional Redemption.
Optional Redemption:	We may redeem the notes on or after September 5, 2004 at the redemption prices described in this prospectus, plus any unpaid interest accrued up to the redemption date. See Description of the Notes Optional Redemption.
Sinking Fund:	None.
Purchase Option Upon Change in Control:	Upon the occurrence of certain transactions constituting a change in control, you may require us to purchase your notes at 100% of the principal amount of the notes, plus any unpaid interest accrued up to the purchase date. We may not have sufficient funds to pay the purchase price for all duly tendered notes upon a change in control. See Description of the Notes Purchase of Notes at Your Option Upon a Change in Control and Risk Factors.
Subordination:	The notes are general unsecured obligations of HNC, guaranteed by Fair, Isaac on a subordinated basis. The notes are subordinated

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	in right of payment to all existing and future senior indebtedness of HNC. Fair, Isaac s obligations under the guarantees are subordinated to all existing and future senior indebtedness of Fair, Isaac. As of June 30, 2002, HNC had approximately $40.7 million of outstanding indebtedness or other liabilities to which the notes would have been effectively subordinated. The indenture does not limit the abilities of Fair, Isaac, HNC, or our subsidiaries to incur senior indebtedness or other debt. See Description of the Notes Subordination.
Trading:	The notes are not listed on any national securities exchange or the Nasdaq Stock Market. The notes are eligible for trading on the PORTAL system of the National Association of Securities Dealers, Inc. The Fair, Isaac common stock is traded on the New York Stock Exchange under the symbol FIC.

Risk Factors

Investment in the notes and the Fair, Isaac common stock involves risks. You should carefully consider the information under Risk Factors and all other information included in this prospectus and incorporated by reference in this prospectus before investing in the notes or the Fair, Isaac common stock.

Ratio of Earnings to Fixed Charges

The ratios of earnings to fixed charges for each of Fair, Isaac and HNC represent our historical ratios and are calculated on a total enterprise basis. The ratios are computed by dividing the sum of earnings before provision for taxes and fixed charges (excluding capitalized interest) by fixed charges. Fixed charges represent interest (including capitalized interest) and amortization of debt discount and expense and the interest factor of all rentals, consisting of an appropriate interest factor on operating leases.

	Nine Months Ended June 30,	Six Months Ended June 30,	Fiscal Years Ended				
	2002	2002	2001	2000	1999	1998	1997
Fair, Isaac	25.78	*	22.70	16.09	16.63	12.80	16.58
HNC	*	**	**	**	**	5.10	26.50

* Fair, Isaac s fiscal year ends September 30, and consequently June 30, 2002 reflects a nine-month period. HNC s fiscal year ends December 31, and consequently June 30, 2002 reflects a six-month period.

** HNC had a deficiency in earnings to fixed charges of $6.5 million in 1999, 157.1 million in 2000 and $42.7 million in 2001. HNC had a deficiency in earnings to fixed charges of $7.5 million in the six months ended June 30, 2002.

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RISK FACTORS

An investment in the notes and in the Fair, Isaac common stock involves risk. You should consider all of the information that we have included in this prospectus, and all of the information in the documents we have incorporated by reference, including the risks described from time to time in our periodic reports filed with the SEC. See Where you can find more information on page 43. In addition, you should carefully read and consider the following factors. Additional risks and uncertainties not presently known to Fair, Isaac and HNC or that are not currently believed to be important to you also may adversely affect Fair, Isaac and HNC.

Risk Factors Related to the Notes

If we incur additional indebtedness that is senior to the notes, we might not have sufficient assets to pay our obligations under the notes.

The indenture under which we issued the notes, as amended, does not restrict us or our subsidiaries from incurring additional debt, including senior indebtedness. It also does not restrict our ability to pay dividends or issue or repurchase our securities. If we, or our subsidiaries, were to incur additional debt or liabilities, we might not be able to pay our obligations under the notes.

If we were required to pay off all senior indebtedness before we pay the notes, we might not have sufficient assets to pay our obligations under the notes.

The notes are general unsecured obligations of HNC, and are subordinated in right of payment to all of the existing and future senior indebtedness of HNC. The notes are guaranteed by Fair, Isaac, subordinated in right of payment to all of the existing and future senior indebtedness of Fair, Isaac. In the event of our bankruptcy, liquidation or reorganization or upon acceleration of the notes due to an event of default under the indenture and in certain other events, our assets will be available to pay obligations on the notes only after all senior indebtedness has been paid. The notes are also effectively subordinated to the liabilities, including trade payables, of our subsidiaries. As of June 30, 2002, Fair, Isaac had no outstanding senior indebtedness for purposes of the indenture, while HNC and its subsidiaries had approximately $40.7 million of outstanding indebtedness or other liabilities (excluding intercompany liabilities and liabilities of the type not required to be reflected on a balance sheet in accordance with generally accepted accounting principles) to which the notes would have been effectively subordinated. As a result, there may not be sufficient assets remaining to pay amounts due on any or all of the outstanding notes. In addition, we will not make any payments on the notes in the event of payment defaults on our senior indebtedness or other specified defaults on our designated senior indebtedness.

If we are not able to meet the requirements to purchase notes upon a change in control of Fair, Isaac or HNC, noteholders might not be repaid.

Upon a change in control in Fair, Isaac or HNC, as defined in the indenture and the first supplement governing the notes, noteholders may require HNC to purchase all or a portion of their notes. If a change in control were to occur, we might not have enough funds to pay the purchase price for all tendered notes. Future credit agreements or other agreements relating to our indebtedness may provide that a change in control constitutes an event of default and additionally may prohibit the repurchase or redemption of the notes. If a change in control occurs at a time when we are prohibited from purchasing the notes, we could seek the consent of our lenders to purchase the notes or could attempt to refinance this debt. If we do not obtain a consent, we could not purchase the notes. Our failure to purchase tendered notes would constitute an event of default under the indenture and the first supplement, which might constitute a default under the terms of our other debt. In such circumstances, or if a change in control would constitute an event of default under our senior indebtedness, the subordination provisions of the indenture would limit or prohibit payments to noteholders. The term change in control is limited to certain specified transactions and may not include other events that might harm our financial condition. Our obligation to offer to purchase the notes upon a change in control would not necessarily protect noteholders in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us.

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If a market for the notes is not maintained, the trading price of the notes could decline significantly.

The notes are not listed on any national securities exchange or the Nasdaq Stock Market, and we do not intend to apply for any listing. Since the issuance of the notes, the initial purchasers have made a market in the notes. However, the initial purchasers are not obligated to make a market and may discontinue this market-making activity at any time without notice. In addition, market-making activity by the initial purchasers is subject to the limits imposed by the Securities Act and the Exchange Act. As a result, a market for the notes may not be maintained. If an active market for the notes fails to develop or be sustained, the trading price of the notes could decline significantly. Changes in prevailing interest rates, the market for securities similar to the notes, and our operating results will affect the price at which you are able to sell your notes, if at all.

Risk Factors Related to Fair, Isaac and HNC

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

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

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

We may not successfully integrate the operations of Fair, Isaac and HNC in a timely manner, or at all. Moreover, we may not realize the anticipated benefits or synergies of the merger to the extent, or in the time frame, anticipated. The anticipated benefits and synergies relate to cost savings associated with anticipated restructurings and other operational efficiencies, greater economies of scale and revenue growth opportunities

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through expanded markets and cross-sell opportunities. However, these anticipated benefits and synergies are based on projections and assumptions, not actual experience, and assume a successful integration.

In order to be successful, we must continue to retain and motivate key employees, which will be more difficult in light of uncertainty following the recently completed merger, and failure to do so could seriously harm our operating results.

The market for highly skilled employees is limited, and the loss of key employees could have a significant negative impact on our operations. Employee retention may be a particularly challenging issue in connection with the recently completed merger. Although the HNC board of directors designed and adopted a retention program to provide key HNC employees with financial incentives to remain with Fair, Isaac for relatively short time periods after the closing of the merger on August 5, 2002, there still is significant risk that we will not be able to retain these HNC employees in the short or long term. Our employees may experience uncertainty about their future roles with Fair, Isaac, even after our strategies are announced or executed. This circumstance may hurt our ability to attract and retain key management, marketing and technical personnel. We also must continue to motivate employees and keep them focused on our strategies and goals. This task may be particularly difficult due to the potential distractions of continued integration and morale challenges posed by workforce reductions after completion of the merger.

Charges to earnings resulting from the application of the purchase method of accounting may cause the market value of our common stock to decline.

In accordance with United States generally accepted accounting principles, we will account for the merger using the purchase method of accounting. Under the purchase method of accounting, we will allocate the total estimated purchase price to HNC s net tangible assets, amortizable intangible assets, intangible assets with indefinite lives and in-process research and development, based on their fair values as of the date of completion of the merger on August 5, 2002. We will record the excess of the purchase price over those fair values as goodwill. We will expense approximately $40.2 million of the estimated purchase price allocated to in-process research and development in the fourth quarter. We will incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the merger. Annual amortization of intangible assets is currently estimated at $12.8 million, as compared to our amortization expense for such items during our most recent completed fiscal year of $2.1 million. In addition, to the extent the value of goodwill or intangible assets with indefinite lives becomes impaired in the future, we may be required to incur material charges relating to the impairment of those assets. These depreciation, amortization, in-process research and development and potential impairment charges could seriously harm our results of operations.

We may incur significant liabilities and merger-related charges resulting from integration of the two companies following the recently completed restructuring.

Our management is in the process of assessing the costs associated with integration, and estimates that there will be between $15 and $16 million of merger-related and restructuring costs in the fourth quarter of our fiscal year 2002. However, additional liabilities ultimately will be recorded for severance, retention or relocation costs, costs of vacating some facilities, or other costs associated with ceasing certain activities. These liabilities and charges may be significant and could seriously harm our operating results in future periods.

Customer uncertainties related to the recently completed merger could harm our businesses and results of operations.

In response to ongoing uncertainty following the recently completed merger, our customers may delay or defer purchasing decisions or elect to switch to other suppliers. In particular, prospective customers could be reluctant to purchase our products due to uncertainty about the direction of our product offerings and our willingness to support and service existing products. Prospective and current clients may worry about how integration of the two companies technologies may affect current and future products. To the extent that the

recently completed merger creates uncertainty among those persons and organizations contemplating product purchases such that one large customer, or a significant group of smaller customers, delays, defers or changes purchases, our results of operations would be seriously harmed. Further, we may have to make additional customer assurances and assume additional obligations to address our customers uncertainty about the direction of our products and related support offerings. Accordingly, our quarterly results of operations could be substantially below expectations of market analysts, potentially decreasing our stock price.

Our effective tax rate after the recently completed merger is uncertain, and any increase in tax liability would harm our operating results.

The impact of the recently completed merger on our overall effective tax rate is uncertain. Although we will attempt to optimize our overall effective tax rate, it is difficult to predict our effective tax rate following the recently completed merger. The combination of the operations of Fair, Isaac and HNC may result in an overall effective tax rate that is higher than our currently reported tax rate, and it is possible that our combined effective tax rate on a consolidated basis may exceed the average of the pre-merger separate tax rates of Fair, Isaac and HNC.

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

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

Since our revenues will depend, to a great extent, upon general economic conditions and, more particularly, upon conditions in the consumer credit, financial services and insurance industries, a downturn in any of those industries will harm our results of operations.

During fiscal 2001, approximately 87% of our revenues were derived from sales of products and services to the consumer credit, financial services and insurance industries. A downturn in the consumer credit, the financial services or the insurance industry, including a downturn caused by increases in interest rates or a tightening of credit, among other factors, could harm our results of operations. Since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of our large institutional clients have merged and consolidated, we have generated most of our revenue growth from our bankcard-related scoring and account management businesses by cross-selling our products and services to large banks and other credit issuers. As this industry continues to consolidate, we may have fewer opportunities for revenue growth due to changing demand for our products and services that support clients customer acquisition programs. In addition, industry consolidation could affect the base of recurring revenues derived from contracts in which we are paid on a per-transaction basis if consolidated customers combine their operations under one contract. We cannot assure you that we will be able effectively to promote future revenue growth in our businesses.

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

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

Our revenues and operating results varied in the past and, with respect to our recently-acquired subsidiary HNC, have resulted in net losses in some quarters. Future fluctuations in our operating results are possible. Consequently, we believe that you should not rely on period-to-period comparisons of financial results as an

indication of future performance. Our future operating results may fall below the expectations of market analysts and investors, and in this event the market price of our common stock would likely fall. In addition, most of our operating expenses will not be affected by short-term fluctuations in revenues; thus, short-term fluctuations in revenues may significantly impact operating results. Moreover, to the extent several customers of HNC have recently changed from paying license fees on a recurring transactional basis to paying one-time license fees, HNC s recurring revenues and gross margins for future quarters may decrease from historical performance. Factors that will affect our revenues and operating results include the following:

variability in demand from our existing customers;

the lengthy and variable sales cycle of many products;

consumer dissatisfaction with, or problems caused by, the performance of our products;

the relatively large size of orders for our products and our inability to compensate for unanticipated revenue shortfalls;

the timing of new product announcements and introductions in comparison with our competitors;

the level of our operating expenses;

changes in competitive conditions in the consumer credit, financial services and insurance industries;

fluctuations in domestic and international economic conditions;

our ability to complete large installations on schedule and within budget;

acquisition-related expenses and charges; and

timing of orders for and deliveries of software systems.

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

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

changes in the business analytics industry;

technological change;

our inability to obtain or use state fee schedule or claims data in our insurance products;

saturation of market demand;

loss of key customers;

industry consolidation;

factors that reduce the effectiveness of or need for fraud detection capabilities; and

reduction of the use of credit and other payment cards as payment methods.

We will continue to depend upon major contracts with credit bureaus, and our future revenue could decline if the terms of these relationships change.

We will continue to derive a substantial portion of our revenues from contracts with the three major credit bureaus. These contracts, which normally have a term of five years or less, accounted for approximately 22% of our revenues in fiscal 2001. If we are unable to renew any of these contracts on the same or similar terms, our revenues and results of operations would be harmed.

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

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

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

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

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

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

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

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

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

internally develop new and competitive technologies;

use leading third-party technologies effectively;

continue to develop our technical expertise;

anticipate and effectively respond to changing customer needs;

initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and

influence and respond to emerging industry standards and other technological changes.

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

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

in-house analytics departments;

credit bureaus;

computer service providers;

regional risk management, marketing, systems integration and data warehousing competitors;

application software companies, including enterprise software vendors;

management information system departments of our customers and potential customers, including financial institutions, insurance companies and telecommunications carriers;

third-party professional services and consulting organizations;

internet companies;

hardware suppliers that bundle or develop complementary software;

network and telecommunications switch manufacturers, and service providers that seek to enhance their value-added services;

neural network tool suppliers; and

managed care organizations.

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, our Falcon™ Fraud Manager and Falcon™ Fraud Manager for Merchants products compete against other methods of preventing credit card fraud, such as credit card activation programs, credit cards that contain the cardholder s photograph, smart cards and other card authorization techniques. Many of our anticipated competitors have greater financial, technical, marketing, professional services and other resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources than we can to develop, promote and sell their products. Many of these companies have extensive customer relationships, including relationships with many of our current and potential customers. Furthermore, new competitors or alliances

among competitors may emerge and rapidly gain significant market share. If we are unable to respond as quickly or effectively to changes in customer requirements as our competition, our ability to expand our business and sell our products will be negatively affected.

Our competitors may be able to sell products competitive to ours at lower prices individually or as part of integrated suites of several related products. This ability may cause our customers to purchase products of our competitors that directly compete with our products. Price reductions by our competitors could negatively impact our margins and results of operations, and could also harm our ability to obtain new long-term contracts and renewals of existing long-term contracts on favorable terms.

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

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

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

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

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

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

With recent developments in the law that permit patenting of business methods, we expect that products in the industry segments in which we will compete, including software products, will increasingly be subject to claims of patent infringement as the number of products and competitors in our industry segments grow and

the functionality of products overlaps. We will have to defend claims made against our products, and such claims may require us to:

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

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

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

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

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

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

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

If our products do not comply with government regulations that apply to us or to our customers, we could be exposed to liability or our products could become obsolete.

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

federal and state regulation of consumer report data and consumer reporting agencies, such as the Fair Credit Reporting Act, or FCRA;

regulation designed to insure that lending practices are fair and non-discriminatory, such as the Equal Credit Opportunity Act;

privacy law, such as provisions of the Financial Services Modernization Act of 1999 and the Health Insurance Portability and Accountability Act of 1996;

regulations governing the extension of credit to consumers and by Regulation E under the Electronic Fund Transfers Act, as well as non-governmental VISA and MasterCard electronic payment standards;

Fannie Mae and Freddie Mac regulations, among others, for our mortgage services products;

insurance regulations related to our insurance products; and

consumer protection laws, such as federal and state statutes governing the use of the internet and telemarketing.

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

Additionally, existing regulation and legislation is subject to change or more restrictive interpretation by enforcement agencies, and new restrictive legislation might pass. For example, new legislation might restrict the sharing of information by affiliated entities, mandate providing credit scores to consumers, or narrow the permitted uses of consumer report data. Currently, the permitted uses of consumer report data in connection with customer acquisition efforts are governed primarily by the FCRA, whose federal preemption provisions effectively expire in 2004. Unless extended, this expiration could lead to greater state regulation, increas