KERTON ROBERT J
Form 4
January 05, 2007

FORM 4

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

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KERTON ROBERT J

(Last) (First) (Middle)

20 CUSTOM HOUSE STREET

(Street)

BOSTON, MA 02110

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SAFETY INSURANCE GROUP INC [SAFT]

3. Date of Earliest Transaction (Month/Day/Year)
01/03/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP - Claims

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/03/2007 (1)	01/03/2007 (1)	S		20,000	D	$ 51.128	33,675	I	See (2)
Common Stock	01/03/2007 (1)	01/03/2007 (1)	M		4,428	A	$ 12	11,713	D	
Common Stock	01/03/2007 (1)	01/03/2007 (1)	S		4,428	D	$ 51.258	7,285	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amo Underlying Secu (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Am or Nu of Sh
Non-qualified stock options (right to buy)	$ 12	01/03/2007 (1)	01/03/2007 (1)	M			4,428	11/27/2006 (3)	11/27/2012	Common Stock	4

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KERTON ROBERT J 20 CUSTOM HOUSE STREET BOSTON, MA 02110			VP - Claims	

Signatures

/s/Robert J. Kerton	01/05/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The transactions reported on this Form 4 were made pursuant to a written trading plan adopted in accordance with Rule 10b5-1 on 11/22/06.

(2) The shares are owned by a trust of which the reporting person is a trustee.

(3) The reporting person was granted options to purchase 22,140 shares of common stock on November 27, 2002. These options vest in five equal 20% annual installments beginning on November 27, 2003. Options have been previously exercised and reported by the reporting person with respect to 13,284 shares.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Accounts receivable, net, including nil and $142 due from related parties at September 30, 2007 and 2006, respectively	
	27,381
	19,025
Prepaid expenses and other current assets	
	5,306
	5,210
Total current assets	
	122,879
	69,698
Restricted cash	
	265
	334
Property and equipment, net	
	3,638
	2,630

Goodwill	32,044	32,044
Intangible assets, net	2,725	3,937
Other assets	3,264	2,860
Total assets	$ 164,815	$ 111,503

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable, including nil and $132 due to related parties at September 30, 2007 and 2006, respectively	$ 8,080	$ 7,665
Accrued expenses	13,804	15,706
Deferred revenue, including related party balances of $116 and $112 at September 30, 2007 and 2006, respectively	44,548	23,909
Current portion of capital lease obligations	—	95
Total current liabilities		

	66,432	47,375
Deferred revenue—long-term	23,434	5,596
Restructuring costs, net of current portion	942	1,239
Other long-term liabilities	646	68
Total liabilities	91,454	54,278

Commitments and contingencies (Notes 6, 8, 9, and 10)

Stockholders’ equity:

Preferred stock, $0.001 par value; 51,000 shares authorized; none issued and outstanding at September 30, 2007 and 2006

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Common stock, $0.001 par value; 120,000 shares authorized; 33,221 and 32,030 shares issued and outstanding at September 30, 2007 and 2006, respectively

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Additional paid-in capital

295,650

		286,440
Accumulated deficit	(226,915)	(232,943)
Accumulated other comprehensive income	4,593	3,696
Total stockholders’ equity	73,361	57,225
Total liabilities and stockholders’ equity	$ 164,815	$ 111,503

The accompanying notes are an integral part of these consolidated financial statements.

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CHORDIANT SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended September 30, 2007	2006	2005
Revenues:			
License, including related party items aggregating nil, nil, and $5,612, for years ended September 30, 2007, 2006, and 2005, respectively	$ 54,052	$ 40,514	$ 31,678
Service, including related party items aggregating $252, $663, and $2,443, for years ended September 30, 2007, 2006, and 2005, respectively	70,495	57,022	52,047
Total revenues	124,547	97,536	83,725
Cost of revenues:			
License	1,813	1,690	1,079
Service, including related party items aggregating $72, $669, and nil, for the years ended September 30, 2007, 2006, and 2005, respectively	30,329	30,566	30,155
Amortization of intangible assets	1,211	1,211	1,068
Total cost of revenues	33,353	33,467	32,302
Gross profit	91,194	64,069	51,423
Operating expenses:			
Sales and marketing	32,597	33,616	29,561
Research and development	27,546	25,858	20,272
General and administrative	19,898	20,445	18,549
Amortization of intangible assets	—	—	117
Restructuring expense	6,543	—	1,052
Purchased in-process research and development	—	—	1,940
Total operating expenses	86,584	79,919	71,491
Income (loss) from operations	4,610	(15,850)	(20,068)
Interest income, net	2,198	1,120	755
Other income (expense), net	822	(627)	(103)
Income (loss) before income taxes	7,630	(15,357)	(19,416)
Provision for income taxes	1,602	644	449
Net income (loss)	$ 6,028	$ (16,001)	$ (19,865)
Net income (loss) per share:			
Basic	$ 0.19	$ (0.51)	$ (0.67)
Diluted	$ 0.18	$ (0.51)	$ (0.67)
Weighted average shares used in computing net income (loss) per share:			
Basic	32,425	31,073	29,780
Diluted	33,261	31,073	29,780

The accompanying notes are an integral part of these consolidated financial statements.

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CHORDIANT SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at September 30, 2004	**29,014**	**$ 29**	**$ 270,571**	**$ (700)**	**$ (197,077)**	**$ 3,089**	**$ 75,912**
Net loss	—	—	—	—	(19,865)	—	(19,865)
Foreign currency translation loss	—	—	—	—	—	(605)	(605)
Comprehensive loss	—	—	—	—	—	—	(20,470)
Exercise of stock options	498	—	1,512	—	—	—	1,512
Stock-based compensation-stock options related to acquisitions	—	—	—	2,729	—	—	2,729
Stock-based compensation-stock options	—	—	—	(348)	—	—	(348)
Stock-based compensation-restricted stock	—	—	—	650	—	—	650
Cancellation of restricted stock	(38)	—	(221)	221	—	—	—
Unearned compensation on variable options	—	—	(411)	411	—	—	—
Issuance of restricted stock	180	—	952	(952)	—	—	—
Issuance of common stock, net of offering costs, and restricted stock related to acquisitions	1,741	2	9,305	(4,123)	—	—	5,184
Warrants issued to customer	—	—	(12)	—	—	—	(12)
Balance at September 30, 2005	**31,395**	**31**	**281,696**	**(2,112)**	**(216,942)**	**2,484**	**65,157**
Net loss	—	—	—	—	(16,001)	—	(16,001)
Foreign currency translation gain	—	—	—	—	—	1,212	1,212
Comprehensive loss	—	—	—	—	—	—	(14,789)
Exercise of stock options and warrants	513	1	2,025	—	—	—	2,026
Stock-based compensation-stock	—	—	756	—	—	—	756

options related to acquisitions							
Stock-based compensation-stock options	—	—	3,475	—	—	—	3,475
Stock-based compensation-restricted stock	—	—	463	—	—	—	463
Cancellation of restricted stock	(8)	—	—	—	—	—	—
Issuance of restricted stock	130	—	—	—	—	—	—
Issuance of common stock, net of offering costs, and restricted stock related to acquisitions	—	—	137	—	—	—	137
Reclassification of deferred compensation due to adoption of SFAS 123R	—	—	(2,112)	2,112	—	—	—
Balance at September 30, 2006	**32,030**	**32**	**286,440**	**—**	**(232,943)**	**3,696**	**57,225**
Net income	—	—	—	—	6,028	—	6,028
Unrealized gain/loss on marketable securities, net	—	—	—	—	—	(2)	(2)
Foreign currency translation gain	—	—	—	—	—	899	899
Comprehensive income	—	—	—	—	—	—	6,925
Exercise of stock options	1,328	1	6,113	—	—	—	6,114
Cancellation of restricted stock	(137)	—	—	—	—	—	—
Stock-based compensation-stock options	—	—	2,870	—	—	—	2,870
Stock-based compensation-restricted stock	—	—	150	—	—	—	150
Tax benefit from stock options	—	—	77	—	—	—	77
Balance at September 30, 2007	**33,221**	**$ 33**	**$ 295,650**	**$ —**	**$ (226,915)**	**$ 4,593**	**$ 73,361**

The accompanying notes are an integral part of these consolidated financial statements.

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CHORDIANT SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended September 30, 2007	2006	2005
Cash flows from operating activities:			
Net income (loss)	$ 6,028	$ (16,001)	$ (19,865)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,611	1,238	1,382
Purchased in-process research and development	—	—	1,940
Amortization of intangibles and capitalized software	2,133	2,111	1,335
Non-cash stock-based compensation expense	3,020	4,695	3,031
Excess tax benefits from stock-based compensation	(77)	—	—
Provision (reversal) for doubtful accounts	82	(9)	103
Warrants issued to customers	—	—	(12)
Loss on disposal of assets	673	40	27
Accretion of discounts on investments	(131)	—	—
Other non-cash charges	445	140	29
Changes in assets and liabilities:			
Accounts receivable	(11,825)	292	1,479
Prepaid expenses and other current assets	(59)	(1,028)	(988)
Other assets	2,585	(136)	250
Accounts payable	238	3,004	(3,893)
Accrued expenses, other long term liabilities and restructuring	(2,383)	6,106	743
Deferred revenue	36,573	2,793	5,489
Net cash provided by (used in) operating activities	38,913	3,245	(8,950)
Cash flows from investing activities:			
Property and equipment purchases	(2,809)	(1,694)	(726)
Capitalized product development costs	(257)	(250)	(2,226)
Proceeds from disposal of property and equipment	—	11	—
Cash used for acquisitions, net	—	—	(9,800)
Proceeds from release of restricted cash	215	1,893	(12)
Purchases of marketable securities and short term investments	(18,028)	—	(100)
Proceeds from maturities of short term investments	6,000	—	4,100
Net cash used in investing activities	(14,879)	(40)	(8,764)
Cash flows from financing activities:			
Proceeds from exercise of stock options	6,191	2,250	1,210
Payment on capital leases	(96)	(213)	(199)
Excess tax benefits from stock-based compensation	77	—	—
Net cash provided by financing activities	6,172	2,037	1,011
Effect of exchange rate changes	2,503	1,490	(499)
Net increase (decrease) in cash and cash equivalents	32,709	6,732	(17,202)
Cash and cash equivalents at beginning of the year	45,278	38,546	55,748

Cash and cash equivalents at end of the year	$	77,987	$	45,278	$	38,546
Supplemental cash flow information:						
Cash paid for interest	$	3	$	17	$	29
Cash paid for taxes	$	1,669	$	360	$	478
Supplemental non-cash investing and financing activities:						
Receivable related to issuance of stock options	$	—	$	77	$	302
Fair value of assets acquired in acquisition, excluding acquired intangible assets	$	—	$	—	$	1,134
Liabilities assumed in acquisitions	$	—	$	—	$	477
Issuance of common stock in connection with acquisition	$	—	$	—	$	9,307
Cashless exercise of stock warrants	$	—	$	450	$	—

The accompanying notes are an integral part of these consolidated financial statements.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—THE COMPANY

Chordiant Software, Inc., or the Company, or Chordiant, is an enterprise software vendor that offers software solutions for global business-to-consumer companies that seek to improve the quality of their customer interactions and to reduce costs through increased employee productivity and process efficiencies. The Company concentrates on serving global customers in banking, insurance, healthcare, telecommunications, retail and other consumer direct industries. The Company was incorporated in California in March 1991 and reincorporated in Delaware in October 1997.

The Company delivers customer solutions that include software applications and tools and services that enable businesses to integrate their customer information and corporate systems so that they can have an accurate, real-time view of their customers across multiple forms of customer interaction.

The Company believes its solutions offer flexibility to businesses to set business policies and processes to control the quality of servicing, fulfillment and marketing to their customers. The Company's solutions enable its customers to control and change their business policies and processes. The Company believes that it is a leader in providing business process driven solutions for customer management.

The Company's software solutions and architecture are based on leading industry standards that are widely adopted by business customers in the industries the Company serves. The Company believes these solutions are capable of being the foundation for contemporary distributed computing environments required by global business-to-consumer enterprises.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Reverse Stock Split

On December 13, 2006, Chordiant's Board of Directors approved a reverse two and a half to one stock split. On February 15, 2007 at a special meeting, stockholders approved the reverse stock split such that each outstanding two and one half (2.5) shares of common stock were combined into and became one (1) share of common stock. The reverse stock split was effective February 20, 2007. All share and per share amounts in these Consolidated Financial Statements and related notes have been retroactively adjusted to reflect the reverse stock split for all periods presented.

Principles of consolidation

The accompanying consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

On an on-going basis, the Company evaluates the estimates, including those related to our allowance for doubtful accounts, valuation of stock-based compensation, valuation of goodwill and intangible assets, valuation of deferred tax assets, restructuring expenses, contingencies, fair value of vendor specific objective evidence in multiple element arrangements and the estimates associated with the percentage-of-completion method of accounting for certain of our revenue contracts. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable. Actual results may differ materially from these estimates under different assumptions or conditions.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year's presentation.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Cash, cash equivalents and marketable securities

Cash equivalents consist of highly liquid instruments purchased with an original maturity of three months or less. The Company invests primarily in money market funds as these investments are subject to minimal credit and market risks.

Historically the Company's marketable securities have been classified as available-for-sale. In accordance with Statement of Financial Accounting Standards, or SFAS, No. 115, "Accounting for Certain Investments in Debt and Equity Securities," available-for-sale securities are carried at fair value with unrealized gains and losses included as a separate component of stockholder's equity, net of any tax effect. Realized gains and losses and declines in value determined by management to be other than temporary on these investments are included in interest income and expense when held. The Company periodically evaluates these investments for other-than-temporary impairment. For the purposes of computing realized gains and losses, cost is identified on a specific identification basis. As of September 30, 2007 and 2006, there were $12.2 million and zero, respectively marketable securities held by the Company, respectively.

Restricted cash

At September 30, 2007 and 2006, interest bearing certificates of deposit were classified as restricted cash. These deposits serve as collateral for letters of credit securing certain lease obligations and post-contract customer support obligations. During the years ended September 30, 2007 and 2006, $0.2 million and $0.3 million, respectively of restricted cash for letters of credit related to lease obligations was released in accordance with the requirements of the lease agreement.

Fair value of financial instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and borrowings are carried at cost, which approximates fair value because of the short-term nature of these instruments. The reported amount of borrowings approximates fair value because of the market value interest rates that these debts bear.

During the years ended September 30, 2007, 2006 and 2005, the Company did not enter into any foreign currency forward exchange contracts.

Revenue Recognition

The Company derives revenue from licensing software and related services, which include assistance in implementation, customization and integration, post-contract customer support, training and consulting. All revenue amounts are presented net of sales taxes in the Company's Consolidated Statements of Operations. The amount and timing of revenue is difficult to predict and any shortfall in revenue or delay in recognizing revenue could cause operating results to vary significantly from period to period and could result in operating losses. The accounting rules related to revenue recognition are complex and are affected by the interpretation of the rules and an understanding of industry practices, both of which are subject to change. Consequently, the revenue recognition accounting rules require management to make significant estimates based on judgment.

Software license revenue is recognized in accordance with Statement of Position No. 97-2 “Software Revenue Recognition,” as amended by Statement of Position No. 98-9 “Software Revenue Recognition with Respect to Certain Arrangements” (collectively “SOP 97-2”).

For arrangements with multiple elements, the Company recognizes revenue for services and post-contract customer support based upon the fair value Vendor Specific Objective Evidence (VSOE) of the respective elements. The fair value VSOE of the services element is based upon the standard hourly rates charged for the services when such services are sold separately. The fair value VSOE for annual post-contract customer support is generally established with the contractual future renewal rates included in the contracts, when the renewal rate is substantive and consistent with the fees when support services are sold separately. When contracts contain multiple elements and fair value VSOE exists for all undelivered elements, the Company accounts for the delivered elements, principally the license portion, based upon the “residual method” as prescribed by SOP 97-2. In multiple element transactions where VSOE is not established for an undelivered element, revenue is recognized upon the establishment of VSOE for that element or when the element is delivered.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

At the time a transaction is entered into, the Company assesses whether any services included within the arrangement relate to significant implementation or customization essential to the functionality of our products. For contracts for products that do not involve significant implementation or customization essential to the product functionality, the Company recognizes license revenue when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection of the fee is probable and delivery has occurred as prescribed by SOP 97-2. For contracts that involve significant implementation or customization services essential to the functionality of our products, the license and professional consulting services revenue is recognized using either the percentage-of-completion method or the completed contract method as prescribed by Statement of Position No. 81-1, “Accounting for Performance of Construction-Type and Certain Product-Type Contracts”.

The percentage-of-completion method is applied when the Company has the ability to make reasonably dependable estimates of the total effort required for completion using labor hours incurred as the measure of progress towards completion. The progress toward completion is measured based on the “go-live” date. The “go-live” date is defined as the date the essential product functionality has been delivered or the application enters into a production environment or the point at which no significant additional Chordiant supplied professional service resources are required. Estimates are subject to revisions as the contract progresses to completion and these changes are accounted for as changes in accounting estimates when the information becomes known. Information impacting estimates obtained after the balance sheet date but before the issuance of the financial statements is used to update the estimates. Provisions for estimated contract losses, if any, are recognized in the period in which the loss becomes probable and can be reasonably estimated. When additional licenses are sold related to the original licensing agreement, revenue is recognized upon delivery if the project has reached the go-live date, or if the project has not reached the go-live date, revenue is recognized under the percentage-of-completion method. Revenue from these arrangements is classified as license and service revenue based upon the estimated fair value of each element using the residual method.

The completed contract method is applied when the Company is unable to obtain reasonably dependable estimates of the total effort required for completion. Under the completed contract method, all revenue and related costs of revenue are deferred and recognized upon completion.

For product co-development arrangements relating to software products in development prior to the consummation of the individual arrangements, where the Company retains the intellectual property being developed, and intends to sell the resulting products to other customers, license revenue is deferred until the delivery of the final product, provided all other requirements of SOP 97-2 are met. Expenses associated with these co-development arrangements are accounted for under SFAS No. 86, “Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed” and are normally expensed as incurred as they are considered to be research and development costs that do not qualify for capitalization or deferral.

Revenue from subscription or term license agreements, which include software and rights to unspecified future products or maintenance, is recognized ratably over the term of the subscription period. Revenue from subscription or term license agreements, which include software, but exclude rights to unspecified future products and maintenance, is recognized upon delivery of the software if all conditions of recognizing revenue have been met including that the related agreement is non-cancelable, non-refundable and provided on an unsupported basis.

Revenue for post-contract customer support is recognized ratably over the support period which ranges from one to five years.

Training and consulting services revenue is recognized as such services are performed on an hourly or daily basis for time and material contracts. For consulting services arrangements with a fixed fee, revenue is recognized on a percentage-of-completion basis.

For all sales, either a signed license agreement or a binding purchase order with an underlying master license agreement is used as evidence of an arrangement. Sales through third party systems integrators are evidenced by a master agreement governing the relationship together with binding purchase orders or order forms on a transaction-by-transaction basis. Revenues from reseller arrangements are recognized on the “sell-through” method, when the reseller reports to the Company the sale of software products to end-users. The Company’s agreements with customers and resellers do not contain product return rights.

Collectibility is assessed based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. Collateral is generally not requested from customers. If it is determined that the collection of a fee is not probable, the revenue is recognized at the time the collection becomes probable, which is generally upon the receipt of cash. If a transaction includes extended payment terms, the revenue is recognized as the payments become due and payable.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Stock-based compensation

On October 1, 2005, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," or SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock awards and employee stock purchases related to the Employee Stock Purchase Plan, or ESPP, based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting using the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", or APB 25. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, or SAB 107, which provided supplemental implementation guidance for SFAS 123(R). The Company has applied the provisions of SAB 107 in the adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of October 1, 2005, the first day of the Company's fiscal year 2006. The consolidated financial statements for the years ended September 30, 2007 and 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS No. 123, "Accounting for Stock-Based Compensation", or SFAS 123. Under the intrinsic value method, when the exercise price of the Company's fixed stock options granted to employees and directors was equal to the fair market value of the underlying stock at the date of grant, no stock-based compensation was required to be recognized under APB 25.

Stock-based compensation expense recognized during the period under SFAS 123(R) is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations for the years ended September 30, 2007 and 2006 includes: (i) compensation expense for share-based payment awards granted prior to, but not yet vested as of September 30, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and (ii) compensation expense for the share-based payment awards granted subsequent to September 30, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), the Company changed the method of expense attribution from the vested graded to the straight-line method. Compensation expense for all share-based payment awards granted on or prior to September 30, 2005 will continue to be recognized using the vested graded method of expense attribution while compensation expense for all share-based payment awards granted subsequent to September 30, 2005 will be recognized using the straight-line method of expense attribution. As stock-based compensation expense recognized in the Consolidated Statement of Operations for the years ended September 30, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Upon adoption of SFAS 123(R), the Company has continued to utilize the Black-Scholes option-pricing model, or Black-Scholes model. For additional information, see Note 12. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company’s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company’s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Because changes in the subjective assumptions can materially affect the estimated value, in management’s opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company’s employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction. Stock-based compensation expense recognized under SFAS 123(R) for the year ended 2007 was $3.0 million, which consisted of stock-based compensation expense of $2.8 million related to employee stock options and $0.2 million related to restricted stock awards, respectively.

There was no stock-based compensation expense related to the ESPP recognized during the years ended September 30, 2007, 2006 and 2005. See Note 12 for additional information.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, restricted cash, marketable securities and accounts receivable. To date, the Company has invested excess funds in money market accounts, commercial paper, corporate bonds, certificates-of-deposit, and marketable securities with maturities of less than one year. The Company has cash and cash equivalents and marketable securities with various high quality institutions domestically and internationally. The Company's marketable securities are composed of investment instruments that are highly rated.

The Company's accounts receivable are derived from sales to customers located in North America, Europe, and elsewhere in the world. The Company performs ongoing credit evaluations of customers' financial condition and, generally, requires no collateral from customers. The Company maintains an allowance for doubtful accounts when deemed necessary. The Company estimates its allowance for doubtful accounts by analyzing accounts receivable for specific risk accounts as well as providing for a general allowance amount based on historical bad debt and billing dispute percentages. The estimate considers historical bad debts, customer concentrations, customer credit-worthiness and current economic trends. To date, bad debts have not been material and have been within management expectations. The following table summarizes the revenues from customers that accounted for 10% or more of total revenues:

	Year Ended September 30,		
	2007	**2006**	**2005**
Citicorp Credit Services, Inc.	23%	12%	*
IBM	16%	*	*
Capital Once Services, Inc.	*	*	18%

* Represents less than 10% of total revenues.

At September 30, 2007, Wellpoint, Inc., IBM and Citicorp Credit Services, Inc. accounted for approximately 28%, 17% and 15% of our accounts receivable, respectively. At September 30, 2006, IBM and Cash America International, Inc. accounted for approximately 26% and 14% of our accounts receivable, respectively.

Research and Development

Costs incurred in the research and development of new products and enhancements to existing products are charged to expense as incurred until the technological feasibility of the product or enhancement has been established. Technological feasibility of the product is determined after the completion of a detailed program design and a determination has been made that any uncertainties related to high-risk development issues have been resolved. If the process of developing the product does not include a detail program design, technological feasibility is determined only after completion of a working model. After establishing technological feasibility, additional development costs incurred through the date the product is available for general release to customers is capitalized and amortized over the estimated product life.

When technological feasibility is established through the completion of a working model the period of time between achieving technological feasibility and the general release of new product is generally short and software development costs qualifying for capitalization have historically been insignificant.

During the quarter ended September 30, 2006, technological feasibility to port an existing product to a new platform was established through the completion of a detailed program design. Costs aggregating $0.5 million associated with this product have been capitalized and included in Other Assets as of September 30, 2007. This product was completed in July 2007, accordingly, the capitalized costs are being amortized using the straight-line method over the remaining estimated economic life of the product which is 36 months. For the year ended September 30, 2007 amortization expense related to this product was less than $0.1 million.

During the quarter ended September 30, 2004, technological feasibility for an acquired banking product was established through the completion of a detailed program design. Costs aggregating $2.7 million associated with this product have been capitalized and included in Other Assets as of September 30, 2005. During the quarter ended September 30, 2005, the product became available for general release and, accordingly, the costs capitalized commenced to be amortized. The capitalized costs are being amortized using the straight-line method over the remaining estimated economic life of the product which is 36 months. For the years ended September 30, 2007 and 2006, amortization expense related to this product was $0.9 million and $0.9 million, respectively.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of assets, which range from three to seven years. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the economic life of the asset or the lease term. Purchased internal-use software consists primarily of amounts paid for perpetual licenses to third party software applications, which are amortized over their estimated useful lives, generally three years. Depreciation and amortization expense was approximately $1.5 million, $1.2 million and $1.4 million for the years ended September 30, 2007, 2006, and 2005, respectively.

As required by SFAS No.143 “Accounting for Asset Retirement Obligations”, or SFAS 143, and Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143”, or FIN 47, the Company has recorded an Asset Retirement Obligation (ARO) of approximately $0.3 million and a corresponding increase in leasehold improvements. SFAS 143 and FIN 47 requires the recognition of a liability for the fair value of a legally required conditional asset retirement obligation when incurred, if the liability’s fair value can be reasonability estimated. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is amortized over the life of the asset.

The Company’s ARO is associated with leasehold improvements to facilities where the Company is the lessee and the lease agreement contains a reinstatement clause, which generally requires any leasehold improvements the Company makes to the leased property be restored to their original condition at the end of the lease. This amount represents the present value of the ARO and will be amortized over the term of the lease.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which range from one and one half to five years (See Note 3). The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in our current business model. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company did not recognize any goodwill or intangible asset impairment charges in the years ended September 30, 2007, 2006, and 2005.

Royalties

The Company has certain royalty commitments associated with the shipment and licensing of certain products or components of products. Royalty expense is generally based on a percentage of the underlying revenue and subject to minimum and maximum amounts. Royalty expense was approximately $1.8 million, $1.5 million, and $1.5 million for the years ended September 30, 2007, 2006, and 2005, respectively. With respect to a licensed banking product, the Company obtained exclusive, irrevocable worldwide rights to the product. Under the terms of the agreement, if the Company did not achieve agreed upon annual minimum royalty targets, the licensor had the ability to cancel the exclusivity rights. During the year ended September 30, 2006, the minimum targets were not met and the rights to distribute the product are no longer exclusive.

Advertising costs

Advertising costs are expensed to sales and marketing expense as incurred. Advertising costs for the year ended September 30, 2007, 2006, and 2005 totaled approximately $0.5 million, $0.2 million, and $0.2 million, respectively.

Foreign currency translation

The functional currency of our foreign entities is their respective local currency. Foreign currency assets and liabilities are translated at the current exchange rates at each balance sheet date. Revenues and expenses are translated at weighted average exchange rates in effect during the year. The related unrealized gains and losses from foreign currency translation are recorded in Accumulated Other Comprehensive Income (Loss) as a separate component of stockholders’ equity. Net gains and losses resulting from foreign exchange transactions are included in Other Income (Expense).

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Income taxes

Income taxes are accounted for using an asset and liability approach, which requires the recognition of taxes payable or refundable for the current period and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Net income (loss) per share

The Company computes net income (loss) per share in accordance with SFAS 128, “Earnings per Share”, or SFAS 128. Under the provisions of SFAS 128, basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares, which consist of incremental shares issuable upon the exercise of stock options and unvested restricted stock (using the treasury stock method), are included in the calculation of diluted net income per share, in periods in which net income is reported, to the extent such shares are dilutive. The calculation of diluted net loss per share excludes potential common shares as their effect is anti-dilutive for the years ended September 30, 2006 and 2005.

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except for per share data):

	Years ended September 30,		
	2007	**2006**	**2005**
Net income (loss) available to common stockholders	$ 6,028	$ (16,001)	$ (19,865)
Denominator:			
Weighted average common stock outstanding	32,650	31,476	30,548
Common stock subject to repurchase	(225)	(403)	(768)
Denominator for basic calculations	32,425	31,073	29,780
Effect of dilutive potential common shares	836	— **(1)**	— **(1)**
Denominator for diluted calculations	33,261	31,073	29,780
Net income (loss) per share—basic	$ 0.19	$ (0.51)	$ (0.67)
Net income (loss) per share—diluted	$ 0.18	$ (0.51)	$ (0.67)

(1) – Dilutive potential common shares are excluded from the calculation of diluted net loss per share.

The following table sets forth the potential total common shares that are excluded from the calculation of diluted net loss per share as their effect is anti-dilutive as of the dates indicated (in thousands):

	September 30,	
	2006	**2005**
Warrants outstanding	345	665
Employee stock options	4,105	3,385
Restricted stock	403	768
	4,853	4,818

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 3— BALANCE SHEET COMPONENTS

Accounts receivable

Accounts receivable, net, consists of the following (in thousands):

	September 30, 2007		September 30, 2006	
Accounts receivable, net:				
Accounts receivable	$	27,546	$	19,108
Less: allowance for doubtful accounts		(165)		(83)
	$	27,381	$	19,025

Prepaid expenses and other current assets

Prepaid expense and other current assets consist of the following (in thousands):

	September 30, 2007		September 30, 2006	
Prepaid expense and other current assets:				
Prepaid commissions and royalties	$	3,104	$	3,265
Other prepaid expenses and current assets		2,202		1,945
	$	5,306	$	5,210

Property and equipment

Property and equipment, net, consists of the following (in thousands):

	September 30, 2007		September 30, 2006	
Property and equipment, net:				
Computer hardware (useful lives of 3 years)	$	4,167	$	3,313
Purchased internal-use software (useful lives of 3 years)		2,685		2,254
Furniture and equipment (useful lives of 3 to 7 years)		739		1,043
Computer equipment and software under capital leases (useful lives of 3 years)		—		549
Leasehold improvements (shorter of 7 years or the term of the lease)		2,883		2,729
		10,474		9,888
Accumulated depreciation and amortization		(6,836)		(7,258)
	$	3,638	$	2,630

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Intangible assets

Intangible assets, net, consist of the following (in thousands):

	September 30, 2007			September 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets, net:						
Developed technologies	$ 6,904	$ (4,869)	$ 2,035	$ 6,904	$ (3,972)	$ 2,932
Customer list and trade-names	2,731	(2,041)	690	2,731	(1,726)	1,005
	$ 9,635	$ (6,910)	$ 2,725	$ 9,635	$ (5,698)	$ 3,937

All of the Company's acquired intangible assets are subject to amortization and are carried at cost less accumulated amortization. Amortization is computed on a straight-line basis over their estimated useful lives which are as follows: Developed technologies—one and one half to five years; trade-names—three to five years; customer list—three to five years. Aggregate amortization expense for intangible assets totaled $1.2 million, $1.2 million, and $1.2 million for the years ended September 30, 2007, 2006, and 2005, respectively. The Company expects amortization expense on acquired intangible assets to be $1.2 million in fiscal 2008, $1.2 million in fiscal 2009, and $0.3 million in fiscal 2010.

Other assets

Other assets consist of the following (in thousands):

	September 30,	
	2007	2006
Other assets:		
Long-term accounts receivable	$ 984	$ —
Other assets	2,280	2,860
	$ 3,264	$ 2,860

The long-term accounts receivable balance represents a receivable from a single customer related to a sale transaction that occurred during the quarter ended December 31, 2006. This amount represents the third and final payment which is due in the quarter ending December 2008. All revenue associated with this receivable has been deferred and will not be recognized until the payment becomes due. As of September 30, 2007, an allowance has not been provided for this receivable based on the Company's assessment of the underlying customer's credit worthiness.

Accrued expenses

Accrued expenses consist of the following (in thousands):

	September 30,

		2007		2006
Accrued expenses:				
Accrued payroll, payroll taxes and related expenses	$	6,781	$	7,627
Accrued restructuring expenses, current portion (Note 6)		3,044		655
Accrued third party consulting fees		1,264		1,491
Accrued income, sales and other taxes		1,143		2,545
Accrued professional fees		337		1,630
Other accrued liabilities		1,235		1,758
	$	13,804	$	15,706

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 4—MARKETABLE SECURITIES

The Company has the following marketable securities (in thousands):

	September 30, 2007			
	Amortized cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Marketable Securities:				
Commercial paper	$ 3,008	$ —	$ (1)	$ 3,007
Corporate bonds	9,153	3	(4)	9,152
Total	$ 12,161	$ 3	$ (5)	$ 12,159

The Company had no marketable securities as of September 30, 2006. As of September 30, 2007, all marketable securities have maturity dates less than one year. For the year ended September 30, 2007, no gains or losses were realized on the sale of marketable securities.

NOTE 5—RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB, issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, or SFAS 159. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has evaluated the new pronouncement and has determined that it will not have a significant impact on the determination or reporting of our financial results.

In December 2006, the FASB issued FSP EITF 00-19-2, “Accounting for Registration Payment Arrangements.” This FSP specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, “Accounting for Contingencies.” The guidance is effective for fiscal years beginning after December 15, 2006. The Company has evaluated the new pronouncement and has determined that it will not have a significant impact on the determination or reporting of our financial results.

In September 2006, the SEC issued SAB 108, “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements”. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance is applicable for fiscal years ending after November 15, 2006. The Company has evaluated the new statement and has determined that it will not have a significant impact on the determination or reporting of our financial results.

In September 2006, the FASB issued SFAS 157, “Fair Value Measurement”. SFAS 157 defines fair value, establishes a framework for measuring fair value, and also expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has evaluated the new pronouncement and has determined that it will not have a significant impact on the determination or reporting of our financial results.

In July 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes”, an interpretation of SFAS No. 109, “Accounting for Income Taxes”. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings.

FIN 48 also requires expanded disclosures including identification of tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly change in the next twelve months, a description of tax years that remain subject to examination by major tax jurisdictions, a tabular reconciliation of the total amount of unrecognized tax benefits

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

at the beginning and end of each annual reporting period, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate and the total amounts of interest and penalties recognized in the statements of operations and financial position. FIN 48 is effective for fiscal years beginning after December 15, 2006, and the Company expects to adopt this standard in the fiscal year commencing on October 1, 2007. The Company has not yet determined the impact of the recognition and measurement requirements of FIN 48 on our existing tax positions.

In May 2007,the FASB issued FSP FIN 48-1, “Definition of Settlement in FASB Interpretation No. 48”, which provides guidance on how a company should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

NOTE 6—RESTRUCTURING

Restructuring Costs

Through September 30, 2007, the Company approved certain restructuring plans to, among other things, reduce its workforce and consolidate facilities. Restructuring and asset impairment expenses have been recorded to align the Company’s cost structure with changing market conditions and to create a more efficient organization. The Company’s restructuring expenses have been comprised primarily of: (i) severance and termination benefit costs related to the reduction of our workforce; and (ii) lease termination costs and costs associated with permanently vacating certain facilities. The Company accounted for each of these costs in accordance with SFAS No. 146, or SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities” or previous guidance under Emerging Issues Task Force 94-3 “Liabilities Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)”, or EITF 94-3.

Retroactive application of SFAS 146 to periods prior to January 1, 2003, was prohibited; accordingly, the accrual relating to facilities vacated prior to the effective date of SFAS 146 continues to be accounted for in accordance with the guidance of EITF 94-3. Accruals for facilities that were restructured prior to 2003 do not reflect any adjustments relating to the estimated net present value of cash flows associated with the facilities.

For each of the periods presented herein, restructuring expenses consist solely of:

- Severance and Termination Benefits—These costs represent severance and payroll taxes related to restructuring plans.
- Excess Facilities—These costs represent future minimum lease payments related to excess and abandoned office space under leases, the disposal of property and equipment including facility leasehold improvements, and net of estimated sublease income.

As of September 30, 2007, the total restructuring accrual consisted of the following (in thousands):

	Current	Non-Current	Total
Severance and termination benefits	$ 100	$ —	$ 100
Excess facilities	2,944	942	3,886
Total	$ 3,044	$ 942	$ 3,986

As of September 30, 2007 and 2006, $3.0 million and $0.7 million, respectively, of the restructuring reserve are included in the Accrued Expenses line item on the Consolidated Balance Sheets. The allocation between current portion and long term portion is based on the current lease agreements or the anticipated settlement dates.

The Company expects the remaining severance and termination benefit accrual will be substantially paid by September 30, 2008.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The excess facilities reserve relates to two facilities: one located in the United Kingdom and one in Boston, Massachusetts. The Company expects to pay the excess facilities amounts related to the restructured or vacated leased office space as follows (in thousands):

Fiscal Year Ended September 30,	Total Future Minimum Lease Payments
2008	$ 2,944
2009	415
2010	407
2011	120
Total	$ 3,886

Included in the future minimum lease payments schedule above is an offset of $0.9 million of contractually committed sublease rental income for the Boston facility. In November 2007, the Company expects to negotiate a break clause in the United Kingdom lease allowing for an early termination of the respective facility which will release the Company of any future rent liabilities subsequent to January 2008. The scheduled lease payments shown in the table above reflect an expected payment of $2.5 million in fiscal year 2008 associated with the early termination of the United Kingdom lease.

Fiscal Year 2007 Restructuring

In October 2006, the Company initiated a restructuring plan intended to align its resources and cost structure with expected future revenues. The restructuring plan included a balancing of service resources worldwide, elimination of duplicative functions internationally, and a shift in the U.S. field organization toward a focus on domain–based sales and pre-sales teams. As a result of the restructuring plan, management undertook a reduction of 33 positions or approximately 10% of the Company’s workforce and consolidation of the European headquarters in the United Kingdom and the closure of the France office. In connection with this action, the Company incurred a one-time restructuring expense of $6.1 million for severance and termination benefits, and excess facilities expensed to Restructuring Expense in the Consolidated Statements of Operations. The Company accrued lease costs pertaining to the consolidation of excess facilities relating to lease terminations and non-cancelable lease costs. The Company was able to terminate the France facility lease during the year and as of the date of this Annual Report, expects to negotiate an early termination option for the United Kingdom lease that will terminate the lease by January 2008. Management believes the current restructure reserve amount is sufficient to meet all payments required as a result of the anticipated early termination.

The following table summarizes the activity related to the fiscal year 2007 restructuring (in thousands):

	Severance and Benefits	Excess Facilities	Total
Total expenses	$ 1,752	$ 4,378	$ 6,130

Non-cash		4		(947)		(943)
Cash paid		(1,756)		(905)		(2,661)
Reserve balance as of September 30, 2007	$	—	$	2,526	$	2,526

Fiscal Year 2005 Restructuring

In May 2005, the Company appointed a task force to improve profitability and control expenses. The goal of the task force was to create a better alignment of functions within the Company, to make full utilization of the Company's India development center, to develop a closer relationship between the Company's field operations and customers, to review the sales and implementation models, as well adjust as the organization model to flatten management levels, to review the Company's product line, and to enhance the Company's business model for profitability and operating leverage. This work resulted in an approximate 10% reduction in the Company's workforce, and affected employees were notified in July 2005. In connection with this action, the Company incurred a one-time restructuring expense of $1.1 million in the fourth quarter ended September 30, 2005 for severance and termination benefits.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table summarizes the activity related to the fiscal year 2005 restructuring (in thousands):

	Severance and Termination Benefits
Reserve balance at September 30, 2005	$ 469
Non-Cash	1
Cash paid	(438)
Reserve balance at September 30, 2006	32
Provision adjustment	60
Non-Cash	8
Cash paid	—
Reserve balance at September 30, 2007	$ 100

Prior Restructurings

During fiscal year 2002, based upon the Company's continued evaluation of economic conditions in the information technology industry and our expectations regarding revenue levels, the Company restructured several areas so as to reduce expenses and improve revenue per employee, or 2002 Restructuring. As part of 2002 Restructuring, the Company recorded a total workforce reduction expense relating to severance and termination benefits of approximately $2.0 million and $3.8 million for years ended December 31, 2003 and 2002, respectively. In addition to these costs, the Company accrued lease costs related to excess facilities of $0.2 million and $2.8 million during the years ended December 31, 2003 and 2002, respectively, pertaining to the consolidation of excess facilities relating to lease terminations and non-cancelable lease costs. This expense is net of estimated sublease income based on current comparable rates for leases in the respective markets.

During the year ended September 30, 2007, the Company entered into a new sublease for the last remaining facility lease associated with the 2002 Restructuring. As a result of this sublease rental income being lower than previously estimated as part of the restructure facility reserve, the Company recorded an additional $0.4 million of restructuring expense during the year ended September 30, 2007. The sublease term is through the entire remaining term of the Company's lease obligation for the facility.

The following table summarizes the activity related to the 2002 Restructuring (in thousands):

	Excess Facilities
Reserve balance at September 30, 2005	$ 2,497
Non-cash	(298)
Cash paid	(337)
Reserve balance at September 30, 2006	1,862
Provision adjustment	353
Non-cash	1
Cash paid	(856)
Reserve balance at September 30, 2007	$ 1,360

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 7—RELATED PARTY TRANSACTIONS

In August 2005, the Company entered into a service provider agreement with Infogain Corporation, or Infogain. Samuel T. Spadafora, a former directors and executive officers of the Company, is a director of Infogain. Mr. Spadafora terminated his relationship with the Company in November 2006.

Charles E. Hoffman, a director of the Company, is the President and Chief Executive Officer of Covad Communications Group, Inc., or Covad, a customer of ours.

In January 2005, David A. Weymouth became a director of the Company. Through June 2005, Mr. Weymouth was the Corporate Responsibility Director of Barclay's Group, a customer of ours. Mr. Weymouth terminated his relationship with Barclay's Group and became an associate with Deloitte & Touche LLP, a prior provider of tax services to the Company.

The following presents the related party transactions balances (in thousands):

	Revenue			Cost of Revenues			Payments		
	Year Ended September 30,								
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Infogain	$ —	$ 426	$ —	$ 72	$ 669	$ —	$ 204	$ 952	$ —
Covad	252	237	1,102	—	—	—	—	—	—
Barclay's Group	—		6,953	—	—	—	—	—	—
Deloitte & Touche LLP	—	—	—	—	—	—	—	98	547
	$ 252	$ 663	$ 8,055	$ 72	$ 669	$ —	$ 204	$ 1,050	$ 547

	Accounts Receivable		Accounts Payable		Deferred Revenue	
	As of September 30,					
	2007	2006	2007	2006	2007	2006
Infogain	$ —	$ 2	$ —	$ 132	$ —	$ —
Covad	—	140	—	—	116	112
	$ —	$ 142	$ —	$ 132	$ 116	$ 112

NOTE 8—BORROWINGS

Revolving Line of Credit

The Company's revolving line of credit with Comerica Bank was amended and restated on March 8, 2006 and was extended to March 7, 2008. The terms of the agreement include a $5.0 million line of credit and require the Company to maintain (i) at least a $5.0 million cash balance in Comerica Bank accounts, (ii) a minimum quick ratio of 2 to 1, (iii) a liquidity ratio of at least 1 to 1 at all times, and (iv) subordinate any debt issuances subsequent to the effective date of the agreement, and certain other covenants. All assets of the Company have been pledged as collateral on the credit facility. Due to the Company’s failing to timely file its periodic reports on Form 10-K for the year ended September 30, 2006 and on Form 10-Q for the quarter ended June 30, 2006, the line of credit agreement was amended in August 2006, November 2006, and December 2006 to extend the deadline related to the filing of its periodic reports to February 20, 2007. As of February 14, 2007, the Company became current with its SEC regulatory filings and has remained current for filings thereafter.

The revolving line of credit contains a provision for a sub-limit of up to $5.0 million for issuances of standby commercial letters of credit. As of September 30, 2007, the Company had utilized $0.3 million of the standby commercial letters of credit limit of which $0.3 million serves as collateral for computer equipment leases for Ness (see Note 9). The revolving line of credit also contains a provision for a sub-limit of up to $3.0 million for issuances of foreign exchange forward contracts. As of September 30, 2007, the Company had not entered into any foreign exchange forward contracts. Pursuant to the amendment in March 2006, the Company is required to secure the standby commercial letters of credit and foreign exchange forward contracts through March 7, 2008. If these have not been secured to Comerica Bank’s satisfaction, the Company’s cash and cash equivalent balances held by Comerica Bank automatically secure such obligations to the extent of the then continuing or outstanding and undrawn letters of credit or foreign exchange contracts.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Borrowings under the revolving line of credit bear interest at the lending bank's prime rate. Except for the standby commercial letters of credit, as of September 30, 2007, there was no outstanding balance on the revolving line of credit. Advances are available on a non-formula basis up to $5.0 million.

NOTE 9—COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases its facilities and certain equipment under non-cancelable operating leases that expire on various dates through 2013. Rent expense is recognized on a straight line basis over the lease term.

Future minimum lease payments as of September 30, 2007 are as follows (in thousands):

	Operating Leases	Operating Sublease Income	Net Operating Leases
Fiscal year ended September 30:			
2008	$ 5,772	$ (277)	$ 5,495
2009	2,503	(283)	2,220
2010	2,276	(294)	1,982
2011	1,672	(85)	1,587
2012	800	—	800
Thereafter	557	—	557
Total minimum payments	$ 13,580	$ (939)	$ 12,641

During the three months ended March 31, 2007, the Company paid the final payments on its remaining capital lease obligations. Operating lease payments in the table above include approximately $4.9 million for two facility operating lease commitments that are included in restructuring expense. One of the leases is located in Boston, Massachusetts and the other is located in the United Kingdom. As of September 30, 2007, the Company has $0.9 million in sublease income contractually committed for future periods relating to the Boston, Massachusetts facility classified as an operating lease. See Note 6 for further discussion. The scheduled lease payments shown in the table above reflect a payment of $2.5 million in fiscal year 2008 associated with the early termination of the United Kingdom lease.

Rent expense for the years ended September 30, 2007, 2006, and 2005 totaled $2.5 million, $2.5 million, and $2.7 million, respectively. Certain operating leases included in the table above are part of our restructuring activities and lease payments on such leases are expensed against the restructuring accrual.

Asset Retirement Obligations

The Company's asset retirement obligations are associated with commitments to return property subject to operating leases to original condition upon lease termination. As of September 30, 2007, the Company estimated that gross expected cash flows of approximately $0.3 million will be required to fulfill these obligations.

Asset retirement obligations payments as of September 30, 2007 are as follows (in thousands):

		Payments
Fiscal year ended September 30:		
2008	$	—
2009		—
2010		—
2011		144
2012		202
Total	$	346

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Other Obligations

The Company entered into an agreement with Ness Technologies Inc., Ness USA, Inc. (formerly Ness Global Services, Inc.) and Ness Technologies India, Ltd. (collectively, "Ness"), effective December 15, 2003, pursuant to which Ness provides the Company's customers with technical product support through a worldwide help desk facility, a sustaining engineering function that serves as the interface between technical product support and internal engineering organization, product testing services and product development services (collectively, the "Services"). The agreement had an initial term of three years and was extended for two additional year terms. Under the terms of the agreement, the Company pays for services rendered on a monthly fee basis, including the requirement to reimburse Ness for approved out-of-pocket expenses. The agreement may be terminated for convenience by the Company, subject to the payment of a termination fee. In 2004, 2005, 2006 and 2007 the Company further expanded its agreement with Ness whereby Ness is providing certain additional technical and consulting services. The additional agreements can be cancelled at the option of the Company without the payment of a termination fee. The remaining minimum purchase commitment under these agreements, if Chordiant was to cancel the contracts, was approximately $0.7 million at September 30, 2007. In addition to service agreements, the Company has also guaranteed certain equipment lease obligations of Ness (see Note 8). Ness may procure equipment to be used in performance of the Services, either through leasing arrangements or direct cash purchases, for which the Company is obligated under the agreement to reimburse them. In connection with the procurement of equipment, Ness has entered into a 36 month equipment lease agreement with IBM India and, in connection with the lease agreement the Company has an outstanding standby letter of credit in the amount of $0.3 million in guarantee of Ness' financial commitments under the lease. Over the term of the lease, the Company's obligation to reimburse Ness is approximately equal to the amount of the guarantee.

Indemnification

As permitted under Delaware law, the Company has agreements whereby the Company has indemnified our officers, directors and certain employees for certain events or occurrences while the employee, officer or director is, or was serving, at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a Director and Officer insurance policy that limits the Company's exposure and may enable the Company to recover a portion of any future amounts paid. Future payments may be required to defend current and former directors in the derivative class action lawsuits described in Note 10. As a result of insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of September 30, 2007.

The Company enters into standard indemnification agreements in our ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify, defend, hold harmless, and to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners or customers, in connection with any patent, copyright or other intellectual property infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements. The Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of September 30, 2007.

The Company enters into arrangements with our business partners, whereby the business partners agree to provide services as subcontractors for the Company's implementations. The Company may, at its discretion and in the ordinary course of business, subcontract the performance of any of these services. Accordingly, the Company enters into standard indemnification agreements with its customers, whereby the Company indemnifies them for other acts, such as personal property damage by its subcontractors. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has general and umbrella insurance policies that may enable the Company to recover a portion of any amounts paid. The Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of September 30, 2007.

When, as part of an acquisition, the Company acquires all of the stock or all of the assets and liabilities of a company, the Company may assume the liability for certain events or occurrences that took place prior to the date of acquisition. The maximum potential amount of future payments, if any, the Company could be required to make for such obligations is undeterminable at this time. Accordingly, the Company has no amounts recorded for these contingent liabilities as of September 30, 2007.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The Company warrants that software products will perform in all material respects in accordance with standard published specifications and documentation in effect at the time of delivery of the licensed products to the customer for a specified period of time. Additionally, the Company warrants that maintenance and consulting services will be performed consistent with generally accepted industry standards. If necessary, the Company would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history, however, the Company has not incurred significant expense under product or services warranties to date. As a result, the Company believes the estimated fair value on these warranties is minimal. Accordingly, the Company has no amounts recorded for these contingent liabilities as of September 30, 2007.

NOTE 10—LITIGATION

Beginning in July 2001, the Company and certain of its officers and directors, or Individuals, were named as defendants in a series of class action stockholder complaints filed in the United States District Court for the Southern District of New York, now consolidated under the caption, “In re Chordiant Software, Inc. Initial Public Offering Securities Litigation, Case No. 01-CV-6222”. In the amended complaint, filed in April 2002, the plaintiffs allege that the Company, the Individuals, and the underwriters of the Company’s initial public offering, or IPO, violated section 11 of the Securities Act of 1933 and section 10(b) of the Exchange Act of 1934 based on allegations that the Company’s registration statement and prospectus failed to disclose material facts regarding the compensation to be received by, and the stock allocation practices of, the Company’s IPO underwriters. The complaint also contains claims against the Individuals for control person liability under Securities Act section 15 and Exchange Act section 20. The plaintiffs seek unspecified monetary damages and other relief. Similar complaints were filed in the same court against hundreds of other public companies, or Issuers, that conducted IPO’s of their common stock in the late 1990’s or in the year 2000 (collectively, the “IPO Lawsuits”).

In August 2001, all of the IPO Lawsuits were consolidated for pretrial purposes before United States Judge Shira Scheindlin of the Southern District of New York. In July 2002, the Company joined in a global motion to dismiss the IPO Lawsuits filed by all of the Issuers (among others). In October 2002, the Court entered an order dismissing the Individuals from the IPO Lawsuits without prejudice, pursuant to an agreement tolling the statute of limitations with respect to the Individuals. In February 2003, the court issued a decision denying the motion to dismiss against Chordiant and many of the other Issuers.

In June 2003, Issuers and plaintiffs reached a tentative settlement agreement that would, among other things, result in the dismissal with prejudice of all claims against the Issuers and Individuals in the IPO Lawsuits, and the assignment to plaintiffs of certain potential claims that the Issuers may have against the underwriters. The tentative settlement also provides that, in the event that plaintiffs ultimately recover less than a guaranteed sum of $1 billion from the IPO underwriters, plaintiffs would be entitled to payment by each participating Issuer’s insurer of a pro rata share of any shortfall in the plaintiffs’ guaranteed recovery. In September 2003, in connection with the possible settlement, those Individuals who had entered tolling agreements with plaintiffs (described above) agreed to extend those agreements so that they would not expire prior to any settlement being finalized. In June 2004, Chordiant and almost all of the other Issuers entered into a formal settlement agreement with the plaintiffs. On February 15, 2005, the Court issued a decision certifying a class action for settlement purposes, and granting preliminary approval of the settlement subject to modification of certain bar orders contemplated by the settlement. On August 31, 2005, the Court reaffirmed class certification and preliminary approval of the modified settlement in a comprehensive Order, and directed that Notice of the settlement be published and mailed to class members beginning November 15, 2005. On February 24, 2006, the Court dismissed litigation filed against certain underwriters in connection with the claims to be assigned to the plaintiffs under the settlement. On April 24, 2006, the Court held a Final Fairness Hearing to determine whether to grant final approval of the settlement. On December 5, 2006, the Second Circuit Court of Appeals vacated the lower Court's earlier decision certifying as class actions the six IPO Lawsuits designated as "focus cases." Thereafter, the District Court ordered a stay of all proceedings in all of the IPO Lawsuits pending the outcome of plaintiffs' petition to the Second Circuit for rehearing en banc and resolution of the class certification issue. On April 6, 2007, the Second Circuit denied plaintiffs' rehearing petition, holding that the actions could not be maintained as pled but clarifying that the plaintiffs may seek to certify a more limited class in the District Court. Accordingly, the settlement as originally negotiated will not be finally approved. Plaintiffs had until July 31, 2007 in which to file amended complaints against all Issuers, including Chordiant.

Plaintiffs filed amended complaints in the six focus cases on or about August 14, 2007. In September 2007, the Company's named officers and directors again extended the tolling agreement with plaintiffs. On or about September 27, 2007, plaintiffs moved to certify the classes alleged in the focus cases and to appoint class representatives and class counsel in those cases. On or about November 13, 2007, Issuers in the focus cases filed a motion to dismiss the claims alleged against them in the amended complaints. This action may divert the efforts and attention of our management and, if determined adversely to us, could have a material impact on our business, results of operations, financial condition or cash flows.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

On August 1, 2006, a stockholder derivative complaint was filed in the United States District Court for the Northern District of California by Jesse Brown under the caption Brown v. Kelly, et al. Case No. C06-04671 JW (N.D. Cal.). On September 13, 2006, a second stockholder derivative complaint was filed in the United States District Court for the Northern District of California by Louis Suba under the caption Suba v. Kelly et al., Case No. C06-05603 JW (N.D. Cal.). Both complaints were brought purportedly on behalf of the Company against certain current and former officers and directors. On November 27, 2006, the court entered an order consolidating these actions and requiring the plaintiffs to file a consolidated complaint. The consolidated complaint was filed on January 11, 2007. The consolidated complaint alleges, among other things, that the named officers and directors: (a) breached their fiduciary duties as they colluded with each other to backdate stock options, (b) violated section 10(b), 14(a) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder through their alleged actions, and (c) were unjustly enriched by their receipt and retention of such stock options. On May 21, 2007, the Company filed a motion to dismiss the entire action on the grounds that the plaintiffs failed to take the steps necessary to bring a derivative action. The individual defendants filed motions to dismiss as well. The parties have agreed that the plaintiffs' opposition to the motions to dismiss would not be due until October 25, 2007, in order to permit the parties an opportunity to explore a resolution of this dispute. The hearing on the motion to dismiss is set for November 26, 2007. The Plaintiffs have recently informed Chordiant that they intend to file an amended derivative complaint. This will render the currently filed motion to dismiss moot and a new motion to dismiss will have to be filed in response to the amended pleading. The parties have stipulated to a schedule for filing the amended complaint and for briefing motions to dismiss, but the court has not yet entered this stipulation as an order.

In September 2006, the Company received a letter from Acacia Technologies Group, a patent holding company, suggesting that the Company may be infringing on two patents, designated by United States Patent Numbers 5,537,590 and 5,701,400, which are held by one of their patent licensing and enforcement subsidiaries. The Company is currently reviewing the validity of these patents and whether the Company’s products may infringe upon them. The Company has not formed a view of whether the Company may have liability for infringement of these patents. Any related claims, whether or not they have merit, could be costly and time-consuming to defend, divert management’s attention or cause product delays. If any of the Company’s products were found to infringe such patents, the patent holder could seek an injunction to enjoin use of the infringing product. If the Company was required to settle such a claim, it could have a material impact on our business, results of operations, financial condition or cash flows.

The Company is also subject to various other claims and legal actions arising in the ordinary course of business. The ultimate disposition of these various other claims and legal actions is not expected to have a material effect on our business, financial condition, results of operations or cash flows. However, litigation is subject to inherent uncertainties.

NOTE 11—INCOME TAXES

The components of income (loss) before income taxes are as follows (in thousands):

	Years ended September 30, 2007	2006	2005
United States	$ (2,363)	$ (16,759)	$ (19,766)
Foreign	9,993	1,402	350
	$ 7,630	$ (15,357)	$ (19,416)

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Explanation of Responses:

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Income tax expense (benefit) was comprised of the following (in thousands):

	Years ended September 30, 2007	2006	2005
Current			
United States	$ 150	$ —	$ —
International	1,431	377	234
State	21	267	215
	1,602	644	449
Deferred			
United States	—	—	—
International	—	—	—
State	—	—	—
	—	—	—
	$ 1,602	$ 644	$ 449

The increase in the provision for the year ended September 30, 2007 when compared to the year ended September 30, 2006 is due primarily to $0.8 million of foreign withholding taxes paid during the year and an increase in United States alternative minimum tax. The increase in the provision for the year ended September 30, 2006 when compared to the year ended September 30, 2005 is due to a combination of increases in both state tax expense and foreign income tax expense.

Deferred tax assets consist of the following (in thousands):

	September 30, 2007	2006
Net operating loss carryforwards	$ 64,239	$ 67,691
Accrued expenses and provisions	1,486	3,731
Tax credit carryforwards	5,566	5,422
Deferred revenue	13,997	9,302
Stock-based compensation	1,087	544
Depreciation and amortization	2,524	2,227
Gross deferred tax assets	88,899	88,917
Deferred tax valuation allowance	(88,899)	(88,917)
Net deferred tax assets	$ —	$ —

The valuation allowance did not change substantially for the year ended September 30, 2007 and increased by $5.6 million for the year ended September 30, 2006.

We provide a valuation allowance for deferred tax assets when it is more likely than not that the net deferred tax assets will not be realized. Based on a number of factors, including the lack of a history of profits, future projected taxable income and the fact that the market in which we compete is intensely competitive and characterized by rapidly changing technology, we believe that there is sufficient uncertainty regarding the realization of deferred tax assets such that a full valuation allowance has been provided. At September 30, 2007, we had approximately $147.3 million and $18.9 million of net operating loss carryforwards for federal and state purposes, respectively, and net operating loss carryforwards of approximately $35.4 million in the United Kingdom. Approximately $36.4 million of the federal net operating loss carryforwards, representing net operating loss carryforwards acquired through our acquisition of Prime Response, are subject to change in control limitations, and, if utilized beyond such limitations will reduce goodwill and intangibles recorded at the date of acquisition before reducing the tax provision. Approximately $3.5 million of additional net operating loss carryforwards are related to stock option deductions which, if utilized, will be accounted for as an addition to equity rather than as a reduction of the provision for income taxes. These carryforwards are available to offset future federal and state taxable income and begin to expire in 2010 and 2008, respectively. At September 30, 2007, there are approximately $3.3 million of federal research and development credits and alternative minimum tax credits that begin to expire in 2010. At September 30, 2007, there were also California state credits of approximately $3.5 million that do not expire.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Under the Tax Reform Act of 1986, the amounts of and the benefit from net operating losses that can be carried forward may be impaired or limited in certain circumstances. Under Section 382 of the Internal Revenue Code (IRC), as amended, a cumulative stock ownership change of more than 50% over a three-year period can cause such limitations. The Company has analyzed its historical ownership changes and removed any net operating loss carryforwards that will expire unutilized from its deferred tax balances.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax as follows (in thousands):

	Years ended September 30,					
		2007		**2006**		**2005**
Income (loss) before income taxes	$	7,630	$	(15,357)	$	(19,416)
Federal tax at 35 % statutory rate	$	2,670	$	(5,375)	$	(6,796)
State taxes, net of federal tax benefit		14		267		215
Stock-based compensation		531		1,643		1,062
In process R&D		—		—		679
Federal alternative minimum tax		150		—		—
Foreign tax at other than US rates		(2,067)		377		234
Other items		322		—		—
Valuation allowance		(18)		3,732		5,055
Provision for income taxes	$	1,602	$	644	$	449

NOTE 12—EMPLOYEE BENEFIT PLANS

Common Stock and Restricted Stock Awards

In February 2006, the Board of Directors approved a grant of 50,000 shares of the Company's restricted stock to Samuel Spadafora, the Chairman of the Board at that time. In November 2006, Mr. Spadafora entered into a separation agreement with the Company. Based upon the separation agreement, the shares ceased to vest at the separation date. At the date of Mr. Spadafora's termination, 24,000 shares had vested and 26,000 shares were cancelled.

In August 2005, the Board of Directors approved three grants of 80,000 shares of each restricted stock to Robert Mullen, President of Worldwide Field Operations at that time, to occur on August 2005, April 2006 and April 2007. In August 2006, Mr. Mullen entered into a separation agreement with the Company, whereby he continued as an employee until December 31, 2006 at which time vesting of his shares ceased. At the date of Mr. Mullen's separation, 53,333 shares had vested and 106,667 shares were cancelled (the April 2007 80,000 shares were never granted).

In June 2005, the Company granted 50,000 shares of our restricted stock to Stephen Kelly, our Chief Executive Officer at that time, and 50,000 shares to Robert Mullen. These shares vested on April 1, 2006.

There were no repurchases of the Company's common stock during the years ended September 30, 2007, 2006, and 2005. Cancellations of issued but unvested shares of restricted stock were approximately 136,775, 8,000, and 38,400 shares during the years ended September 30, 2007, 2006, and 2005, respectively.

2005 Equity Incentive Plan

The 2005 Equity Incentive Plan, or 2005 Plan, was approved at the annual meeting on September 27, 2005. The 2005 Plan replaces the 1999 Equity Incentive Plan, or 1999 Plan and provides for the grant of incentive stock options, nonstatutory stock options, stock purchase awards, restricted stock awards, and other forms of equity compensation (collectively, the “stock awards”). The option price shall not be less than the fair market value of the shares on the date of grant and no portion may be

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

exercised beyond ten years from that date. However, during the stock option review (see Note 3 in Notes to Consolidated Financial Statements of the 2006 Form 10-K), it was discovered that some options granted had the option price less than the fair market value of the shares on the date of grant. As more fully described on Form SC TO-I filed with the SEC on March 29, 2007, Chordiant amended these eligible options. Under the 2005 Plan, stock options generally vest over a period of four years in equal monthly installments with 25% of the shares vesting after one year, and the remainder vesting in equal monthly installments over the remaining three years. Stock option grant agreements allow for the early exercise of options granted to employees. Exercised but unvested shares are subject to repurchase by the Company at the initial exercise price. Beginning September 27, 2005, no additional stock awards will be granted under the 1999 Plan. Shares remaining available for issuance pursuant to the exercise of options or settlement of stock awards under the 1999 Plan of approximately 0.5 million shares were added to the share reserve of the 2005 Plan and, as of September 27, 2005, became available for issuance pursuant to stock awards granted under the 2005 Plan. All outstanding stock awards granted under the 1999 Plan will remain subject to the terms of the 1999 Plan, except that the Board may elect to extend one or more of the features of the 2005 Plan to stock awards granted under the 1999 Plan. Any shares subject to outstanding stock awards granted under the 1999 Plan that expire or terminate for any reason prior to exercise or settlement shall be added to the share reserve of the 2005 Plan and become available for issuance pursuant to stock awards granted under the 2005 Plan. The 2005 Plan increases the number of shares available for issuance by 2.2 million shares of common stock from an aggregate total of approximately 0.5 million shares available under the 1999 Plan as of September 27, 2005, resulting in an aggregate of approximately 2.7 million shares available for future grant and issuance under the 2005 Plan. In January 2007, the Board amended the 2005 plan to increase the number of shares reserved for future issuance by 1.6 million shares. This amendment was approved by the stockholders at the 2007 annual meeting of stockholders' held on April 24, 2007. As of September 30, 2007, there were approximately 2.8 million shares reserved for future issuance and approximately 2.6 million options that were outstanding under the 2005 Plan.

2000 Nonstatutory Equity Incentive Plan

In March 2000, the Board adopted the 2000 Nonstatutory Equity Incentive Plan, or 2000 Plan. Stockholder approval of this plan was not required and has not been obtained by the Company. The 2000 Plan was in effect as of June 30, 2003. In April 2002 and October 2002, the Board approved increases to the number of shares reserved under the 2000 Plan from 0.4 million shares to 1.0 million shares and then to 1.8 million shares, also without stockholder approval as such approval was not required by the 2000 Plan or by applicable law. The 2000 Plan does not have a termination date, and will continue indefinitely until suspended or terminated by the Board. The 2000 Plan provides for the grant of nonstatutory stock options and the issuance of restricted stock and stock bonuses to employees (other than officers, directors, or beneficial owners of ten percent (10%) or more of the Company's common stock and consultants who meet certain eligibility requirements. The terms and price of nonstatutory stock options granted under the 2000 Plan are determined by the Board (or a committee of the Board) and are set forth in each optionee's option agreement. The exercise price of nonstatutory stock options granted under the 2000 Plan has been 100% of the fair market value on the date of grant, and the term of the options has been ten years. Generally, stock options under the 2000 Plan vest over a period of four years in equal monthly installments with 25% of the shares vesting after one year, and the remainder vesting in equal monthly installments over the remaining three years. In the future, stock options may have the same or different vesting terms as determined by the Board (or a committee of the Board). The Board (or a committee of the Board) sets the terms of stock bonuses and rights to purchase restricted stock. In January 2007, the Board amended the 2000 Plan to reduce the number of shares available for future issuance to zero. No additional stock options will be granted under the 2000 Nonstatutory Equity Incentive Plan. As of September 30, 2007, there were approximately 0.4 million shares outstanding under the 2000 Plan.

1999 Equity Incentive Plan

The 1999 Equity Incentive Plan, or 1999 Plan, provided for the grant to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986 and for grants to employees, directors and consultants of nonstatutory stock options and stock purchase rights. Unless terminated sooner, the 1999 Plan will terminate automatically in 2009. The option price shall not be less than the fair market value of the shares on the date of grant and no portion may be exercised beyond ten years from that date. Under the 1999 Plan, stock options vest over a period that is limited to five years, but were typically granted with a four-year vesting period. Each option outstanding under the 1999 Plan may be exercised in whole or in part at any time. Exercised but unvested shares are subject to repurchase by us at the initial exercise price. As of September 27, 2005, approximately 0.5 million available shares under the 1999 Plan were added to the share reserve of the 2005 Plan. No additional stock options will be granted under the 1999 Plan subsequent to September 27, 2005. Any shares subject to outstanding stock awards granted under the 1999 Plan that expire or terminate for any reason prior to the exercise or settlement are added to the share reserve of the 2005 Plan and become available for issuance under the 2005 Plan.

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1999 Non-Employee Director Option Plan

The 1999 Non-Employee Director Stock Option Plan, or 1999 Director Plan, was adopted by the Board of Directors and became effective on the date of the initial public offering. The 1999 Director Plan provides for the automatic grant of a nonstatutory option to purchase 10,000 shares of common stock to each new non-employee director on the date that such person becomes a director, vesting over a period of three years in equal monthly installments with 1/3% of the shares vesting after one year, and the remainder vesting in equal monthly installments over the remaining two years. Each current and future non-employee director will automatically be granted an additional nonstatutory option to purchase 3,000 shares on the day after each of our annual meetings of the stockholders, vesting in equal monthly installments over one year. Each director who is a member of a board committee will automatically be granted an additional nonstatutory option to purchase 2,000 shares, for each committee they serve on, on the day after each annual meeting of the stockholders, vesting in equal monthly installments over one year. The amount reserved under the 1999 Director Plan automatically increases on October 1st of each year by the greater of (1) 0.5% outstanding shares on such date or (2) the number of shares subject to stock awards made under the 1999 Director Plan during the prior year. This automatic increase is subject to reduction by the Board of Directors. Under the terms of the 1999 Director Plan, option prices may not be less than the fair market value of the shares on the date of grant and no portion may be exercised beyond ten years from that date. In January 2007, the Board amended and restated the 1999 Director Plan to decrease the number of shares reserved for future issuance to 0.3 million shares and to eliminate the automatic increase provision. This amendment was approved by the stockholders at the 2007 annual meeting of stockholders' held on April 24, 2007. As of September 30, 2007, approximately 0.3 million shares of common stock have been reserved for issuance and 0.2 million are outstanding under the 1999 Director Plan.

Stock Option Activity

The following table summarizes stock option and restricted stock activity under the Company's stock option plans (in thousands, except per share data):

		Options Outstanding	
	Shares Available for Grant	Shares	Weighted Average Exercise Price
Balance at September 30, 2004	1,348	3,802	$ 6.13
Authorized	2,264	—	—
Options granted	(834)	834	5.20
Restricted stock granted	(180)	—	—
Options exercised	—	(498)	3.03
Cancellation of unvested restricted stock	38	—	—
Options cancelled/forfeited	742	(742)	9.00
Options cancelled from expired plans	(130)	(11)	—
Balance at September 30, 2005	3,248	3,385	5.70
Authorized	122	—	—
Options granted	(1,505)	1,505	7.63
Restricted stock granted	(130)	—	—
Options exercised	—	(493)	4.10
Cancellation of unvested restricted stock	178	—	—
Options cancelled/forfeited	708	(708)	7.45

Balance at September 30, 2006	2,621	3,689		6.33
Authorized	1,766	—		—
Options granted	(1,354)	1,354		9.11
Restricted stock granted	—	—		—
Options exercised	—	(1,328)		4.57
Cancellation of unvested restricted stock	137	—		—
Options cancelled/forfeited	537	(537)		8.86
Authorized reduction in shares from existing plans	(649)	—		—
Balance at September 30, 2007	3,058	3,178	$	7.96

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table summarizes information about stock options outstanding and exercisable at September 30, 2007 (in thousands, except exercise prices and contractual life data):

	Options Outstanding and Exercisable				Options Vested		
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value Closing Price at 09/30/2007 of $13.86**	**Number Exercisable**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value Closing Price at 09/30/07 of $13.86**
$0.35 – 4.10	365	5.96	$ 3.16	$ 3,902	314	$ 3.01	$ 3,403
4.18 – 6.70	413	6.97	5.83	3,316	305	5.68	2,495
6.75 – 7.75	415	7.67	7.40	2,683	196	7.32	1,282
7.80 – 8.15	442	8.19	7.98	2,597	183	7.99	1,077
8.25 – 8.25	829	9.37	8.25	4,651	147	8.25	823
8.28 – 10.75	350	7.83	9.22	1,625	152	9.60	648
10.80 – 45.00	364	7.70	13.90	346	184	13.63	285
$0.35 – 45.00	3,178	7.92	$ 7.96	$ 19,120	1,481	$ 7.26	$ 10,013

The aggregate intrinsic value in the preceding table represents the total intrinsic value, based on the Company's closing stock price of $13.86 as of September 30, 2007, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options vested and exercisable as of September 30, 2007 was approximately 1.4 million. As of September 30, 2007, approximately 1.5 million outstanding options were vested and exercisable, and the weighted average exercise price was $7.26. The total intrinsic value of options exercised during the year ended September 30, 2007 was $8.5 million. The fair value of options vested was $3.3 million for the year ended September 30, 2007. As of September 30, 2007, total unrecognized compensation costs related to non-vested stock options was $5.2 million, which is expected to be recognized as expense over a weighted-average period of approximately 2.7 years.

The total intrinsic value of options exercised during the year ended September 30, 2006 was $1.8 million. The fair value of options vested was $5.0 million for the year ended September 30, 2006. As of September 30, 2006, total unrecognized compensation costs related to non-vested stock options was $4.2 million, which was expected to be recognized as expense over a weighted-average period of approximately 1.4 years.

The Company had zero unvested restricted stock awards as of September 30, 2007. Approximately 0.3 million shares of restricted stock vested during the year ended September 30, 2007. There were no shares of restricted stock awarded during the year ended September 30, 2007.

We had 1.0 million unvested restricted stock awards as of September 30, 2006. The total fair value of the unvested restricted stock awards at grant date was $2.4 million. The aggregate intrinsic value of the unvested restricted stock awards at September 30, 2006 was $3.1 million. During the year ended September 30, 2006, approximately 1.2 million shares vested related to restricted stock awards. There were approximately 0.3 million shares of restricted stock awarded during the year ended September 30, 2006. The weighted average fair value at grant date of the unvested restricted stock awards was $2.39 as of September 30, 2006. As of September 30, 2006, total unrecognized

compensation costs related to unvested restricted stock awards was $0.9 million which was expected to be recognized as expense over a weighted average period of approximately one year.
The Company settles stock option exercises and restricted stock awards with newly issued common shares.

Valuation and Expense Information under SFAS 123(R)

On October 1, 2005, the Company adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors including employee stock options, restricted stock awards and employee stock purchases related to the ESPP based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options and restricted stock awards for years ended September 30, 2007, 2006, and 2005 which was allocated as follows (in thousands):

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	Years Ended September 30,		
	2007 (under SFAS 123(R))	2006 (under SFAS 123(R))	2005 (under SFAS 123 / APB 25)
Stock-based compensation expense:			
Cost of revenues	$ 313	$ 248	$ 690
Sales and marketing	744	2,327	986
Research and development	546	332	843
General and administrative	1,417	1,788	512
Total stock-based compensation expense	$ 3,020	$ 4,695	$ 3,031

Stock-based compensation expense recognized under SFAS 123(R) for the year ended September 30, 2007 was $3.0 million which consisted of stock-based compensation expense related to employee stock options of $2.8 million and stock-based compensation expense related to restricted stock awards of $0.2 million. Stock-based compensation expense recognized under SFAS 123(R) for the year ended September 30, 2006 was $4.7 million which consisted of stock-based compensation expense related to employee stock options of $2.7 million and stock-based compensation expense related to restricted stock awards of $2.0 million.

The table below reflects net loss and basic and diluted net loss per share as if the fair value recognition provision of SFAS 123 had been applied for the year ended September 30, 2005 (in thousands except per-share amounts):

	Year Ended September 30, 2005
Net loss	$ (19,865)
Add: Stock-based compensation included in reported net loss	3,031
Less: Stock-based compensation expense determined under fair value method	(5,988)
Net loss—pro forma	$ (22,822)
Basic and diluted net loss per share—as reported	$ (0.67)
Basic and diluted net loss per share—pro forma	$ (0.77)
Weighted average shares	29,780

Prior to the adoption of SFAS 123(R), the value of each employee stock option was estimated on the date of grant using the Black-Scholes model for the purpose of the pro forma financial disclosures in accordance with SFAS 123. The weighted-average estimated fair value of stock options granted for the year ended September 30, 2007, 2006, and 2005 was $4.41, $4.98, and 2.98 per share, respectively, using the Black-Scholes model with the following weighted-average assumptions:

	2007	2006	2005

Expected lives in years	3.5	3.9	2.6
Risk free interest rates	4.7%	4.8%	3.3%
Volatility	63%	88%	98%
Dividend yield	0%	0%	0%

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with the weighted-average assumptions for volatility, expected term, and risk free interest rate. With the adoption of SFAS 123(R) on October 1, 2005, the Company uses the trinomial lattice valuation technique to determine the assumptions used in the Black-Scholes model. The trinomial lattice valuation technique was used to provide a better estimate of fair values and meet the fair value objectives of SFAS 123(R). The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate is based on the U.S. Treasury rates in effect during the corresponding period of grant. The expected volatility is based on the historical volatility of the Company’s stock price. The estimated value of a stock option is most sensitive to the volatility assumption. Based on the September 30, 2007 variables, it is estimated that a change of 10% in either the volatility, expected life or interest rate assumption would result in a corresponding 7%, 5% or 1% change in the estimated value of the option being valued using the Black-Scholes model.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

As stock-based compensation expense recognized in the Consolidated Statement of Operations for the years ended September 30, 2007, 2006, and 2005 is based on awards ultimately expected to vest. Fiscal years 2007 and 2006 have been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's estimated forfeiture rate for the year ended September 30, 2007 was based on historical forfeiture experience.

During the quarter ended June 30, 2007, the Company completed its 409A tender offer which resulted in the modification of certain options. The Company increased the exercise price of options previously issued at a discount to limit the potential adverse personal tax consequences that may apply to those stock options under Section 409A of the Internal Revenue Code and state law equivalents. When combined with the related cash bonus to be paid to the option holders in connection with the exchange, the net charge to compensation expense for during the quarter was $0.1 million.

Accuracy of Fair Value Estimates

The Company uses third party analyses to assist in developing the assumptions based on a trinomial lattice valuation technique used in the Black-Scholes model. The Company is responsible for determining the assumptions used in estimating the fair value of share-based payment awards.

This determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options and restricted stock awards. Although the fair value of employee stock options and restricted stock awards is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

401(k) Savings Plan

The Company sponsors a 401(k) Savings Plan (the "Plan") for full-time employees in the United States. Under the Plan, each participant may elect to contribute up to 15% of their pre-tax compensation. The Plan allows the Company to match up to 50% the employee contributions. For each of the years ended September 30, 2007, 2006, 2005, the Company matched up to 25% of the employee contributions. Employee contributions are fully vested, whereas vesting in the Company's matching contributions occurs at a rate of 33.3% per year of employment. The Company's contributions to the 401(k) Plan totaled approximately $0.4 million, $0.4 million, and $0.4 million for the years ended September 30, 2007, 2006, and 2005, respectively.

Defined Contribution Plan

The Company also sponsors a defined contribution pension plan for the employees of Canada, United Kingdom, Netherlands, and Germany. The Company's contributions to the pension plan totaled approximately $0.4 million, $0.5 million, and $0.7 million for the years ended September 30, 2007, 2006, and 2005, respectively.

1999 Employee Stock Purchase Plan

The 1999 ESPP was adopted by the Board of Directors and became effective on February 14, 2000, the date of the Company's initial public offering. Eligible employees may have up to 15% of their earnings withheld to be used to purchase shares of the Company's common stock at 85% of the lower of the fair market value of the common stock on the commencement date of each nine-month offering period or the specified purchase date. The amount reserved under the 1999 ESPP automatically increases on October 1st of each year by the greater of (1) 2% outstanding shares on such date or (2) the number of shares subject to stock awards made under this plan during the prior year. However, the automatic increase is subject to reduction by the Board of Directors. Notwithstanding the foregoing, the aggregate number of shares that may be sold under the 1999 ESPP shall not exceed 5.2 million shares. There were no purchases of common stock under the ESPP for the years ended September 2007, 2006 and 2005, as the plan is currently suspended. In January 2007, the Board amended the ESPP to reduce the number of shares available for future issuance to 0.4 million.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 13—WARRANTS

On September 4, 2006, warrants issued to Accenture plc to purchase up to 0.2 million shares of common stock at $17.63 expired. On September 20, 2006, IBM exercised warrants in a cashless transaction resulting in 19,230 of the Company's shares being issued to IBM. In December 2006, warrants issued to Accenture plc and General Atlantic Partners from the acquisition of Prime Response in 2001 to purchase up to 0.4 million shares of the Company expired. As of September 30, 2007, there were no remaining warrants outstanding.

NOTE 14—SEGMENT INFORMATION

The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by desegregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, the Company has concluded that the Company has one reportable segment.

The following table summarizes license revenues by product emphasis (in thousands):

	Years Ended September 30,		
	2007	2006	2005
License revenue			
Enterprise solutions	$ 37,648	$ 30,351	$ 24,587
Marketing solutions	6,013	6,396	2,450
Decision management solutions	10,391	3,767	4,641
Total	$ 54,052	$ 40,514	$ 31,678

The following table summarizes service revenues by product emphasis consisting of consulting assistance and implementation, customization and integration, training, certain reimbursable out-of-pocket expense and post-contract customer support (in thousands):

	Years Ended September 30,		
	2007	2006	2005
Service revenue			
Enterprise solutions	$ 51,584	$ 39,911	$ 40,441
Marketing solutions	12,369	12,996	9,680
Decision management solutions	6,542	4,115	1,926
Total	$ 70,495	$ 57,022	$ 52,047

Foreign revenues are based on the country in which the customer order is generated. The following is a summary of total revenues by geographic area (in thousands):

	Years Ended September 30,		
	2007	2006	2005
North America	$ 65,701	$ 60,008	$ 41,697
Europe	58,846	37,528	41,939
Rest of World	—	—	89

Total	$	124,547	$	97,536	$	83,725

Included in foreign revenue results for Europe is revenue from the United Kingdom of $28.3 million, $16.1 million, and $22.5 million for the years ended September 30, 2007, 2006 and 2005, respectively.

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CHORDIANT SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Property and equipment information is based on the physical location of the assets. The following is a summary of property and equipment, net by geographic area (in thousands):

	Years Ended September 30, 2007	2006
North America	$ 2,346	$ 1,844
Europe	1,292	786
Total	$ 3,638	$ 2,630

NOTE 15—QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth a summary of the Company's quarterly financial information for each of the four quarters for the years ended September 30, 2007 and 2006:

Year ended September 30, 2007:

	Quarters -Ended			
	September30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
	(in thousands, except per share data)			
Revenues	$ 32,082	$ 36,761	$ 32,765	$ 22,939
Gross profit	$ 23,446	$ 26,775	$ 26,257	$ 14,716
Net income (loss)	$ 5,349	$ 6,453	$ 4,975	$ (10,749)
Net income (loss) per share:				
Basic	$ 0.16	$ 0.20	$ 0.15	$ (0.34)
Diluted	$ 0.16	$ 0.19	$ 0.15	$ (0.34)
Weighted average shares used in computing net income (loss) per share:				
Basic	33,066	32,743	32,153	31,725
Diluted	34,217	34,384	33,216	31,725

Year ended September 30, 2006:

	Quarters -Ended			
	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
	(in thousands, except per share data)			
Revenues	$ 21,679	$ 27,026	$ 26,273	$ 22,558
Gross profit	$ 13,697	$ 17,360	$ 17,585	$ 15,427
Net loss	$ (8,364)	$ (3,682)	$ (2,202)	$ (1,753)
Net loss per share—basic and diluted	$ (0.27)	$ (0.12)	$ (0.07)	$ (0.06)

Weighted average shares used in computing basic and diluted net loss per share	31,468	31,214	30,891	30,730

NOTE 16—SUBSEQUENT EVENTS

Equity Compensation

In 2007, the Company's Board of Directors approved the grant to employees of 738,700 shares of Stock Options and 199,500 shares of Restricted Stock Units.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (Disclosure Controls) as of September 30, 2007, the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our CEO and CFO. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s (SEC’s) rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below.

The evaluation of our Disclosure Controls included a review of the controls’ objectives and design, the company’s implementation of the controls and the effect of the controls on the information generated for use in this Form 10-K. In the course of the controls evaluation, we sought to identify any past instances of data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 10-Q and Form 10-K. Many of the components of our Disclosure Controls are also evaluated on an ongoing basis by our finance organization. The goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

In this evaluation, unless otherwise indicated, a “significant deficiency” is defined as a control deficiency, or combination of deficiencies, that adversely affects the company’s ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company’s annual or interim financial statements that is more than inconsequential will not be prevented or detected. A “material weakness” is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Changes Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such terms are defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2007 based on the guidelines established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

In connection with the Company’s assessment of the effectiveness of internal control over financial reporting, our management has concluded that our internal over financial reporting was effective as of September 30, 2007.

BDO Seidman, LLP, our independent registered public accounting firm, audited management’s assessment and independently assessed the effectiveness of our internal control over financial reporting as of September 30, 2007. BDO Seidman, LLP has issued an attestation report on management’s assessment, which is included in Item 9A of this Form 10-K.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Chordiant Software, Inc.
Cupertino, California

We have audited Chordiant Software, Inc.'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 COSO criteria). Chordiant Software, Inc.'s management is responsible 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 Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that 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, Chordiant Software, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Chordiant Software, Inc. as of September 30, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended September 30, 2007 and our report dated November 15, 2007 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

San Jose, California
November 15, 2007

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ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because the registrant will file with the U.S. Securities and Exchange Commission a proxy statement pursuant to Regulation 14A in connection with the solicitation of proxies for the registrant's Annual Meeting of Stockholders expected to be held not later 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included therein as incorporated by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference from the section entitled "Election of Directors" to be contained in our Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from the section entitled "Executive Compensation" to be contained in our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference from the information from the section entitled "Securities Authorized for Issuance under Equity Compensation Plans" and "Security Ownership of Certain Beneficial Owners and Management" to be contained in our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDANCE

The information required by this Item is incorporated herein by reference from the section entitled "Transactions with Related Persons" to be contained in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference from the section entitled "Ratification of Selection of Independent Auditors" to be contained in our Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

1. Index to Financial Statements

Please see the accompanying Index to Consolidated Financial Statements, which appears on page 49 of this report. The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements which are listed in the Index to Financial Statements and which appear beginning on page 55 of this report are included in Item 8 above.

2. Financial Statement Schedule

Schedule II—Valuation and Qualifying Accounts for the years ended September 30, 2007, 2006, and 2005 are as follows (in thousands):

	Balance at Beginning of Period	Charged to Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts				
2007	$ 83	$ 82	$ —	$ 165
2006	$ 214	$ (9)	$ (122)	$ 83
2005	$ 111	$ 103	$ —	$ 214
Deferred tax asset valuation allowance				
2007	$ 88,917	$ —	$ (18)	$ 88,899
2006	$ 83,350	$ 5,567	$ —	$ 88,917
2005	$ 63,615	$ 19,735	$ —	$ 83,350

Schedules not listed have been omitted because the information required to be set forth therein is not applicable or is included in the Financial Statements or notes thereto.

3. Exhibits

Exhibit Number	Description of Document	Incorporated by Reference: Form	Incorporated by Reference: Date	Filed Herewith
2.1	Stock Purchase Agreement, dated July 19, 2000, between Chordiant Software, Inc., White Spider Software, Inc. and the Sellers of capital stock of White Spider Software, Inc..	8-K	8/3/2000	
2.2	Agreement and Plan of Merger and Reorganization, dated as of January 8, 2001, by and among Chordiant Software, Inc., Puccini Acquisition Corp. and Prime Response, Inc..	Form S-4 (No. 333-54856)	2/26/2001	

2.3	Agreement and Plan of Merger and Reorganization, dated as of March 28, 2002, by and among Chordiant Software, Inc., OnDemand Acquisition Corp. and OnDemand, Inc..	8-K	4/12/2002
2.4	Share Purchase Agreement, dated December 8, 2004, between Chordiant Software International, Inc. and the persons named therein (1).	8-K	12/27/2004
2.5	Deed of Trust, dated December 8, 2004, between Chordiant Software International, Inc. and KiQ Limited.	Form 8-K	12/27/2004

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Exhibit Number	Description of Document	Incorporated by Reference Form	Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Chordiant Software, Inc..	Form S-1 (No. 333-92187)	2/6/1999	
3.2	Amended and Restated Bylaws of Chordiant Software, Inc..	Form 8-K	2/2/2006	
4.1	Specimen Common Stock Certificate.	Form S-11 (No. 333-92187)	2/7/2000	
4.2	Warrant agreement, dated August 12, 2002, by and between Chordiant Software, Inc. and International Business Machines Corporation (“IBM”).	Form 10-Q	5/15/2003	
4.3	Registration Rights Agreement, dated January 22, 2004, by and between Chordiant Software, Inc., and Acqua Wellington Opportunity I Limited.	Form 8-K	1/26/2004	
4.4	Warrant, dated February 28, 1999, issued to GAP Coinvestment Partners II, L.P..	Form S-1 (No. 333-92461)	12/10/1999	
4.5	Warrant, dated December 9, 1999, issued to General Atlantic Partners 52, L.P..	Form S-1 (No. 333-92461)	12/10/1999	
4.6	Warrant, dated December 9, 1999, issued to Accenture (Formerly known as Andersen Consulting), L.P..	Form S-1 (No. 333-92461)	12/10/1999	
4.7	Warrant, dated December 9, 1999, issued to Accenture (Formerly known as Andersen Consulting), L.P..	Form S-1 (No. 333-92461)	12/10/1999	
4.8	Warrant, dated December 9, 1999, issued to Accenture (Formerly known as Andersen Consulting), L.P..	S-1 (No. 333-92461)	12/10/1999	
4.9	Warrant, dated September 4, 2001, issued to Accenture plc.	Form 10-K/T	3/29/2005	
10.1*	1999 Equity Incentive Plan and Form of Stock Option Agreement.	Form S-1	12/6/1999	

		(No. 333-92187)	
10.2*	1999 Employee Stock Purchase Plan.	Form S-1 (No. 333-92187)	12/6/1999
10.3*	Amended and Restated 1999 Non-Employee Directors' Plan as amended and restated.	Schedule 14A	3/15/2007
10.4*	Form of Stock Option Agreement of 1999 Non-Employee Directors' Plan.	Form S-1 (No. 333-92187)	1/19/2000
10.5*	2000 Nonstatutory Equity Incentive Plan.	S-8 (No. 333-42844)	8/2/2000
10.6*	Employment Letter Agreement of Samuel T. Spadafora dated April 24, 1998, by Chordiant Software, Inc. and agreed to and accepted by Samuel T. Spadafora.	Form S-1 (No. 333-92187)	1/19/2000
10.7	Cupertino City Center Net Office Lease, dated June 19, 1998, by and between Cupertino City Center Buildings, as Lessor, and Chordiant Software, Inc., as Lessee.	Form S-1 (No. 333-92187)	1/19/2000

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Exhibit Number	Description of Document	Incorporated by Reference Form	Date	Filed Herewith
10.8	Amended and Restated Loan and Security Agreement dated August 31, 2000, by and between Chordiant Software, Inc. and Imperial Bank.	Form 10-Q	5/15/2002	
10.9	First Amendment to Amended and Restated Loan and Security Agreement, dated October 19, 2001, by and between Chordiant Software, Inc. and Comerica Bank-California, successor in interest to Imperial Bank.	Form 10-Q	5/15/2002	
10.10*	Change of Control Agreement, dated April 27, 2001, by and between Chordiant Software, Inc. and Stephen P. Kelly.	Form 10-Q	5/15/2002	
10.11*	Change of Control Agreement, dated September 10, 2001, by and between Chordiant Software, Inc. and Samuel T. Spadafora.	Form 10-Q	5/15/2002	
10.12*	Separation Agreement, dated October 20, 2003, by and between Chordiant Software, Inc. and Steve G. Vogel.	Form 10-K/A	3/30/2004	
10.13*	Form of Indemnification Agreement, by and between Chordiant Software, Inc. and certain officers and directors of Chordiant Software, Inc..	Form 10-Q	5/15/2002	
10.14*	Employment Letter, dated November 14, 2002, between Chordiant Software, Inc. and Stephen P. Kelly.	Form 10-Q	11/14/2002	
10.15*	Amendment to Change of Control Agreement dated January 10, 2003, by and between Chordiant Software, Inc. and Stephen P. Kelly.	Form 10-K	3/28/2003	
10.16*	Amendment to Change of Control Agreement dated February 27, 2004, by and between Chordiant Software, Inc. and Samuel T. Spadafora.	Form 10-K	3/8/2004	
10.17	Second Amendment to Amended and Restated Loan and Security Agreement by and between Chordiant Software, Inc. and Comerica Bank-California, successor in interest to Imperial Bank, dated March 28, 2003.	Form 10-Q	8/14/2003	

10.18	First amendment to Cupertino City Center Net Office Lease, dated December 10, 2003, by and between Cupertino City Center Buildings, as Lessor, and Chordiant Software, Inc., as Lessee.	10-K	3/8/2004
10.19	Purchase Agreement by and between Chordiant and Acqua Wellington Opportunity I Limited, dated January 22, 2004.	Form S-3/A	3/30/2004
10.20*	Offer letter dated November 16, 2004 to George A. de Urioste.	Form 8-K	2/2/2005
10.21*	Change of Control Agreement dated January 31, 2005 by and between Chordiant Software, Inc. and George A. de Urioste.	Form 10-K/T	3/29/2005
10.22*	Terms of employment for Robert U. Mullen as of March 31, 2004.	Form 10-K/T	3/29/2005
10.23*	Change of Control Agreement dated April 24, 2003 by and between Chordiant Software, Inc. and Robert U. Mullen.	Form 10-K/T	3/29/2005
10.24*	Separation Agreement, dated August 16, 2004, by and between Chordiant Software, Inc. and Michael J. Shannahan.	Form 10-K/T	3/29/2005

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Exhibit Number	Description of Document	Incorporated by Reference Form	Incorporated by Reference Date	Filed Herewith
10.25*	Form of Director Agreement by and between Chordiant Software, Inc. and certain officers and directors of Chordiant Software, Inc..	Form 10-K/T	3/29/2005	
10.26*	Compromise Agreement by and between Chordiant Software International Limited and Allen Swann dated October 28th 2004.	Form 10-K/T	3/29/2005	
10.27+	Master Services Agreement By and Between Chordiant Software, Inc. and Ness Technologies, Inc., Ness Global Services, Inc. and Ness Technologies India Ltd., dated December 15, 2003, as amended.			X
10.28*	A description of certain compensation arrangements between Chordiant Software, Inc. and its executive officers.	Form 8-K	6/8/2005	
10.29*	Offer Letter dated October 17, 2005 for Derek P. Witte.	Form 8-K	10/26/2005	
10.30*	Change of Control Agreement dated October 20, 2005 by and between Chordiant Software, Inc. and Derek P. Witte.	Form 8-K	10/26/2005	
10.31*	2005 Equity Incentive Plan, as amended.	Schedule 14A	3/15/2007	
10.32*	A description of certain compensation arrangements between Chordiant Software, Inc. its executive officers.	Form 8-K	2/2/2006	
10.33*	Offer Letter dated January 31, 2006 for Steven R. Springsteel.	Form 8-K	2/2/2006	
10.34*	Form of Stock Option Agreement for Steven R. Springsteel.	Form 8-K	2/2/2006	
10.35*	Amendment dated August 29, 2005 to April 24, 1998 Letter Agreement by and between Chordiant Software, Inc. and Samuel Spadafora.	Form 10-Q	2/9/2006	
10.36*	Board Member Agreement dated March 7, 2006 for Richard Stevens	Form 8-K	3/10/2006	
10.37		Form 10-Q	5/4/2006	

	Second Amended and Restated Loan and Security Agreement by and between Chordiant Software, Inc. and Comerica Bank-California, successor in interest to Imperial Bank, dated March 8, 2006.		
10.38*	Separation Agreement dated March 1, 2006, by and between Chordiant Software, Inc. and Stephen Kelly.	Form 10-Q	5/4/2006
10.39*	Separation Agreement dated March 8, 2006, by and between Chordiant Software, Inc. and George A. de Urioste.	Form 10-Q	5/4/2006
10.40*	Separation Agreement dated August 8, 2006, by and between Chordiant Software, Inc. and Robert Mullen.	Form 8-K	8/11/2006
10.41	Addendum A to Master Services Agreement dated September 11, 2006 by and between Chordiant Software, Inc. and Ness USA, Inc..	Form 10-K	2/9/2007
10.42+	Order Form Agreement dated September 28, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007

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Exhibit Number	Description of Document	Incorporated by Reference Form	Incorporated by Reference Date	Filed Herewith
10.43+	Software License and Services Agreement dated September 28, 2006 by and between Chordiant Software, Inc. and Connecticut General Life Insurance Company.			X
10.44	Master Agreement for Subcontracted Services dated June 14, 2002 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.45	Amendment Number One dated May 31, 2005 to the Master Agreement for Subcontracted Services dated June 14, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.46	Amendment Number Two dated October 12, 2006 to the Master Agreement for Subcontracted Services dated June 14, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.47+	Statement of Work dated September 28, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.48*	Separation Agreement dated November 30, 2006, by and between Chordiant Software, Inc. and Samuel Spadafora.	Form 8-K	11/30/2006	
10.49+	Master Software License and Support Agreement dated March 21, 2006 by and between Chordiant Software, Inc. and Citicorp Credit Services, Inc. (USA).	Form 10-K	2/9/2007	
10.50	Master Professional Services Agreement dated May 7, 2006 by and between Chordiant Software, Inc. and Citicorp Credit Services, Inc. (USA).	Form 10-K	2/9/2007	
10.51+	License Schedule #5 dated December 8, 2006 to the Master Software License and Support Agreement dated March 21, 2006 by and between Chordiant Software and Citicorp Credit Services, Inc. (USA).			X
10.52	Amendment No. 1 to the Master Software License and Support Agreement dated March 21, 2006 by and	Form 10-K	2/9/2007	

	between Chordiant Software and Citicorp Credit Services, Inc. (USA).		
10.53	Order Form Agreement dated December 19, 2006 by and between Chordiant Software International GmbH and IBM Deustchland GmbH.	Form 10-K	2/9/2007
10.54	Software License and Services Agreement dated December 19, 2006 by and between Chordiant Software International GmbH and Deutsche Angestellten Krankenkasse.	Form 10-K	2/9/2007
10.55*	Change of Control Agreement dated November 1, 2005 by and between Chordiant Software, Inc. and Peter Norman.	Form 10-Q	4/30/2007
10.56*	Change of Control Agreement dated November 11, 2005 by and between Chordiant Software, Inc. and James St. Jean.	Form 10-Q	4/30/2007
10.57*	Change of Control Agreement dated May 26, 2006 by and between Chordiant Software, Inc. and Frank Florence.	Form 10-Q	4/30/2007

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Exhibit Number	Description of Document	Incorporated by Reference Form	Incorporated by Reference Date	Filed Herewith
10.58*	Change of Control Agreement dated April 13, 2007 by and between Chordiant Software, Inc. and PK Karnik.	Form 10-Q	4/30/2007	
10.59+	Master Agreement dated June 28, 2007 by and between WellPoint, Inc. and Chordiant Software, Inc..	Form 10-Q	8/10/2007	
10.60*+	Fiscal Year 2008 Executive Incentive Bonus Plan.			X
10.61*+	Fiscal Year 2008 General Counsel Incentive Bonus Plan.			X
10.62*+	Fiscal Year 2008 Compensation Plan for Worldwide Vice President, Professional Services.			X
10.63*+	Fiscal Year 2008 Bonus Plan for Worldwide Vice President, Sales.			X
10.64*	Fiscal Year 2008 Compensation Plan for Worldwide Vice President, Sales.			X
10.65*	Offer Letter dated October 31, 2007 for David Cunningham.			X
10.66*+	2008-2009 Performance Share Unit Program.			X
10.67*	Form of 2008-2009 Performance Share Unit Program Award Grant Notice.			X
10.68	Addendum A to the Master Services Agreement dated October 25, 2007 by and between Chordiant Software, Inc. and Ness USA, Inc.			X
18.1	Preferability letter from BDO Seidman, LLP, Independent Registered Public Accounting Firm.	Form 10-K	12/9/2005	
21.1	Subsidiaries of Chordiant Software, Inc..	10-Q	5/16/2005	
23.1	Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm.			X
24.1	Power of Attorney (included on the signature pages hereto).			X

31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a).	X
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).	X
32.1#	Certification required by Rule 13a-14(a) or Rule 15d-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).	X

* Management contract or compensatory plan or arrangement.

+Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

(1) Chordiant has omitted Schedules 2-4 and 709 to the Share Purchase Agreement pursuant to Item 601(b)(2) of Regulation S-K. A brief description of the omitted schedules is contained in Exhibit 2.4. Chordiant hereby undertakes to provide the SEC with copies of the omitted schedules upon request.

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The certification attached as Exhibit 32.1 is not deemed filed with the Securities and Exchange Commission and is not incorporated by reference into any filing of Chordiant Software, Inc., whether made before or after the date of this Form 10-K irrespective of any general incorporation language contained in such filing.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report on Form 10-K to be signed on our behalf by the undersigned, thereunto duly authorized, in the City of Cupertino, State of California, on November 15, 2007.

CHORDIANT SOFTWARE, INC

By: /s/ STEVEN R. SPRINGSTEEL
Steven R. Springsteel
Chairman, President, and CEO

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints **STEVEN R. SPRINGSTEEL** and **PETER S. NORMAN**, and each or any one of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report on Form 10-K has been signed by the following persons on behalf of the Registrant and of the capacities and on the dates indicated.

Signature	Title	Date
/s/ STEVEN R. SPRINGSTEEL Steven R. Springsteel	Chairman, President, and Chief Executive Officer	November 15, 2007
/s/ PETER S. NORMAN Peter S. Norman	Chief Financial Officer and Principal Accounting Officer	November 15, 2007
/s/ RICHARD G. STEVENS Richard G. Stevens	Director	November 15, 2007
/s/ DAVID R. SPRINGETT David R. Springett	Director	November 15, 2007
/s/ WILLIAM J. RADUCHEL William J. Raduchel	Director	November 15, 2007
/s/ DAVID A. WEYMOUTH David A. Weymouth	Director	November 15, 2007

/s/ CHARLES E. HOFFMAN Charles E. Hoffman	Director	November 15, 2007

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EXHIBIT INDEX

Exhibit Number	Description of Document	Incorporated by Reference Form	Date	Filed Herewith
2.1	Stock Purchase Agreement, dated July 19, 2000, between Chordiant Software, Inc., White Spider Software, Inc. and the Sellers of capital stock of White Spider Software, Inc..	8-K	8/3/2000	
2.2	Agreement and Plan of Merger and Reorganization, dated as of January 8, 2001, by and among Chordiant Software, Inc., Puccini Acquisition Corp. and Prime Response, Inc..	Form S-4 (No. 333-54856)	2/26/2001	
2.3	Agreement and Plan of Merger and Reorganization, dated as of March 28, 2002, by and among Chordiant Software, Inc., OnDemand Acquisition Corp. and OnDemand, Inc..	8-K	4/12/2002	
2.4	Share Purchase Agreement, dated December 8, 2004, between Chordiant Software International, Inc. and the persons named therein (1).	8-K	12/27/2004	
2.5	Deed of Trust, dated December 8, 2004, between Chordiant Software International, Inc. and KiQ Limited.	Form 8-K	12/27/2004	
3.1	Amended and Restated Certificate of Incorporation of Chordiant Software, Inc..	Form S-1 (No. 333-92187)	2/6/1999	
3.2	Amended and Restated Bylaws of Chordiant Software, Inc..	Form 8-K	2/2/2006	
4.1	Specimen Common Stock Certificate.	Form S-11 (No. 333-92187)	2/7/2000	
4.2	Warrant agreement, dated August 12, 2002, by and between Chordiant Software, Inc. and International Business Machines Corporation (“IBM”).	Form 10-Q	5/15/2003	
4.3	Registration Rights Agreement, dated January 22, 2004, by and between Chordiant Software, Inc., and Acqua Wellington Opportunity I Limited.	Form 8-K	1/26/2004	
4.4		Form S-1	12/10/1999	

	Warrant, dated February 28, 1999, issued to GAP Coinvestment Partners II, L.P..	(No. 333-92461)	
4.5	Warrant, dated December 9, 1999, issued to General Atlantic Partners 52, L.P..	Form S-1 (No. 333-92461)	12/10/1999
4.6	Warrant, dated December 9, 1999, issued to Accenture (Formerly known as Andersen Consulting), L.P..	Form S-1 (No. 333-92461)	12/10/1999
4.7	Warrant, dated December 9, 1999, issued to Accenture (Formerly known as Andersen Consulting), L.P..	Form S-1 (No. 333-92461)	12/10/1999
4.8	Warrant, dated December 9, 1999, issued to Accenture (Formerly known as Andersen Consulting), L.P..	S-1 (No. 333-92461)	12/10/1999
4.9	Warrant, dated September 4, 2001, issued to Accenture plc.	Form 10-K/T	3/29/2005
10.1*	1999 Equity Incentive Plan and Form of Stock Option Agreement.	Form S-1 (No. 333-92187)	12/6/1999

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Exhibit Number	Description of Document	Incorporated by Reference Form	Incorporated by Reference Date	Filed Herewith
10.2*	1999 Employee Stock Purchase Plan.	Form S-1 (No. 333-92187)	12/6/1999	
10.3*	Amended and Restated 1999 Non-Employee Directors' Plan as amended and restated.	Schedule 14A	3/15/2007	
10.4*	Form of Stock Option Agreement of 1999 Non-Employee Directors' Plan.	Form S-1 (No. 333-92187)	1/19/2000	
10.5*	2000 Nonstatutory Equity Incentive Plan.	S-8 (No. 333-42844)	8/2/2000	
10.6*	Employment Letter Agreement of Samuel T. Spadafora dated April 24, 1998, by Chordiant Software, Inc. and agreed to and accepted by Samuel T. Spadafora.	Form S-1 (No. 333-92187)	1/19/2000	
10.7	Cupertino City Center Net Office Lease, dated June 19, 1998, by and between Cupertino City Center Buildings, as Lessor, and Chordiant Software, Inc., as Lessee.	Form S-1 (No. 333-92187)	1/19/2000	
10.8	Amended and Restated Loan and Security Agreement dated August 31, 2000, by and between Chordiant Software, Inc. and Imperial Bank.	Form 10-Q	5/15/2002	
10.9	First Amendment to Amended and Restated Loan and Security Agreement, dated October 19, 2001, by and between Chordiant Software, Inc. and Comerica Bank-California, successor in interest to Imperial Bank.	Form 10-Q	5/15/2002	
10.10*	Change of Control Agreement, dated April 27, 2001, by and between Chordiant Software, Inc. and Stephen P. Kelly.	Form 10-Q	5/15/2002	
10.11*	Change of Control Agreement, dated September 10, 2001, by and between Chordiant Software, Inc. and Samuel T. Spadafora.	Form 10-Q	5/15/2002	
10.12*		Form 10-K/A	3/30/2004	

	Separation Agreement, dated October 20, 2003, by and between Chordiant Software, Inc. and Steve G. Vogel.		
10.13*	Form of Indemnification Agreement, by and between Chordiant Software, Inc. and certain officers and directors of Chordiant Software, Inc..	Form 10-Q	5/15/2002
10.14*	Employment Letter, dated November 14, 2002, between Chordiant Software, Inc. and Stephen P. Kelly.	Form 10-Q	11/14/2002
10.15*	Amendment to Change of Control Agreement dated January 10, 2003, by and between Chordiant Software, Inc. and Stephen P. Kelly.	Form 10-K	3/28/2003
10.16*	Amendment to Change of Control Agreement dated February 27, 2004, by and between Chordiant Software, Inc. and Samuel T. Spadafora.	Form 10-K	3/8/2004
10.17	Second Amendment to Amended and Restated Loan and Security Agreement by and between Chordiant Software, Inc. and Comerica Bank-California, successor in interest to Imperial Bank, dated March 28, 2003.	Form 10-Q	8/14/2003

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Exhibit Number	Description of Document	Incorporated by Reference Form	Incorporated by Reference Date	Filed Herewith
10.18	First amendment to Cupertino City Center Net Office Lease, dated December 10, 2003, by and between Cupertino City Center Buildings, as Lessor, and Chordiant Software, Inc., as Lessee.	10-K	3/8/2004	
10.19	Purchase Agreement by and between Chordiant and Acqua Wellington Opportunity I Limited, dated January 22, 2004.	Form S-3/A	3/30/2004	
10.20*	Offer letter dated November 16, 2004 to George A. de Urioste.	Form 8-K	2/2/2005	
10.21*	Change of Control Agreement dated January 31, 2005 by and between Chordiant Software, Inc. and George A. de Urioste.	Form 10-K/T	3/29/2005	
10.22*	Terms of employment for Robert U. Mullen as of March 31, 2004.	Form 10-K/T	3/29/2005	
10.23*	Change of Control Agreement dated April 24, 2003 by and between Chordiant Software, Inc. and Robert U. Mullen.	Form 10-K/T	3/29/2005	
10.24*	Separation Agreement, dated August 16, 2004, by and between Chordiant Software, Inc. and Michael J. Shannahan.	Form 10-K/T	3/29/2005	
10.25*	Form of Director Agreement by and between Chordiant Software, Inc. and certain officers and directors of Chordiant Software, Inc..	Form 10-K/T	3/29/2005	
10.26*	Compromise Agreement by and between Chordiant Software International Limited and Allen Swann dated October 28th 2004.	Form 10-K/T	3/29/2005	
10.27+	Master Services Agreement By and Between Chordiant Software, Inc. and Ness Technologies, Inc., Ness Global Services, Inc. and Ness Technologies India Ltd., dated December 15, 2003, as amended.			X
10.28*	A description of certain compensation arrangements between Chordiant Software, Inc. and its executive officers.	Form 8-K	6/8/2005	

10.29*	Offer Letter dated October 17, 2005 for Derek P. Witte.	Form 8-K	10/26/2005
10.30*	Change of Control Agreement dated October 20, 2005 by and between Chordiant Software, Inc. and Derek P. Witte.	Form 8-K	10/26/2005
10.31*	2005 Equity Incentive Plan, as amended.	Schedule 14A	3/15/2007
10.32*	A description of certain compensation arrangements between Chordiant Software, Inc. its executive officers.	Form 8-K	2/2/2006
10.33*	Offer Letter dated January 31, 2006 for Steven R. Springsteel.	Form 8-K	2/2/2006
10.34*	Form of Stock Option Agreement for Steven R. Springsteel.	Form 8-K	2/2/2006
10.35*	Amendment dated August 29, 2005 to April 24, 1998 Letter Agreement by and between Chordiant Software, Inc. and Samuel Spadafora.	Form 10-Q	2/9/2006
10.36*	Board Member Agreement dated March 7, 2006 for Richard Stevens	Form 8-K	3/10/2006

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Exhibit Number	Description of Document	Incorporated by Reference Form	Incorporated by Reference Date	Filed Herewith
10.37	Second Amended and Restated Loan and Security Agreement by and between Chordiant Software, Inc. and Comerica Bank-California, successor in interest to Imperial Bank, dated March 8, 2006.	Form 10-Q	5/4/2006	
10.38*	Separation Agreement dated March 1, 2006, by and between Chordiant Software, Inc. and Stephen Kelly.	Form 10-Q	5/4/2006	
10.39*	Separation Agreement dated March 8, 2006, by and between Chordiant Software, Inc. and George A. de Urioste.	Form 10-Q	5/4/2006	
10.40*	Separation Agreement dated August 8, 2006, by and between Chordiant Software, Inc. and Robert Mullen.	Form 8-K	8/11/2006	
10.41	Addendum A to Master Services Agreement dated September 11, 2006 by and between Chordiant Software, Inc. and Ness USA, Inc..	Form 10-K	2/9/2007	
10.42+	Order Form Agreement dated September 28, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.43+	Software License and Services Agreement dated September 28, 2006 by and between Chordiant Software, Inc. and Connecticut General Life Insurance Company.			X
10.44	Master Agreement for Subcontracted Services dated June 14, 2002 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.45	Amendment Number One dated May 31, 2005 to the Master Agreement for Subcontracted Services dated June 14, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.46	Amendment Number Two dated October 12, 2006 to the Master Agreement for Subcontracted Services dated June 14, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.	Form 10-K	2/9/2007	
10.47+		Form 10-K	2/9/2007	

	Statement of Work dated September 28, 2006 by and between Chordiant Software, Inc. and International Business Machines Corporation.		
10.48*	Separation Agreement dated November 30, 2006, by and between Chordiant Software, Inc. and Samuel Spadafora.	Form 8-K	11/30/2006
10.49+	Master Software License and Support Agreement dated March 21, 2006 by and between Chordiant Software, Inc. and Citicorp Credit Services, Inc. (USA).	Form 10-K	2/9/2007
10.50	Master Professional Services Agreement dated May 7, 2006 by and between Chordiant Software, Inc. and Citicorp Credit Services, Inc. (USA).	Form 10-K	2/9/2007

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Exhibit Number	Description of Document	Incorporated by Reference Form	Date	Filed Herewith
10.51+	License Schedule #5 dated December 8, 2006 to the Master Software License and Support Agreement dated March 21, 2006 by and between Chordiant Software and Citicorp Credit Services, Inc. (USA).			X
10.52	Amendment No. 1 to the Master Software License and Support Agreement dated March 21, 2006 by and between Chordiant Software and Citicorp Credit Services, Inc. (USA).	Form 10-K	2/9/2007	
10.53	Order Form Agreement dated December 19, 2006 by and between Chordiant Software International GmbH and IBM Deustchland GmbH.	Form 10-K	2/9/2007	
10.54	Software License and Services Agreement dated December 19, 2006 by and between Chordiant Software International GmbH and Deutsche Angestellten Krankenkasse.	Form 10-K	2/9/2007	
10.55*	Change of Control Agreement dated November 1, 2005 by and between Chordiant Software, Inc. and Peter Norman.	Form 10-Q	4/30/2007	
10.56*	Change of Control Agreement dated November 11, 2005 by and between Chordiant Software, Inc. and James St. Jean.	Form 10-Q	4/30/2007	
10.57*	Change of Control Agreement dated May 26, 2006 by and between Chordiant Software, Inc. and Frank Florence.	Form 10-Q	4/30/2007	
10.58*	Change of Control Agreement dated April 13, 2007 by and between Chordiant Software, Inc. and PK Karnik.	Form 10-Q	4/30/2007	
10.59+	Master Agreement dated June 28, 2007 by and between WellPoint, Inc. and Chordiant Software, Inc..	Form 10-Q	8/10/2007	
10.60*+	Fiscal Year 2008 Executive Incentive Bonus Plan.			X
10.61*+	Fiscal Year 2008 General Counsel Incentive Bonus Plan.			X
10.62*+				X

	Fiscal Year 2008 Compensation Plan for Worldwide Vice President, Professional Services.			
10.63*+	Fiscal Year 2008 Bonus Plan for Worldwide Vice President, Sales.			X
10.64*	Fiscal Year 2008 Compensation Plan for Worldwide Vice President, Sales.			X
10.65*	Offer Letter dated October 31, 2007 for David Cunningham.			X
10.66*+	2008-2009 Performance Share Unit Program.			X
10.67*	Form of 2008-2009 Performance Share Unit Program Award Grant Notice.			X
10.68	Addendum A to the Master Services Agreement dated October 25, 2007 by and between Chordiant Software, Inc. and Ness USA, Inc.			X
18.1	Preferability letter from BDO Seidman, LLP, Independent Registered Public Accounting Firm.	Form 10-K	12/9/2005	

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Exhibit Number	Description of Document	Incorporated by Reference Form	Incorporated by Reference Date	Filed Herewith
21.1	Subsidiaries of Chordiant Software, Inc..	10-Q	5/16/2005	
23.1	Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm.			X
24.1	Power of Attorney (included on the signature pages hereto).			X
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a).			X
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).			X
32.1#	Certification required by Rule 13a-14(a) or Rule 15d-14(a) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).			X

* Management contract or compensatory plan or arrangement.

+Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

(1) Chordiant has omitted Schedules 2-4 and 709 to the Share Purchase Agreement pursuant to Item 601(b)(2) of Regulation S-K. A brief description of the omitted schedules is contained in Exhibit 2.4. Chordiant hereby undertakes to provide the SEC with copies of the omitted schedules upon request.

#The certification attached as Exhibit 32.1 is not deemed filed with the Securities and Exchange Commission and is not incorporated by reference into any filing of Chordiant Software, Inc., whether made before or after the date of this Form 10-K irrespective of any general incorporation language contained in such filing.