FAIR ISAAC CORP
Form 10-K/A
April 29, 2008

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**Form 10-K/A**
**(Amendment No. 1)**

(Mark One)

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

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

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

**For the transition period from__________ to __________**

**Commission File Number 0-16439**
**Fair Isaac Corporation**
*(Exact name of registrant as specified in its charter)*

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

**Registrant s telephone number, including area code:**
**612-758-5200**
**Securities registered pursuant to Section 12(b) of the Act:**

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

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

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

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

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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

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

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

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**Explanatory Note**

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

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

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

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

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

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

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

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

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

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

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

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

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

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

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

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

| | | |
|---|---|---|
| Treasury stock, at cost (37,793 and 29,488 shares at September 30, 2007 and 2006, respectively) | (1,290,393) | (952,979) |
| Retained earnings | 745,054 | 644,836 |
| Accumulated other comprehensive income | 13,815 | 3,691 |
| Total stockholders equity | 566,314 | 770,028 |
| | $ 1,275,771 | $ 1,321,205 |

See accompanying notes to consolidated financial statements.

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

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

(1) Cost of revenues and selling, general and

administrative expenses exclude the amortization of intangible assets. See Note 7 to consolidated financial statements.

See accompanying notes to consolidated financial statements.

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

| | Common Stock Shares | Common Stock Par Value | Paid-In-Capital | Treasury Stock | Unearned Compensation | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Comprehensive Income |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at September 30, 2004** | **69,579** | **$ 697** | **$ 1,054,437** | **$ (551,977)** | **$ (1,814)** | **$ 417,218** | **$ (2,090)** | **$ 916,471** | |
| Exercise of stock options | 3,299 | 33 | (35,145) | 98,300 | | | | 63,188 | |
| Tax benefit from exercised stock options | | | 12,711 | | | | | 12,711 | |
| Amortization of unearned compensation | | | | | 2,927 | | | 2,927 | |
| Options exchanged in Braun acquisition | | | 2,417 | | (394) | | | 2,023 | |
| Forfeitures of restricted stock and stock options | (13) | | 35 | (291) | 256 | | | | |
| Release of common stock from escrow | (102) | (1) | | (2,201) | | | | (2,202) | |
| Repurchases of common stock | (9,225) | (94) | | (328,443) | | | | (328,537) | |
| Issuance of ESPP shares from treasury | 298 | 3 | (190) | 8,866 | | | | 8,679 | |
| Senior convertible notes exchange offer premium | | | 1,000 | | | | | 1,000 | |
| Dividends paid | | | | | | (5,316) | | (5,316) | |
| Stock-based unearned compensation | | | 2,259 | | (2,259) | | | | |
| Net income | | | | | | 134,548 | | 134,548 | $ 134,548 |
| Unrealized losses on investments, | | | | | | | (172) | (172) | (172) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| net of tax of $97 | | | | | | | | | |
| Cumulative translation adjustments, net of tax of $134 | | | | | | | (226) | (226) | (226) |
| **Balance at September 30, 2005** | **63,836** | **638** | **1,037,524** | **(775,746)** | **(1,284)** | **546,450** | **(2,488)** | **805,094** | **$ 134,150** |
| Share-based compensation | | | 42,085 | | | | | 42,085 | |
| Exercise of stock options | 2,104 | 21 | (10,993) | 65,888 | | | | 54,916 | |
| Tax benefit from exercised stock options | | | 10,571 | | | | | 10,571 | |
| Reclassification due to the adoption of SFAS No. 123(R) | | | (1,284) | | 1,284 | | | | |
| Forfeitures of restricted stock | (22) | | 51 | (51) | | | | | |
| Repurchases of common stock | (6,971) | (69) | | (256,418) | | | | (256,487) | |
| Issuance of ESPP shares from treasury | 300 | 3 | (185) | 9,466 | | | | 9,284 | |
| Issuance of restricted stock to employees from treasury | 122 | 1 | (3,883) | 3,882 | | | | | |
| Dividends paid | | | | | | (5,100) | | (5,100) | |
| Net income | | | | | | 103,486 | | 103,486 | $ 103,486 |
| Unrealized gains on investments, net of tax of $206 | | | | | | | 368 | 368 | 368 |
| Cumulative translation adjustments, net of tax of $3,441 | | | | | | | 5,811 | 5,811 | 5,811 |
| **Balance at September 30, 2006** | **59,369** | **594** | **1,073,886** | **(952,979)** | | **644,836** | **3,691** | **770,028** | **$ 109,665** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Share-based compensation | | | 36,261 | | | | | 36,261 | |
| Exercise of stock options | 3,137 | 31 | (29,262) | 104,357 | | | | 75,126 | |
| Tax benefit from exercised stock options | | | 16,684 | | | | | 16,684 | |
| Forfeitures of restricted stock | (23) | | 732 | (732) | | | | | |
| Repurchases of common stock | (11,716) | (117) | | (450,971) | | | | (451,088) | |
| Issuance of ESPP shares from treasury | 277 | 3 | (328) | 9,286 | | | | 8,961 | |
| Issuance of restricted stock to employees from treasury | 20 | | (646) | 646 | | | | | |
| Dividends paid | | | | | | (4,432) | | (4,432) | |
| Net income | | | | | | 104,650 | | 104,650 | $ 104,650 |
| Unrealized gains on investments, net of tax of $165 | | | | | | | 261 | 261 | 261 |
| Cumulative translation adjustments, net of tax of $6,622 | | | | | | | 9,863 | 9,863 | 9,863 |
| **Balance at September 30, 2007** | **51,064** | **$ 511** | **$ 1,097,327** | **$ (1,290,393)** | **$** | **$ 745,054** | **$ 13,815** | **$ 566,314** | **$ 114,774** |

See accompanying notes to consolidated financial statements.

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

| | Years Ended September 30, | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| **Cash flows from operating activities:** | | | |
| Net income | $ 104,650 | $ 103,486 | $ 134,548 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 50,224 | 48,805 | 51,517 |
| Share-based compensation | 36,261 | 42,085 | 2,927 |
| Deferred income taxes | 3,800 | 1,125 | 13,279 |
| Tax benefit from exercised stock options | 16,684 | 10,571 | 12,711 |
| Excess tax benefits from share-based payment arrangements | (12,623) | (7,094) | |
| Net amortization (accretion) of premium (discount) on marketable securities | (1,098) | (110) | 420 |
| Provision for doubtful accounts | 4,972 | 2,200 | 3,691 |
| Gain on sale of product line assets | (1,541) | | |
| Net loss on sales of property and equipment | 693 | 70 | 71 |
| Changes in operating assets and liabilities, net of acquisition and disposition effects: | | | |
| Accounts receivable | (15,837) | (9,686) | (7,527) |
| Prepaid expenses and other assets | (3,400) | 4,489 | (2,485) |
| Accounts payable | 1,584 | 126 | (1,773) |
| Accrued compensation and employee benefits | 8,864 | 3,326 | (2,395) |
| Other liabilities | (9,492) | 7,686 | (8,665) |
| Deferred revenue | (4,578) | (8,037) | 17,763 |
| Net cash provided by operating activities | 179,163 | 199,042 | 214,082 |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (22,735) | (31,409) | (16,414) |
| Cash proceeds from sales of property and equipment | 566 | | |
| Cash proceeds from sales of product line assets | 15,758 | 500 | 750 |
| Cash paid for acquisitions, net of cash acquired | | | (41,312) |
| Cash proceeds from disposition of London Bridge Phoenix Software, Inc. | | | 22,672 |
| Purchases of marketable securities | (180,951) | (176,251) | (241,273) |
| Proceeds from sales of marketable securities | 14,250 | 53,390 | 118,472 |
| Proceeds from maturities of marketable securities | 220,763 | 136,743 | 154,804 |
| Investment in cost-method investees | (10,213) | | (600) |
| Net cash provided by (used in) investing activities | 37,438 | (17,027) | (2,901) |
| **Cash flows from financing activities:** | | | |
| Proceeds from revolving line of credit | 170,000 | | |

| | | | |
|---|---|---|---|
| Payments for repurchases of senior convertible notes | (9,037) | | |
| Debt issuance costs | (858) | | |
| Proceeds from issuances of common stock under employee stock option and purchase plans | 84,087 | 64,200 | 71,867 |
| Dividends paid | (4,432) | (5,100) | (5,316) |
| Repurchases of common stock | (451,088) | (256,487) | (328,537) |
| Excess tax benefits from share-based payment arrangements | 12,623 | 7,094 | |
| Net cash used in financing activities | (198,705) | (190,293) | (261,986) |
| **Effect of exchange rate changes on cash** | 2,234 | 552 | (385) |
| Increase (decrease) in cash and cash equivalents | 20,130 | (7,726) | (51,190) |
| Cash and cash equivalents, beginning of year | 75,154 | 82,880 | 134,070 |
| Cash and cash equivalents, end of year | $ 95,284 | $ 75,154 | $ 82,880 |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid for income taxes, net of refunds of $30, $2,378 and $2,951 during the years ended September 30, 2007, 2006 and 2005, respectively | $ 38,127 | $ 37,586 | $ 23,932 |
| Cash paid for interest | $ 9,580 | $ 6,000 | $ 6,000 |

See accompanying notes to consolidated financial statements.

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

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

***Fair Isaac Corporation***

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

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

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

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

***Use of Estimates***

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

***Cash and Cash Equivalents***

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

***Fair Value of Financial Instruments***

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

***Investments***

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

Our investments in equity securities of companies over which we do not have significant influence are accounted for under the cost method. Investments in which we own 20% to 50% and exercise significant influence over operating and financial policies are accounted for using the equity method. Under the equity method, the investment is originally recorded at cost and adjusted to recognize our share of net earnings or losses of the investee, limited to the extent of our investment in, advances to, and financial

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

guarantees for the investee. Under the cost method, the investment is originally recorded at cost and adjusted for additional contributions or distributions. Management periodically reviews equity-method and cost-method investments for instances where fair value is less than the carrying amount and the decline in value is determined to be other than temporary. If the decline in value is judged to be other than temporary, the carrying amount of the security is written down to fair value and the resulting loss is charged to operations.

***Concentration of Risk***

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

***Property and Equipment***

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

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

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

***Internal-use Software***

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

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

***Capitalized Software Development Costs***

All costs incurred prior to the resolution of unproven functionality and features, including new technologies, are expensed as research and development. After the uncertainties have been tested and the development issues have been resolved and technological feasibility is achieved, subsequent direct costs such as coding, debugging and testing are capitalized. Capitalized software development costs are amortized using the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining

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estimated economic life of the product. Capitalized software development costs were $0, net of accumulated amortization of $3.4 million as of September 30, 2007 and 2006, and are included in other long-term assets in the accompanying consolidated balance sheets. Amortization expense related to capitalized software development costs totaled $0, $0 and $1.3 million during fiscal 2007, 2006 and 2005, respectively.

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

***Goodwill and Intangible Assets***

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

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

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

***Revenue Recognition***

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

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

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

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

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

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

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

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

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

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

As described above, sometimes our customer arrangements have multiple deliverables, including service elements. Generally, our multiple element arrangements fall within the scope of specific accounting standards that provide guidance regarding the separation of elements in multiple-deliverable arrangements and the allocation of consideration among those elements (e.g., American Institute of Certified Public Accountants Statement of Position ( SOP ) No. 97-2, *Software Revenue Recognition*, as amended). If not, we apply the separation provisions of Emerging Issues Task

Force ( EITF ) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The provisions of EITF Issue No. 00-21 require us to unbundle multiple element arrangements into separate units of accounting when the delivered element(s) has stand-alone value and fair value of the undelivered element(s) exists. When we are able to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to each unit. If we are unable to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to the entire arrangement. Sometimes this results in recognizing the entire arrangement fee when delivery of the last element in a multiple element arrangement occurs. For example, if the last undelivered element is a service, we recognize revenue for the entire arrangement fee as the service is performed, or if no pattern of performance is discernable, we recognize revenue on a straight-line basis over the term of the arrangement.

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

***Allowance for Doubtful Accounts***

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

***Income Taxes***

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

***Earnings per Share***

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

***Comprehensive Income***

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

***Foreign Currency***

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

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

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

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***Share-Based Compensation***

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

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

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

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

***Advertising and Promotion Costs***

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

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

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

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

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

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

**2. Acquisitions**

***RulesPower, Inc.***

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

***Braun Consulting, Inc.***

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

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

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

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

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

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

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

**3. Sales of Product Line Assets**

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

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

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

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

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

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

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

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

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

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

**5. Receivables**

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

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

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

**6. Other Investments**

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

**7. Goodwill and Intangible Assets**

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

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

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



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

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