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

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2008

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
[NO FEE REQUIRED]

For the transition period from __________ to __________

Commission File Number 1-11689

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

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

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

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

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

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

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

The number of shares of common stock outstanding on January 31, 2009 was 48,835,932 (excluding 40,020,851 shares held by the Company as treasury stock).

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PART I – FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	December 31, 2008	September 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 157,206	$ 129,678
Marketable securities available for sale, current portion	55,174	57,049
Accounts receivable, net	114,395	141,571
Prepaid expenses and other current assets	22,991	23,404
Total current assets	349,766	351,702
Marketable securities available for sale, less current portion	75,375	72,101
Other investments	11,074	12,374
Property and equipment, net	44,993	46,360
Goodwill	663,843	686,082
Intangible assets, net	47,246	52,468
Deferred income taxes	46,833	45,786
Other assets	8,820	8,380
	$ 1,247,950	$ 1,275,253
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 10,385	$ 11,172
Accrued compensation and employee benefits	25,527	29,551
Other accrued liabilities	30,920	43,665
Deferred revenue	39,539	38,243
Total current liabilities	106,371	122,631
Revolving line of credit	295,000	295,000
Senior notes	275,000	275,000
Other liabilities	22,015	20,681
Total liabilities	698,386	713,312
Commitments and contingencies		
Stockholders' equity:		
Preferred stock ($0.01 par value; 1,000 shares authorized; none issued and outstanding)	—	—
Common stock ($0.01 par value; 200,000 shares authorized, 88,857 shares shares issued and 48,808 and 48,473 shares outstanding at December 31, 2008 and September 30, 2008, respectively)	488	485
Paid-in-capital	1,107,694	1,110,165
Treasury stock, at cost (40,049 and 40,384 shares at December 31, 2008 and September 30, 2008, respectively)	(1,363,084)	(1,374,455)
Retained earnings	836,249	825,109
Accumulated other comprehensive income (loss)	(31,783)	637
Total stockholders' equity	549,564	561,941
	$ 1,247,950	$ 1,275,253

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31,	
	2008	2007
Revenues	$ 163,460	$ 190,106
Operating expenses:		
Cost of revenues (1)	59,019	66,972
Research and development	18,121	19,469
Selling, general and administrative (1)	54,769	66,759
Amortization of intangible assets (1)	3,247	3,063
Restructuring	8,078	(445)
Total operating expenses	143,234	155,818
Operating income	20,226	34,288
Interest income	1,655	2,550
Interest expense	(7,158)	(4,421)
Other income (expense), net	1,446	(257)
Income from continuing operations before income taxes	16,169	32,160
Provision for income taxes	4,059	11,324
Income from continuing operations	12,110	20,836
Loss from discontinued operations	—	(650)
Net income	$ 12,110	$ 20,186
Basic earnings (loss) per share:		
Continuing operations	$ 0.25	$ 0.42
Discontinued operations	—	(0.02)
Total	$ 0.25	$ 0.40
Diluted earnings (loss) per share:		
Continuing operations	$ 0.25	$ 0.41
Discontinued operations	—	(0.02)
Total	$ 0.25	$ 0.39
Shares used in computing earnings (loss) per share:		
Basic	48,478	50,042
Diluted	48,522	51,200

(1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 2 to the accompanying condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Common Stock							
	Shares	Par Value	Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Loss
Balance at September 30, 2008	**48,473**	**$ 485**	**$ 1,110,165**	**$ (1,374,455)**	**$ 825,109**	**$ 637**	**$ 561,941**	
Share-based compensation	—	—	5,471	—	—	—	5,471	
Exercise of stock options	81	1	(1,852)	2,735	—	—	884	
Tax benefit from exercised stock options	—	—	210	—	—	—	210	
Issuance of ESPP shares from treasury	193	1	(3,799)	6,561	—	—	2,763	
Issuance of stock to employees from treasury	61	1	(2,501)	2,075	—	—	(425)	
Dividends paid	—	—	—	—	(970)	—	(970)	
Net income	—	—	—	—	12,110	—	12,110	$ 12,110
Unrealized gains on investments	—	—	—	—	—	549	549	549
Cumulative translation adjustments	—	—	—	—	—	(32,969)	(32,969)	(32,969)
Balance at December 31, 2008	**48,808**	**$ 488**	**$ 1,107,694**	**$ (1,363,084)**	**$ 836,249**	**$ (31,783)**	**$ 549,564**	**$ (20,310)**

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net income	$ 12,110	$ 20,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,583	9,713
Share-based compensation	5,471	8,093
Deferred income taxes	1,531	(216)
Tax benefit from exercised stock options	210	464
Excess tax benefits from share-based payment arrangements	(117)	(679)
Net amortization of premium on marketable securities	188	44
Provision for doubtful accounts	499	686
Net loss on sales of property and equipment	30	91
Changes in operating assets and liabilities:		
Accounts receivable	19,755	17,700
Prepaid expenses and other assets	(928)	4,629
Accounts payable	(448)	(293)
Accrued compensation and employee benefits	(3,224)	(8,336)
Other liabilities	(14,478)	(4,718)
Deferred revenue	6,482	672
Net cash provided by operating activities	36,664	48,036
Cash flows from investing activities:		
Purchases of property and equipment	(5,554)	(7,440)
Cash proceeds from sales of property and equipment	—	1,362
Purchases of marketable securities	(55,852)	(92,873)
Proceeds from maturities of marketable securities	54,240	105,000
Distribution from cost-method investees	1,300	—
Net cash provided by (used in) investing activities	(5,866)	6,049
Cash flows from financing activities:		
Proceeds from revolving line of credit	—	20,000
Proceeds from issuances of common stock under employee stock option and purchase plans	3,222	13,214
Dividends paid	(970)	(985)
Repurchases of common stock	—	(82,424)
Excess tax benefits from share-based payment arrangements	117	679
Net cash provided by (used in) financing activities	2,369	(49,516)
Effect of exchange rate changes on cash	(5,639)	10
Increase in cash and cash equivalents	27,528	4,579
Cash and cash equivalents, beginning of period	129,678	95,284
Cash and cash equivalents, end of period	$ 157,206	$ 99,863
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	$ 15,687	$ 346
Cash paid for interest	$ 11,965	$ 3,387

See accompanying notes to condensed consolidated financial statements.

1. Nature of Business

Fair Isaac Corporation

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

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

Principles of Consolidation and Basis of Presentation

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the standards of accounting measurement set forth in Accounting Principles Board (“APB”) Opinion No. 28 and any amendments thereto adopted by the Financial Accounting Standards Board (“FASB”). Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the year ended September 30, 2008. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

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

Use of Estimates

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

Adoption of Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value. This standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (“FSP”) No. 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS No. 157 for one year for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in an entity’s financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP No. 157–3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active”, which clarifies the application of SFAS 157 in a market that is not active. As described in Note 8, we have adopted Statement 157 and the related FASB staff positions. Consistent with the provisions of FSP 157–2, we elected to defer the adoption of SFAS 157 for non–financial assets and liabilities measured at fair value on a non–recurring basis until October 1, 2009. We are currently evaluating the impact of the full adoption of SFAS 157 on our consolidated financial statements.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new standard does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, *Disclosures about Fair Value of Financial Instruments.* On October 1, 2008 we adopted SFAS 159 but did not elect the fair value option for any additional financial assets or liabilities that we held at that date.

2. Amortization of Intangible Assets

Amortization expense associated with our intangible assets, which has been reflected as a separate operating expense caption within the accompanying condensed consolidated statements of income, consisted of the following:

	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007
	(In thousands)	
Cost of revenues	$ 1,723	$ 1,502
Selling, general and administrative	1,524	1,561
	$ 3,247	$ 3,063

Cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflects our amortization of other intangible assets. Intangible assets were $47.2 million and $52.5 million, net of accumulated amortization of $101.6 million and $101.7 million, as of December 31, 2008 and September 30, 2008, respectively.

3. Restructuring and Acquisition-Related Expenses

The following table summarizes our restructuring and acquisition-related accruals associated with acquisitions and certain Fair Isaac facility closures. The current portion and non-current portion is recorded in other accrued current liabilities and other long-term liabilities, respectively, within the accompanying condensed consolidated balance sheets. These balances are expected to be paid by fiscal 2018.

	Accrual at September 30, 2008	Expense Additions	Cash Payments	Expense Reversal	Accrual at December 31, 2008
		(In thousands)			
Facilities charges	$ 9,688	$ 2,631	$ (1,021)	$ (413)	$ 10,885
Employee separation	930	5,860	(1,830)	—	4,960
	10,618	$ 8,491	$ (2,851)	$ (413)	15,845
Less: current portion	(4,224)				(9,050)
Non-current	$ 6,394				$ 6,795

During the quarter ended December 31, 2008, in connection with our reengineering program, we incurred net charges totaling $8.1 million. The charges included $5.9 million for severance costs associated with the reduction of 255 positions throughout the company. Cash payments for substantially all the severance costs will be paid by the end of our second quarter of fiscal 2009. We also recognized charges of $2.6 million associated with vacating excess leased space located in Georgia and California. The charge represents future cash lease payments, net of estimated sublease income, which will be paid out over the next nine years. In addition, we reversed $0.4 million of accrued expenses as a result of a favorable lease termination agreement that we entered into for office space that was vacated in the prior year.

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4. Composition of Certain Financial Statement Captions

	December 31, 2008	September 30, 2008
	(In thousands)	
Property and equipment	$ 206,855	$ 203,236
Less accumulated depreciation and amortization	(161,862)	(156,876)
	$ 44,993	$ 46,360

5. Share-Based Payment

We maintain the 1992 Long-term Incentive Plan (the "1992 Plan") under which we may grant stock options, stock appreciation rights, restricted stock, restricted stock units and common stock to officers, key employees and non-employee directors. The 1992 Plan will terminate in February 2012. In November 2003, our Board of Directors approved the adoption of the 2003 Employment Inducement Award Plan (the "2003 Plan"). The 2003 Plan reserves shares of common stock solely for the granting of inducement stock options and other awards, as defined, that meet the "employment inducement award" exception to the New York Stock Exchange's listing standards requiring shareholder approval of equity-based inducement incentive plans. Except for the employment inducement award criteria, awards under the 2003 Plan will be generally consistent with those made under our 1992 Plan. The 2003 Plan shall remain in effect until terminated by the Board of Directors. Stock option awards granted during fiscal 2009 typically had a maximum term of seven years and vested ratably over four years.

The following table summarizes option activity during the quarter ended December 31, 2008:

	Shares (In thousands)	Weighted-average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at October 1, 2008	8,560	$ 34.50		
Granted	532	14.16		
Exercised	(81)	11.00		
Forfeited	(144)	38.30		
Expired	(159)	33.60		
Outstanding at December 31, 2008	8,708	33.42	4.46	$ 2,371

The following table summarizes restricted stock unit activity during the quarter ended December 31, 2008:

	Shares (In thousands)	Weighted-average Price
Outstanding at October 1, 2008	988	$ 29.51
Granted	270	14.28
Released	(91)	36.96
Forfeited	(50)	33.12
Outstanding at December 31, 2008	1,117	25.06

6. Earnings Per Share

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

	Quarter Ended December 31,	
	2008	2007
	(In thousands, except per share data)	
Numerator for basic earnings per share — net income from continuing operations	$ 12,110	$ 20,836
Interest expense on senior convertible notes, net of tax	—	1
Numerator for diluted earnings per share from continuing operations	$ 12,110	$ 20,837
Denominator — shares:		
Basic weighted-average shares	48,478	50,042
Effect of dilutive securities	44	1,158
Diluted weighted-average shares	48,522	51,200
Earnings per share from continuing operations:		
Basic	$ 0.25	$ 0.42
Diluted	$ 0.25	$ 0.41

The computation of diluted EPS for the quarters ended December 31, 2008 and 2007, excludes options to purchase approximately 7,949,000 and 4,190,000 shares of common stock, respectively, because the options' exercise prices exceeded the average market price of our common stock in these periods and their inclusion would be antidilutive.

7. Segment Information

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

- *Strategy Machine™ Solutions.* These are pre-configured Decision Management applications designed for a specific type of business problem or process, such as marketing, account origination, customer management, fraud and insurance claims management. This segment also includes our myFICO solutions for consumers.
- *Scoring Solutions.* Our scoring solutions give our clients access to analytics that can be easily integrated into their transaction streams and decision-making processes. Our scoring solutions are distributed through major credit reporting agencies, as well as services through which we provide our scores to clients directly.
- *Professional Services.* Through our professional services, we tailor our Decision Management products to our clients' environments, and we design more effective decisioning environments for our clients. This segment includes revenues from custom engagements, business solution and technical consulting services, systems integration services, and data management services.
- *Analytic Software Tools.* This segment is composed of software tools that clients can use to create their own custom Decision Management applications.

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

The following tables summarize segment information for the quarters ended December 31, 2008 and 2007:

	Quarter Ended December 31, 2008				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$ 87,575	$ 34,110	$ 27,824	$ 13,951	$ 163,460
Operating expenses	(71,453)	(14,355)	(33,007)	(10,870)	(129,685)
Segment operating income	$ 16,122	$ 19,755	$ (5,183)	$ 3,081	33,775
Unallocated share-based compensation expense					(5,471)
Unallocated restructuring					(8,078)
Operating income					20,226
Unallocated interest income					1,655
Unallocated interest expense					(7,158)
Unallocated other income, net					1,446
Income before income taxes					$ 16,169
Depreciation and amortization	$ 6,407	$ 1,284	$ 1,184	$ 708	$ 9,583

	Quarter Ended December 31, 2007				
	Strategy Machine Solutions	Scoring Solutions	Professional Services	Analytic Software Tools	Total
			(In thousands)		
Revenues	$ 97,427	$ 42,727	$ 36,016	$ 13,936	$ 190,106
Operating expenses	(84,468)	(17,180)	(34,773)	(11,891)	(148,312)
Segment operating income	$ 12,959	$ 25,547	$ 1,243	$ 2,045	41,794
Unallocated share-based compensation expense					(7,951)
Unallocated restructuring					445
Operating income					34,288
Unallocated interest income					2,550
Unallocated interest expense					(4,421)
Unallocated other income, net					(257)
Income before income taxes					$ 32,160
Depreciation and amortization	$ 5,602	$ 1,562	$ 1,178	$ 693	$ 9,035

8. Fair Value Measurements

As discussed in Note 1, “Adoption of Recent Accounting Pronouncements,” on October 1, 2008, we adopted SFAS 157 for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that we recognize or disclose at fair value on a recurring basis (at least annually). As of the date of adoption, these included cash equivalents and available-for-sale marketable securities. Consistent with the provisions of FSP 157–2, we elected to defer the provisions of SFAS 157 that relate to non-financial assets and non-financial liabilities that we do not recognize or disclose at fair value on a recurring basis.

SFAS 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities

Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar

assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data. Our Level 2 securities are predominantly comprised of U.S. government obligations that are generally held to maturity.

Level 3 uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, and significant management judgment or estimation. We do not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy.

The following table represents financial assets that we measured at fair value on a recurring basis at December 31, 2008. We have classified these assets in accordance with the fair value hierarchy set forth in SFAS 157:

	Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value As of December 31, 2008
Assets:			
Cash equivalents (1)	$ 84,536	$ —	$ 84,536
Corporate debt (2)	—	2,323	2,323
U.S. government obligations (2)	—	124,466	124,466
Marketable equity securities (3)	3,760	—	3,760
Total	$ 88,296	$ 126,789	$ 215,085

(1) Included in cash and cash equivalents on our balance sheet at December 31, 2008. Not included in this table are $72,670 of cash balances which are not measured at fair value.

(2) Included in marketable securities (short-term and long-term) on our balance sheet at December 31, 2008.

(3) Represents securities held under a supplemental retirement and savings plan for certain officers and senior management employees, which are distributed upon termination or retirement of the employees. Included in long-term marketable securities on our balance sheet at December 31, 2008.

The valuation techniques used to measure the fair values of our financial assets incorporate market inputs, which include reported trades, broker/dealer quotes, benchmark yields, issuer spreads, benchmark securities and other inputs derived from or corroborated by observable market data.

9. Income Taxes

Effective Tax Rate

The effective income tax rate for the three months ended December 31, 2008 was 25.1% compared to 35.2% for the three months ended December 31, 2007. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

Our effective tax rate for the quarter ended December 31, 2008, was positively affected by changes in the foreign and domestic earnings mix, the impact of permanent tax benefits on lower earnings and the recognition of $0.8 million of discrete tax benefits. The discrete tax benefits included the recognition of U.S. federal research and development tax credits related to fiscal 2008. We were unable to recognize these tax credits during the nine months ended September 30, 2008 as legislation providing for reinstatement of this credit was not enacted until October 2008.

The total unrecognized tax benefit for uncertain tax positions under FASB Interpretation No. 48 at December 31, 2008 is estimated to be approximately $28.9 million. We recognize interest expense related to unrecognized tax benefits and penalties as part of the provision for income taxes in our consolidated statements of income. We recognize interest earned as interest income in our consolidated statements of income. As of December 31, 2008, we have accrued interest of $3.5 million related to the unrecognized tax benefits.

10. Credit Agreement

We have a $600 million unsecured revolving credit facility with a syndicate of banks that expires in 2011. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The credit facility also contains covenants typical of unsecured facilities. As of December 31, 2008, we were in compliance with all covenants under this credit facility and we had $295.0 million of borrowings outstanding at an interest rate of 2.6%.

11. Senior Notes

In May 2008, we issued $275 million of Senior Notes in a private placement to a group of institutional investors. The Senior Notes were issued in four series with maturities ranging from 5 to 10 years. The Senior Notes' weighted average interest rate is 6.8% and the weighted average maturity is 7.9 years. The Senior Notes are subject to certain restrictive covenants that are substantially similar to those in the credit agreement for the revolving credit facility including maintenance of consolidated leverage and fixed charge coverage ratios. The purchase agreement for the Senior Notes also includes covenants typical of unsecured facilities.

12. Contingencies

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

Braun Consulting, Inc.

Braun (which we acquired in November 2004) was a defendant in a lawsuit filed on November 26, 2001, in the United States District Court for the Southern District of New York (Case No. 01 CV 10629) that alleges violations of federal securities laws in connection with Braun's initial public offering in August 1999. This lawsuit is among approximately 300 coordinated putative class actions against certain issuers, their officers and directors, and underwriters with respect to such issuers' initial public offerings. As successor-in-interest to Braun, we entered into a Stipulation and Agreement of Settlement along with most of the other defendant issuers in this coordinated litigation, where such issuers and their officers and directors would be dismissed with prejudice, subject to the satisfaction of certain conditions, including approval of the Court. Under the terms of this Agreement, we would not pay any amount of the settlement. However, since December 2006, certain procedural matters concerning the class status have been decided in the district and appellate courts of the Second Circuit, ultimately determining that no class status exists for the plaintiffs. Since there is no class status, there could be no agreement, thus the District Court entered an order formally denying the motion for final approval of the settlement agreement.

The issuers and their insurers have recently reached a preliminary settlement agreement, which they believe to be consistent with the earlier court rulings and which has been presented to all parties for approval. The Company has given consent to the terms of the proposed settlement. Under the terms of this Agreement, we would not pay any amount of the settlement. We expect that the parties to the consolidated action will begin preparing formal settlement documents shortly. However, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this matter.

13. New Accounting Pronouncements Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) states that business combinations will result in all assets and liabilities of an acquired business being recorded at their fair values. Certain forms of contingent consideration and acquired contingencies will be recorded at fair value at the acquisition date. SFAS 141(R) also states acquisition costs will generally be expensed as incurred and restructuring costs will be expensed in periods after the acquisition date.

This statement is effective for financial statement issued for fiscal years beginning after December 15, 2008. We are in the process of determining what effect, if any, the adoption of SFAS 141(R) will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (“SFAS 160”). SFAS 160 clarifies that a noncontrolling or minority interest in a subsidiary is considered an ownership interest and, accordingly, requires all entities to report such interests in subsidiaries as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are in the process of determining what effect, if any, the adoption of SFAS 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB statement No. 133* (“SFAS 161”). SFAS 161 expands the disclosure requirements about an entity’s derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are in the process of determining what effect the adoption of SFAS No. 161 will have on our consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position (“FSP”) APB 14-a, *Accounting for Convertible Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. The FSP requires that proceeds from the issuance of convertible debt instruments be allocated between debt (at a discount) and an equity component. The debt discount will be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. This FSP is effective for fiscal years beginning after December 15, 2008, and will be applied retrospectively to prior periods. This FSP changes the accounting treatment for our Senior Convertible Notes, which were issued in August 2003. Even though we retired our Senior Convertible Notes during fiscal 2008, this new accounting treatment still requires us to retrospectively record a significant amount of non-cash interest expense in the periods when these notes were outstanding. We are in the process of determining what effect the adoption of this FSP will have on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position (“FSP”) SFAS 142-3, “*Determination of the Useful Life of Intangible Assets.”* FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, “*Goodwill and Other Intangible Assets*.” This new staff position is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), “*Business Combinations*.” FSP SFAS 142-3 is effective for fiscal years beginning after December 15, 2008. We are in the process of determining what effect, if any, the adoption of FSP SFAS 142-3 will have on our consolidated financial statements.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

FORWARD LOOKING STATEMENTS

Statements contained in this Report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). In addition, certain statements in our future filings with the Securities and Exchange Commission ("SEC"), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators; and (v) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as "believes," "anticipates," "expects," "intends," "targeted," "should," "potential," "goals," "strategy," and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Item 1A of Part II, Risk Factors, below. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-Q and 8-K to be filed by the Company in fiscal 2009.

OVERVIEW

We are a leader in Decision Management ("DM") solutions that enable businesses to automate, improve and connect decisions to enhance business performance. Our predictive analytics and decision management systems power hundreds of billions of customer decisions each year. We help companies acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do many insurers, retailers, telecommunications providers, healthcare organizations, pharmaceutical companies and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure in the United States of credit risk, empowering them to manage their financial health.

Most of our revenues are derived from the sale of products and services within the consumer credit, financial services and insurance industries, and during the quarter ended December 31, 2008, 69% of our revenues were derived from within these industries. A significant portion of our remaining revenues is derived from the telecommunications and retail industries, as well as the government sector. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. A significant portion of our revenues is derived from transactional or unit-based software license fees, annual license fees under long-term software license arrangements, transactional fees derived under scoring, network service or internal hosted software arrangements, and annual software maintenance fees. The recurrence of these revenues is, to a significant degree, dependent upon our clients' continued usage of our products and services in their business activities. The more significant activities underlying the use of our products in these areas include: credit and debit card usage or active account levels; lending acquisition, origination and customer management activity; and wireless and wireline calls and subscriber levels. Approximately 77% and 75% of our revenues during the quarters ended December 31, 2008 and 2007, respectively, were derived from arrangements with transactional or unit-based pricing. We also derive revenues from other sources which generally do not recur and include, but are not limited to, perpetual or time-based licenses with upfront payment terms, non-recurring professional service arrangements and gain-share arrangements where revenue is derived based on percentages of client revenue growth or cost reductions attributable to our products.

One measure used by management as an indicator of our business performance is the volume of bookings achieved. We define a booking as estimated future contractual revenues, including agreements with perpetual, multi-year and annual terms. Bookings values

may include: (i) estimates of variable fee components such as hours to be incurred under new professional services arrangements and customer account or transaction activity for agreements with transactional-based fee arrangements, (ii) additional or expanded business from renewals of contracts, and (iii) to a lesser extent, previous customers that have attrited and been re-sold only as a result of a significant sales effort. During the quarter ended December 31, 2008, we achieved bookings of $52.5 million, including one deal with a booking value of $3.0 million or more. In comparison, bookings in the prior year quarter ended December 31, 2007 were $92.7 million, including three deals with bookings values of $3.0 million or more.

Management regards the volume of bookings achieved, among other factors, as an important indicator of future revenues, but they are not comparable to, nor should they be substituted for, an analysis of our revenues, and they are subject to a number of risks and uncertainties, including those described in Item 1A of Part II, “Risk Factors”, concerning timing and contingencies affecting product delivery and performance. Although many of our contracts have fixed noncancelable terms, some of our contracts are terminable by the client on short notice or without notice. Accordingly, we do not believe it is appropriate to characterize all of our bookings as backlog that will generate future revenue.

Our revenues derived from clients outside the United States have generally grown, and may in the future grow more rapidly than our revenues from domestic clients. International revenues totaled $51.2 million and $61.0 million during the quarters ended December 31, 2008 and 2007, respectively, representing 31% and 32% of total consolidated revenues in each of these periods. In addition to clients acquired via our acquisitions, we believe that our international growth is a product of successful relationships with third parties that assist in international sales efforts and our own increased sales focus internationally, and we expect that the percentage of our revenues derived from international clients will increase in the future.

Reengineering Plan

In April 2008, we announced the details of a reengineering plan designed to grow revenues through strategic resource allocation and improve profitability through cost reduction. Key components of the plan include rationalizing the business portfolio, simplifying management hierarchy, eliminating low-priority positions, consolidating facilities and managing fixed and variable costs. Also in connection with the plan, we sold our Insurance Bill Review business unit and we fully exited our Cortronics neural research product line, Fast Panel diagnostics product line and advertising services group.

In January 2009, we announced additional actions under the reengineering plan. The additional actions were either completed or committed to by management prior to December 31, 2008 and were primarily aimed at reducing costs through headcount reductions and facility consolidations. With respect to the headcount reductions, we identified and eliminated 255 positions throughout the company. We expect annual cost savings as a result of these additional actions of approximately $30 million. We plan to achieve further cost savings by eliminating additional positions during fiscal 2009 through attrition of non-revenue producing positions and restricting discretionary expenditures.

Current Business Environment

In 2008, the financial markets experienced significant volatility and general economic conditions deteriorated. These conditions have had a substantial impact on our customers, especially financial institutions. This has included an increased number of consolidations among our customers, a significant decline in new account acquisition activities and extension of credit by financial institutions and a general slowing of software purchases by our customers. These unfavorable conditions have affected our business in the quarter ended December 31, 2008 and are expected to continue to affect us in fiscal 2009. In particular, our Scoring Solutions, Strategy Machine Solutions and Professional Services segments have experienced significant revenue declines.

As a result of this difficult business environment, we will continue to aggressively manage our expenses in an effort to maintain solid earnings and cash flows. We also plan to continue to invest in our Decision Management solutions as well as our core business operations.

Acquisition and Divestiture Activity

In January 2008, we acquired Dash Optimization Ltd., a leading provider of decision modeling and optimization software, for an aggregate purchase price of $34.1 million in cash. Results of operations from this acquisition are included in our results prospectively from the date of acquisition.

In April 2008, we completed the sale of our Insurance Bill Review business unit for $16.0 million in cash to Mitchell International, Inc. We recorded a $6.9 million pre-tax loss, but a $3.4 million after-tax gain on the sale as the amount of goodwill disposed of for

income tax purposes exceeded the amount determined for financial reporting purposes. Revenues from the business were $9.3 million for the quarter ended December 31, 2007. The Insurance Bill Review business unit is classified as discontinued operations in our consolidated condensed financial statements and in the following management discussion and analysis.

Segment Information

Our reportable segments are: Strategy Machine Solutions, Scoring Solutions, Professional Services and Analytic Software Tools. Although we sell solutions and services into a large number of end user product and industry markets, our reportable business segments reflect the primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the quarters ended December 31, 2008 and 2007 are set forth in Note 7 to the accompanying condensed consolidated financial statements.

RESULTS OF OPERATIONS

Revenues

The following tables set forth certain summary information on a segment basis related to our revenues for the fiscal periods indicated.

Segment	Quarter Ended December 31, 2008	Quarter Ended December 31, 2007	Percentage of Revenues 2008	Percentage of Revenues 2007	Period-to-Period Change	Period-to-Period Percentage Change
	(In thousands)				(In thousands)	
Strategy Machine Solutions	$ 87,575	$ 97,427	54%	51%	$ (9,852)	(10)%
Scoring Solutions	34,110	42,727	21%	23%	(8,617)	(20)%
Professional Services	27,824	36,016	17%	19%	(8,192)	(23)%
Analytic Software Tools	13,951	13,936	8%	7%	15	—
	$ 163,460	$ 190,106	100%	100%	(26,646)	(14)%

Quarter Ended December 31, 2008 Compared to Quarter Ended December 31, 2007 Revenues

Strategy Machine Solutions segment revenues decreased $9.9 million due to a $4.0 million decrease in revenues from our *fraud solutions*, a $2.7 million decrease in revenues from our *collections and recovery solutions*, a $1.7 million decrease in revenues from our *customer management solutions*, a $1.6 million decrease in revenues from our *marketing solutions,* and a $1.6 million decrease in revenues from our other strategy machine solutions. The revenue decline was partially offset by a $1.7 million increase in revenues from our *consumer solution*s.

Overall segment revenues were adversely impacted by difficult global economic conditions that caused our customers to restrict investments in large technology projects. At the product group level, the decrease in *fraud solutions* revenues was attributable primarily to decreases in volumes associated with transactional-based agreements. The decline was partially the result of a decrease in revenues associated with our solutions for telecommunication service providers, which we have determined are not strategic and are no longer actively marketing. Revenues were also adversely impacted by the restructuring of a large customer contract. In addition, we have experienced a delay in a product upgrade, which impacted current year bookings and revenues and may continue to impact *fraud solutions* bookings and revenues in future periods. The decrease in *collections and recovery solutions* revenues resulted from a decline in license sales and unfavorable currency translation due to a weakening of the British pound versus the U.S dollar. The decrease in *customer management solutions* revenues was attributable to a decline in license sales, as the prior year quarter included several large license sales. In addition, there was a decline in *customer management solutions*' transactional revenues. The decrease in *marketing solutions* revenues was attributable primarily to a decline in sales volumes resulting from the loss last year of several large customer accounts.

Scoring Solutions segment revenues decreased $8.6 million due to a $6.8 million reduction in revenues derived from the credit reporting agencies, which resulted from a decline in volumes. Volumes declined as financial institutions have significantly reduced new account acquisition activities and extension of credit. Revenues were also impacted by a reduction in revenues from our services sold directly to users, which resulted from increased pricing pressures and a decline in volumes due to a decrease in prescreening initiatives by our customers. We expect that competitive pricing pressures as well as reduced volumes due to weakness in the U.S. financial credit market will continue to adversely affect segment revenues in fiscal 2009.

During the quarters ended December 31, 2008 and 2007, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 19% of our total revenues, including revenues from these customers that are recorded in our other segments.

Professional Services segment revenues decreased $8.2 million as difficult global economic conditions have caused customers to slow down contracted services. The decline in revenues also reflects the overall decline in license sales, which results in a corresponding decline in implementation services. In addition, the decline in revenues is the result of our decision to stop pursuing certain lower margin consulting service engagements.

Analytic Software Tools segment revenues were even with last year. Although we recorded revenues of $2.2 million from products acquired in our January 2008 acquisition of Dash Optimization Ltd., this contribution was largely offset by a decline in sales of our Blaze Advisor product.

Operating Expenses and Other Income (Expense)

The following table sets forth certain summary information related to our statements of income for the fiscal periods indicated.

	Quarter Ended December 31,		Percentage of Revenues		Period-to-Period Change	Period-to-Period Percentage Change
	2008	2007	2008	2007		
	(In thousands)				(In thousands)	
Revenues	$ 163,460	$ 190,106	100%	100%	$ (26,646)	(14)%
Operating expenses:						
Cost of revenues	59,019	66,972	36%	35%	(7,953)	(12)%
Research and development	18,121	19,469	11%	10%	(1,348)	(7)%
Selling, general and administrative	54,769	66,759	34%	35%	(11,990)	(18)%
Amortization of intangible assets	3,247	3,063	2%	2%	184	6%
Restructuring and acquisition-related	8,078	(445)	5%	—	8,523	—
Total operating expenses	143,234	155,818	88%	82%	(12,584)	(8)%
Operating income	20,226	34,288	12%	18%	(14,062)	(41)%
Interest income	1,655	2,550	1%	1%	(895)	(35)%
Interest expense	(7,158)	(4,421)	(4)%	(2)%	(2,737)	(62)%
Other income, net	1,446	(257)	1%	—	1,703	—
Income before income taxes	16,169	32,160	10%	17%	(15,991)	(50)%
Provision for income taxes	4,059	11,324	3%	6%	(7,265)	(64)%
Income from continuing operations	12,110	20,836	7%	11%	(8,726)	(42)%
Loss from discontinued operations	—	(650)	—	—	650	—
Net income	$ 12,110	$ 20,186	7%	11%	(8,076)	(40)%
Number of employees at quarter end	2,360	2,896			(536)	(19)%

Cost of Revenues

Cost of revenues consists primarily of employee salaries and benefits for personnel directly involved in creating, installing and supporting revenue products; travel and related overhead costs; costs of computer service bureaus; internal network hosting costs; amounts payable to credit reporting agencies for scores; software costs; and expenses related to our consumer score services through myFICO.com.

The quarter over quarter decrease of $8.0 million in cost of revenues resulted from a $6.2 million decrease in personnel and other labor-related costs, a $0.9 million decrease in travel costs, a $0.8 million decrease in facilities and infrastructure costs and a $0.1 million decrease in other costs. The decrease in personnel and other labor-related costs was attributable primarily to a decline in salary and related benefit costs resulting from staff reductions and from the decline in professional services activities. The decrease in travel costs was driven by management programs focused on reducing expenses and from the overall reduction in professional services activities.

Over the next several quarters, we expect that cost of revenues as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2008.

Research and Development

Research and development expenses include the personnel and related overhead costs incurred in development of new products and services, including primarily the research of mathematical and statistical models and the development of new versions of Strategy Machine Solutions and Analytic Software Tools.

The quarter over quarter decrease of $1.3 million in research and development expenditures was attributable primarily to a $1.8 million decrease in personnel and related costs partially offset by a $0.5 million increase in other expenses. The decrease in personnel and related costs was driven by a staff reduction that was associated with our reengineering program. The increase in other expenses was due to higher costs for data that is used for product development initiatives.

Over the next several quarters, we expect that research and development expenditures as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2008.

Selling, General and Administrative

Selling, general and administrative expenses consist principally of employee salaries and benefits, travel, overhead, advertising and other promotional expenses, corporate facilities expenses, legal expenses, business development expenses, and the cost of operating computer systems.

The quarter over quarter decrease of $12.0 million in selling, general and administrative expenses was attributable to a $7.1 million decrease in personnel and other labor-related costs, a $1.9 million decrease in travel costs, a $1.5 million decrease in marketing expenses and a $1.5 million net decrease in other expenses. The decrease in personnel and labor-related costs related primarily to a decline in salary and benefit costs resulting from staff reductions and lower share-based compensation. The decline in share-based compensation was due to an overall decline in share-based grants and impact of forfeitures. The decline in travel costs and marketing expenses was driven by management programs focused on reducing discretionary expenses.

Over the next several quarters, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with, or slightly lower than, those incurred during the quarter ended December 31, 2008.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense related to intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Our definite-lived intangible assets, consisting primarily of completed technology and customer contracts and relationships, are being amortized using the straight-line method or based on forecasted cash flows associated with the assets over periods ranging from two to fifteen years.

In fiscal 2009, we expect that amortization expense will be consistent with the amortization expense we recorded in fiscal 2008.

Restructuring

During the quarter ended December 31, 2008, in connection with our reengineering program, we incurred net charges totaling $8.1 million. The charges included $5.9 million for severance costs associated with the reduction of 255 positions throughout the company. Cash payments for substantially all the severance costs will be paid by the end of our second quarter of fiscal 2009. We also recognized charges of $2.6 million associated with vacating excess leased space located in Georgia and California. The charge represents future cash lease payments, net of estimated sublease income, which will be paid out over the next nine years. In addition, we reversed $0.4 million of accrued expenses as a result of a favorable lease termination agreement that we entered into for office space that was vacated in the prior year.

During the quarter ended December 31, 2007, we recorded a $0.4 million expense reversal due to favorable sublease arrangements we entered into for office space that was vacated in fiscal 2007.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. The quarter over quarter decrease in interest income of $0.9 million was attributable to a decline in interest rates and investment income yields due to market conditions.

Interest Expense

Interest expense recorded during the quarter ended December 31, 2008 included interest on Senior Notes that were issued in May 2008 and interest associated with borrowings under our revolving credit facility. Interest expense recorded during the quarter ended December 31, 2007 related to our Senior Convertible Notes as well as interest associated with borrowing under our revolving credit facility. We repurchased all of the outstanding Senior Convertible Notes during fiscal 2008.

The increase in interest expense of $2.7 million was the result of higher average interest rates on outstanding borrowings. The increase in the average interest rate was due to the issuance of $275 million of Senior Notes, which had a weighted average interest rate of 6.8%. In the prior year, we had $391.0 million of Senior Convertible Notes outstanding that had an interest rate of 1.5%.

Other Income, Net

Other income (expense), net consists primarily of realized investment gains/losses, exchange rate gains/losses resulting from re-measurement of foreign-denominated receivable and cash balances held by our U.S. reporting entities into the U.S. dollar functional currency at period-end market rates, net of the impact of offsetting forward exchange contracts, and other non-operating items.

Other income, net in the quarter ended December 31, 2008, primarily consisted of foreign exchange currency gains of $1.3 million. In the quarter ended December 31, 2007, other expense, net resulted from foreign exchange currency losses of $0.2 million.

Provision for Income Taxes

Our effective tax rate was 25.1% and 35.2% during the quarters ended December 31, 2008 and 2007, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

Our effective tax rate for the quarter ended December 31, 2008, was positively affected by changes in the foreign and domestic earnings mix, the impact of permanent tax benefits on lower earnings and the recognition of $0.8 million of discrete tax benefits. The discrete tax benefits included the recognition of U.S. federal research and development tax credits related to fiscal 2008. We were unable to recognize these tax credits during the nine months ended September 30, 2008 as legislation providing for reinstatement of this credit was not enacted until October 2008.

Operating Income

The following table sets forth certain summary information on a segment basis related to our operating income for the fiscal periods indicated.

Segment	Quarter Ended December 31, 2008	2007	Period-to-Period Change	Period-to-Period Percentage Change
		(In thousands)		
Strategy Machine Solutions	$ 16,122	$ 12,959	$ 3,163	24%
Scoring Solutions	19,755	25,547	(5,792)	(23)%
Professional Services	(5,183)	1,243	(6,426)	—
Analytic Software Tools	3,081	2,045	1,036	51%
Segment operating income	33,775	41,794	(8,019)	(19)%
Unallocated share-based compensation	(5,471)	(7,951)	2,480	31%
Unallocated restructuring and acquisition-related	(8,078)	445	(8,523)	—
Operating income	$ 20,226	$ 34,288	(14,062)	(41)%

The quarter over quarter decrease of $14.1 million in operating income was attributable to a decline in segment revenues and an increase in restructuring charges, partially offset by a reduction in segment operating expenses and share-based compensation expense. At the segment level, the decline in segment operating income was driven by decreases of $6.4 million in segment operating income in our Professional Services segment and $5.8 million in segment operating income in our Scoring Solutions segment. The decline was partially offset by a $3.2 million increase in segment operating income in Strategy Machine Solutions segment and a $1.0 million increase in segment operating income in Analytic Software Tools segment. The decrease in Professional Services segment operating results was due to the decline in revenues partially offset by reduced operating expenses. Professional services revenues decreased as difficult global economic conditions have caused customers to slow down contracted services. The decline in revenues also reflects the overall decline in license sales, which results in a corresponding decline in implementation services. We expect the difficult business environment to continue to adversely affect Professional Services segment results, and accordingly we are aggressively managing our expenses in order to offset the revenue declines. The decrease in Scoring Solutions segment operating income was attributable primarily to a decline in revenues derived from services to the credit reporting agencies and for services that we provided directly to users in financial services. The increase in Strategy Machine Solutions segment operating income was attributable to a significant decline in operating expenses, which was driven by our reengineering program. Under the reengineering program, we have reduced operating costs through staff reductions, facility consolidations and restriction of discretionary expenditures. The increase in Strategy Machines Solutions operating income was partially offset by a decline in revenues. Segment revenues were adversely impacted by difficult global economic conditions that caused our customers to restrict investments in large technology projects. In our Analytic Software Tools segment, the increase in segment operating income was due to lower operating expenses.

Capital Resources and Liquidity

Cash Flows from Operating Activities

Our primary method for funding operations and growth has been through cash flows generated from operating activities. Net cash provided by operating activities decreased from $48.0 million during the quarter ended December 31, 2007 to $36.7 million during the quarter ended December 31, 2008. Operating cash flows were negatively impacted by the decline in earnings during the quarter ended December 31, 2008 and a significant increase in cash paid for income taxes. The increase in cash paid for income taxes was due to a large gain that was recognized last year for tax purposes from the repurchase of our Senior Convertible Notes.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $5.9 million during the quarter ended December 31, 2008, compared to net cash provided by investing activities of $6.0 million in the quarter ended December 31, 2007. The change in cash flows from investing activities was primarily attributable to $12.1 million in proceeds from maturities of marketable securities, net of purchases, during the quarter ended December 31, 2007 compared to $1.6 million that was used for purchases of marketable securities, net of proceeds from maturities, during the quarter ended December 31, 2008.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled $2.4 million in the quarter ended December 31, 2008, compared to net cash used by financing activities of $49.5 million in the quarter ended December 31, 2007. The change in cash flows from financing activities was primarily due to an $82.4 million decrease in common stock repurchased, a $20.0 million decrease in cash proceeds from borrowings under a revolving credit facility and a $10.0 million decrease in proceeds from the issuance of common stock under employee stock plans.

Repurchases of Common Stock

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During the quarter ended December 31, 2008, we did not repurchase any of our common stock.

In November 2007, our Board of Directors approved a new common stock repurchase program that replaced a previous program. The new program allows us to purchase shares of our common stock up to an aggregate cost of $250.0 million. As of December 31, 2008, we had $148.2 million remaining under this authorization.

Dividends

During the quarter ended December 31, 2008, we paid a quarterly dividend of two cents per common share, which is representative of the eight cents per year dividend we have paid in recent years. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

Credit Agreement

We have a $600 million unsecured revolving credit facility with a syndicate of banks that expires in 2011. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The credit facility also contains covenants typical of unsecured facilities. As of December 31, 2008, we were in compliance with all covenants under this credit facility and we had $295.0 million of borrowings outstanding at an interest rate of 2.6%.

Senior Notes

In May 2008, we issued $275 million of Senior Notes in a private placement to a group of institutional investors. The Senior Notes were issued in four series with maturities ranging from 5 to 10 years. The Senior Notes' weighted average interest rate is 6.8% and the weighted average maturity is 7.9 years. The Senior Notes are subject to certain restrictive covenants that are substantially similar to those in the credit agreement for the revolving credit facility including maintenance of consolidated leverage and fixed charge coverage ratios. The purchase agreement for the Senior Notes also includes covenants typical of unsecured facilities.

Capital Resources and Liquidity Outlook

As of December 31, 2008, we had $287.8 million in cash, cash equivalents and marketable security investments. We believe that these balances, as well as borrowings from our $600 million revolving credit facility and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements and any scheduled repayments of existing debt over the course of the next twelve months. Under our current financing arrangements we have no significant debt obligations maturing until fiscal 2012. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources, including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. These accounting principles require management to make certain judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We periodically evaluate our estimates including those relating to revenue recognition, the allowance for doubtful accounts, goodwill and other intangible assets resulting from business acquisitions, income taxes and contingencies and litigation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable based on the specific circumstances, the results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

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

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

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

Revenues from post-contract customer support services, such as software maintenance, are recognized on a straight-line basis over the term of the support period. The majority of our software maintenance agreements provide technical support as well as unspecified software product upgrades and releases when and if made available by us during the term of the support period.

Revenues recognized from our credit scoring, data processing, data management and internet delivery services are recognized as these services are performed, provided persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured. The determination of certain of our credit scoring and data processing revenues requires the use of estimates, principally related to transaction volumes in instances where these volumes are reported to us by our clients on a monthly or quarterly basis in arrears. In these instances, we estimate transaction volumes based on preliminary customer transaction information, if available, or based on average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported. We have not experienced significant variances between our estimates and actual reported volumes in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we were unable to reasonably estimate transaction volumes in the future, revenue may be deferred until actual customer data was received, and this could have a material impact on our results of operations during the period of time that we changed accounting methods.

Transactional or unit-based license fees under software license arrangements, network service and internally-hosted software agreements are recognized as revenue based on system usage or when fees based on system usage exceed monthly minimum license fees, provided persuasive evidence of an arrangement exists, fees are fixed or determinable and collection is probable. The determination of certain of our transactional or unit-based license fee revenues requires the use of estimates, principally related to transaction usage or active account volumes in instances where this information is reported to us by our clients on a monthly or quarterly basis in arrears. In these instances, we estimate transaction volumes based on preliminary customer transaction information, if available, or based on average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported. We have not experienced significant variances between our estimates and actual reported volumes in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we were unable to reasonably estimate customer account or transaction volumes in the future, revenue would be deferred until actual customer data was received, and this could have a material impact on our consolidated results of operations.

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

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

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

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

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

Allowance for Doubtful Accounts

We make estimates regarding the collectibility of our accounts receivable. When we evaluate the adequacy of our allowance for doubtful accounts, we analyze specific accounts receivable balances, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment cycles. Material differences may result in the amount and timing of expense for any period if we were to make different judgments or utilize different estimates. If the financial condition of our customers deteriorates resulting in an impairment of their ability to make payments, additional allowances might be required. We have not experienced significant variances in the past between our estimated and actual doubtful accounts and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we did not reasonably estimate the amount of our doubtful accounts in the future, it could have a material impact on our consolidated results of operations.

Business Acquisitions; Valuation of Goodwill and Other Intangible Assets

Our business acquisitions typically result in the recognition of goodwill and other intangible assets, and in certain cases non-recurring charges associated with the write-off of in-process research and development ("IPR&D"), which affect the amount of current and future period charges and amortization expense. Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identified intangible assets, in connection with our business combinations accounted for by the purchase method of accounting. We amortize our definite-lived intangible assets using the straight-line method or based on forecasted cash flows associated with the assets over the estimated useful lives, while IPR&D is recorded as a non-recurring charge on the acquisition date. Goodwill is not amortized, but rather is periodically assessed for impairment.

The determination of the value of these components of a business combination, as well as associated asset useful lives, requires management to make various estimates and assumptions. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from product sales and services, maintenance agreements, consulting contracts, customer contracts, and acquired developed technologies and patents or trademarks; expected costs to develop the IPR&D into commercially viable products and estimating cash flows from the projects when completed; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired products and services will continue to be used in our product portfolio; and discount rates. Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. Unanticipated events and circumstances may occur and assumptions may change. Estimates using different assumptions could also produce significantly different results.

We continually review the events and circumstances related to our financial performance and economic environment for factors that would provide evidence of the impairment of our intangible assets. When impairment indicators are identified with respect to our previously recorded intangible assets, then we test for impairment using undiscounted cash flows. If such tests indicate impairment, then we measure the impairment as the difference between the carrying value of the asset and the fair value of the asset, which is measured using discounted cash flows. Significant management judgment is required in forecasting of future operating results, which are used in the preparation of the projected discounted cash flows and should different conditions prevail, material write downs of net intangible assets and other long-lived assets could occur. We periodically review the estimated remaining useful lives of our acquired intangible assets. A reduction in our estimate of remaining useful lives, if any, could result in increased amortization expense in future periods.

We test goodwill for impairment at the reporting unit level at least annually during the fourth quarter of each fiscal year and more frequently if impairment indicators are identified. We have determined that our reporting units are the same as our reportable segments. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using discounted cash flow valuation models and by comparing our reporting units to guideline publicly-traded companies. These methods require estimates of our future revenues, profits, capital expenditures, working capital, and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. The estimated fair value of each of our reporting units exceeded its respective carrying value in fiscal 2008, indicating the underlying goodwill of each reporting unit was not impaired. Accordingly, we were not required to complete the second step of the goodwill impairment test. The timing and frequency of our goodwill impairment test is based on an ongoing assessment of events and circumstances that would more than likely reduce the fair value of a reporting unit below its carrying value. There are various assumptions and estimates underlying the determination of an impairment loss, and estimates using different, but each reasonable, assumptions could produce significantly different results and materially affect the determination of fair value and/or goodwill impairment for each reporting unit. We believe that the assumptions and estimates utilized were appropriate based on the information available to management. The timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions.

During the quarter ended December 31, 2008, based on a combination of factors, including the current economic environment and a decline in our operating results and market capitalization, we concluded that there were sufficient indicators to require us to perform an interim goodwill impairment analysis as of December 1, 2008 (the interim testing date). Based on our analysis, we concluded that the estimated fair value of each of our reporting units exceeded its respective carrying value as of the interim testing date, indicating the underlying goodwill of each reporting unit was not impaired. However, if difficult market and economic conditions continue over a sustained period, we may experience a further decline in the fair value of one or more of our reporting units as compared to the interim testing date levels. Such further declines in fair value may require us to record an impairment charge related to goodwill.

Share-Based Compensation

We account for share-based compensation using the fair value recognition provisions of SFAS 123(R), *Share-Based Payment*. We estimate the fair value of options granted using the Black-Scholes option valuation model. We estimate the volatility of our common stock at the date of grant based on a combination of the implied volatility of publicly traded options on our common stock and our historical volatility rate, consistent with SFAS No. 123(R) and Securities and Exchange Commission Staff Accounting Bulletin No. 107 (“SAB 107”). Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. Beginning in fiscal 2008, we estimated the expected term of options granted based on historical exercise patterns. In fiscal 2006 and 2007, we estimated the expected term consistent with the simplified method identified in SAB 107 for share-based awards. We elected to use the simplified method as we changed the contractual life for share-based awards from ten to seven years starting in fiscal 2006. The simplified method calculates the expected term as the average of the vesting and contractual terms of the award. Prior to fiscal 2006, we estimated expected term based on historical exercise patterns. The dividend yield assumption is based on historical dividend payouts. The risk-free interest rate assumption is based on observed interest rates appropriate for the term of our employee options. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. For options granted, we amortize the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods. If factors change we may decide to use different assumptions under the Black-Scholes option valuation model in the future, which could materially affect our share-based compensation expense, net income and earnings per share.

Income Taxes

We use the asset and liability approach to account for income taxes. This methodology recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax base of assets and liabilities and operating loss and tax credit carryforwards. We then record a valuation allowance to reduce deferred tax assets to an amount that more likely than not will be realized. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, which requires the use of estimates. If we determine during any period that we could realize a larger net deferred tax asset than the recorded amount, we would adjust the deferred tax asset to increase income for the period or reduce goodwill if such deferred tax asset relates to an acquisition. Conversely, if we determine that we would be unable to realize a portion of our recorded deferred tax asset, we would adjust the deferred tax asset to record a charge to income for the period or increase goodwill if such deferred tax asset relates to an acquisition. Although we believe that our estimates are reasonable, there is no assurance that our the valuation allowance will not need to be increased to cover additional deferred tax assets that may not be realizable, and such an increase could have a material adverse impact on our income tax provision and results of operations in the period in which such determination is made. In addition, the calculation of tax liabilities also involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management’s expectations could also have a material impact on our income tax provision and results of operations in the period in which such determination is made.

We adopted the provisions of FASB Interpretation No. 48 (“FIN No. 48”), *Accounting for Uncertainty in Income Taxes*, on October 1, 2007. The cumulative effect of the change did not result in an adjustment to the beginning balance of retained earnings. Following implementation, the ongoing recognition of changes in measurement of uncertain tax positions will be reflected as a component of income tax expense.

Contingencies and Litigation

We are subject to various proceedings, lawsuits and claims relating to products and services, technology, labor, shareholder and other matters. We are required to assess the likelihood of any adverse outcomes and the potential range of probable losses in these matters. If the potential loss is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated

loss. If the potential loss is considered less than probable or the amount cannot be reasonably estimated, disclosure of the matter is considered. The amount of loss accrual or disclosure, if any, is determined after analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies. Due to uncertainties related to these matters, accruals or disclosures are based on the best information available at the time. Significant judgment is required in both the assessment of likelihood and in the determination of a range of potential losses. Revisions in the estimates of the potential liabilities could have a material impact on our consolidated financial position or consolidated results of operations.

New Accounting Pronouncements Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) states that business combinations will result in all assets and liabilities of an acquired business being recorded at their fair values. Certain forms of contingent consideration and acquired contingencies will be recorded at fair value at the acquisition date. SFAS 141(R) also states acquisition costs will generally be expensed as incurred and restructuring costs will be expensed in periods after the acquisition date. This statement is effective for financial statement issued for fiscal years beginning after December 15, 2008. We are in the process of determining what effect, if any, the adoption of SFAS 141(R) will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 clarifies that a noncontrolling or minority interest in a subsidiary is considered an ownership interest and, accordingly, requires all entities to report such interests in subsidiaries as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are in the process of determining what effect, if any, the adoption of SFAS 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB statement No. 133* ("SFAS 161"). SFAS 161 expands the disclosure requirements about an entity's derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are in the process of determining what effect the adoption of SFAS No. 161 will have on our consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position ("FSP") APB 14-a, *Accounting for Convertible Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. The FSP requires that proceeds from the issuance of convertible debt instruments be allocated between debt (at a discount) and an equity component. The debt discount will be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. This FSP is effective for fiscal years beginning after December 15, 2008, and will be applied retrospectively to prior periods. This FSP changes the accounting treatment for our Senior Convertible Notes, which were issued in August 2003. Even though we retired our Senior Convertible Notes during fiscal 2008, this new accounting treatment still requires us to retrospectively record a significant amount of non-cash interest expense in the periods when these notes were outstanding. We are in the process of determining what effect the adoption of this FSP will have on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") SFAS 142-3, "*Determination of the Useful Life of Intangible Assets.*" FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, "*Goodwill and Other Intangible Assets.*" This new staff position is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), "*Business Combinations*." FSP SFAS 142-3 is effective for fiscal years beginning after December 15, 2008. We are in the process of determining what effect, if any, the adoption of FSP SFAS 142-3 will have on our consolidated financial statements.

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Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Market Risk Disclosures

We are exposed to market risk related to changes in interest rates, equity market prices, and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

We maintain an investment portfolio consisting mainly of income securities with an average maturity of three years or less. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our investments with interest rate risk at December 31, 2008 and September 30, 2008:

	December 31, 2008			September 30, 2008		
	Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield
	(Dollars in thousands)					
Cash and cash equivalents	$157,206	$157,206	1.25%	$129,678	$129,678	2.56%
Short-term investments	54,793	55,174	3.18%	57,065	57,049	3.42%
Long-term investments	70,985	71,615	2.64%	67,274	67,397	3.55%
	$282,984	$283,995	1.98%	$254,017	$254,124	3.01%

In May 2008, we issued $275 million of Senior Notes to a group of institutional investors in a private placement. The fair value of our Senior Notes may increase or decrease due to various factors, including fluctuations in market interest rates and fluctuations in general economic conditions. See Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and Liquidity, above, for additional information on the Senior Notes. The following table presents the principal amounts, carrying amounts, and fair values for our Senior Notes at December 31, 2008 and September 30, 2008:

	December 31, 2008			September 30, 2008		
	Principal	Carrying Amount	Fair Value	Principal	Carrying Amount	Fair Value
	(In thousands)					
Senior Notes	$275,000	$275,000	$274,868	$275,000	$275,000	$239,153

We have interest rate risk with respect to our five-year $600 million unsecured revolving credit facility. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows, but does not impact the fair value of the instrument. We had $295.0 million of borrowings outstanding on this facility as of December 31, 2008 and September 30, 2008.

Forward Foreign Currency Contracts

We maintain a program to manage our foreign currency exchange rate risk on existing foreign currency receivable and bank balances by entering into forward contracts to sell or buy foreign currency. At period end, foreign-denominated receivables and cash balances held by our U.S. reporting entities are remeasured into the U.S. dollar functional currency at current market rates. The change in value from this remeasurement is then reported as a foreign exchange gain or loss for that period in our accompanying consolidated statements of income and the resulting gain or loss on the forward contract mitigates the exchange rate risk of the associated assets. All of our forward foreign currency contracts have maturity periods of less than three months. Such derivative financial instruments are subject to market risk.

The following table summarizes our outstanding forward foreign currency contracts, by currency at December 31, 2008:

	Contract Amount		Fair Value
	Foreign Currency	US$	US$
		(In thousands)	
Sell foreign currency:			
EURO (EUR)	EUR 10,720	$ 14,944	$ —
Japanese Yen (YEN)	YEN 44,400	492	—
Canadian Dollar (CAD)	CAD 850	694	—
Buy foreign currency:			
British Pound (GBP)	GBP 3,835	$ 5,607	$ —

The forward foreign currency contracts were all entered into on December 31, 2008, therefore, the fair value was $0 on that date.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

No change in Fair Isaac's internal control over financial reporting was identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the period covered by this quarterly report and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. ***Legal Proceedings***

On October 11, 2006, we filed a lawsuit in the U.S. District Court for the District of Minnesota captioned Fair Isaac Corporation and myFICO Consumer Services Inc. v. Equifax Inc., Equifax Information Services LLC, Experian Information Solutions, Inc., TransUnion LLC, VantageScore Solutions LLC, and Does I through X. The lawsuit primarily relates to the development, marketing, and distribution of VantageScore, a credit score product developed by VantageScore Solutions LLC, which is jointly owned by the three national credit reporting companies. We allege in the lawsuit violations of antitrust laws, unfair competitive practices and false advertising, trademark infringement, and breach of contract. We are seeking injunctive relief, and compensatory and punitive damages. Although there are no counterclaims against Fair Isaac in the lawsuit, the defendants have recently attempted to bring certain counterclaims against Fair Isaac, including alleged violations of antitrust laws, unfair competition, trademark cancellation and interference with contract. Fair Isaac has moved to strike these counterclaims as untimely, and this matter is currently being considered by the Court. On June 6, 2008, we entered into a settlement agreement with Equifax Inc. and Equifax Information Services LLC, and on June 13, 2008, Equifax Inc. and Equifax Information Services LLC were formally dismissed from this lawsuit. We continue to pursue our claims against all other defendants, with trial expected in mid-2009.

Item 1A. *Risk Factors*

Risks Related to Our Business

We have expanded the pursuit of our Decision Management strategy, and we may not be successful, which could cause our growth prospects and results of operations to suffer.

We have focused the pursuit of our business objective to become a leader in helping businesses automate and improve decisions across their enterprises, an approach that we commonly refer to as Decision Management, or "DM." Our DM strategy is designed to enable us to increase our business by selling multiple products to clients, as well as to enable the development of custom client solutions that may lead to opportunities to develop new proprietary scores or other new proprietary products. The market may be unreceptive to this general DM business approach, including being unreceptive to purchasing multiple products from us or unreceptive to our customized solutions. If our DM strategy is not successful, we may not be able to grow our business, growth may occur more slowly than we anticipate or our revenues and profits may decline.

Our reengineering plan may not be successful which could cause our growth prospects and profitability to suffer.

We are implementing a reengineering plan designed to grow revenues through strategic resource allocation and improve profitability through cost reductions. Initially, implementation of the reengineering plan will reduce our revenues as a result of our exit from non-strategic product lines. Our reengineering plan may not be successful as a result of our failure to reduce expenses at the anticipated level, our inability to exit all non-strategic product lines included in the plan, a loss of more revenues than currently anticipated as a result of implementing the plan or a lower, or no, positive impact on revenues from strategic resource allocation. If our reengineering plan is not successful, our revenues, results of operations and business may suffer.

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

As we implement our DM strategy, we expect that revenues derived from our scoring solutions, account management solutions, fraud solutions, originations, collections and recovery solutions products and services will continue to account for a substantial portion of our total revenues for the foreseeable future. Our revenues will decline if the market does not continue to accept these products and services. Factors that might affect the market acceptance of these products and services include the following:

- changes in the business analytics industry;
- changes in technology;
- our inability to obtain or use key data for our products;
- saturation or contraction of market demand;
- loss of key customers;
- industry consolidation;
- failure to execute our client-centric selling approach; and
- inability to successfully sell our products in new vertical markets.

If we are unable to access new markets or develop new distribution channels, our business and growth prospects could suffer.

We expect that part of the growth that we seek to achieve through our DM strategy will be derived from the sale of DM products and service solutions in industries and markets we do not currently serve. We also expect to grow our business by delivering our DM solutions through additional distribution channels. If we fail to penetrate these industries and markets to the degree we anticipate utilizing our DM strategy, or if we fail to develop additional distribution channels, we may not be able to grow our business, growth may occur more slowly than we anticipate or our revenues and profits may decline.

If we are unable to develop successful new products or if we experience defects, failures and delays associated with the introduction of new products, our business could suffer serious harm.

Our growth and the success of our DM strategy depend upon our ability to develop and sell new products or suites of products. If we are unable to develop new products, or if we are not successful in introducing new products, we may not be able to grow our business, or growth may occur more slowly than we anticipate. In addition, significant undetected errors or delays in new products or

new versions of products may affect market acceptance of our products and could harm our business, financial condition or results of operations. In the past, we have experienced delays while developing and introducing new products and product enhancements, primarily due to difficulties developing models, acquiring data and adapting to particular operating environments. We have also experienced errors or "bugs" in our software products, despite testing prior to release of the products. Software errors in our products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. Errors or defects in our products that are significant, or are perceived to be significant, could result in rejection of our products, damage to our reputation, loss of revenues, diversion of development resources, an increase in product liability claims, and increases in service and support costs and warranty claims.

We rely on relatively few customers, as well as our contracts with the three major credit reporting agencies, for a significant portion of our revenues and profits. Certain of our large customers have been negatively impacted by the current financial crisis. If these customers continue to be negatively impacted, or if the terms of these relationships otherwise change, our revenues and operating results could decline.

Most of our customers are relatively large enterprises, such as banks, credit card processors, insurance companies, healthcare firms, retailers and telecommunications carriers. As a result, many of our customers and potential customers are significantly larger than we are and may have sufficient bargaining power to demand reduced prices and favorable nonstandard terms.

In addition, since mid-2007, global financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in the fall of 2008, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions which are customers of our company. The potential for increased and continuing economic disruption presents considerable risks to our business, including potential bankruptcies or credit deterioration of financial institutions with which we have substantial relationships. Further deterioration or a continuation of the market conditions experienced since the fall of 2008 is likely to lead to a continued decline in the volume of transactions that we execute for our customers.

We also derive a substantial portion of our revenues and operating income from our contracts with the three major credit reporting agencies, TransUnion, Equifax and Experian, and other parties that distribute our products to certain markets. We are also currently involved in litigation with TransUnion and Experian arising from their development and marketing of a credit scoring product competitive with our products. We have asserted various claims, including unfair competition, antitrust, and breach of contract against these credit reporting agencies and their collective joint venture entity, VantageScore, LLC. This litigation could have a material adverse effect on our relationship with one or more of the major credit reporting agencies, or with major customers.

The loss of or a significant change in a relationship with a major customer, the loss of or a significant change in a relationship with one of the major credit reporting agencies with respect to their distribution of our products or with respect to our myFICO® offerings, the loss of or a significant change in a relationship with a significant third-party distributor or the delay of significant revenues from these sources, could have a material adverse effect on our revenues and results of operations.

We rely on relationships with third parties for marketing, distribution and certain services. If we experience difficulties in these relationships, our future revenues may be adversely affected.

Our Scoring Solutions segment and Strategy Machine Solutions segment rely on distributors, and we intend to continue to market and distribute our products through existing and future distributor relationships. Our Scoring Solutions segment relies on, among others, TransUnion, Equifax and Experian. Failure of our existing and future distributors to generate significant revenues, demands by such distributors to change the terms on which they offer our products or our failure to establish additional distribution or sales and marketing alliances could have a material adverse effect on our business, operating results and financial condition. In addition, certain of our distributors presently compete with us and may compete with us in the future either by developing competitive products themselves or by distributing competitive offerings. For example, TransUnion, Equifax and Experian have developed a credit scoring product to compete directly with our products and are collectively attempting to sell the product. Competition from distributors or other sales and marketing partners could significantly harm sales of our products and services.

If we do not engage in acquisition activity to the extent we have in the past, we may be unable to increase our revenues at historical growth rates.

Our historical revenue growth has been augmented by numerous acquisitions, and we anticipate that acquisitions may continue to be an important part of our revenue growth. Our future revenue growth rate may decline if we do not make acquisitions of similar size and at a comparable rate as in the past.

If we engage in acquisitions, significant investments in new businesses, or divestitures of existing businesses, we will incur a variety of risks, any of which may adversely affect our business.

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

- failure to achieve the financial and strategic goals for the acquired and combined business;
- overpayment for the acquired companies or assets;
- difficulty assimilating the operations and personnel of the acquired businesses;
- product liability and other exposure associated with acquired businesses or the sale of their products;
- disruption of our ongoing business;
- dilution of our existing stockholders and earnings per share;
- unanticipated liabilities, legal risks and costs;
- retention of key personnel;
- distraction of management from our ongoing business; and
- impairment of relationships with employees and customers as a result of integration of new management personnel.

We have also divested ourselves of businesses in the past and may do so again in the future. Any divestitures will be accompanied by the risks commonly encountered in the sale of businesses, which may include:

- disruption of our ongoing business;
- reductions of our revenues or earnings per share;
- unanticipated liabilities, legal risks and costs;
- the potential loss of key personnel;
- distraction of management from our ongoing business; and
- impairment of relationships with employees and customers as a result of migrating a business to new owners.

These risks could harm our business, financial condition or results of operations, particularly if they occur in the context of a significant acquisition. Acquisitions of businesses having a significant presence outside the U.S. will increase our exposure to the risks of conducting operations in international markets.

The occurrence of certain negative events may cause fluctuations in our stock price.

The market price of our common stock may be volatile and could be subject to wide fluctuations due to a number of factors, including variations in our revenues and operating results. We believe that you should not rely on period-to-period comparisons of financial results as an indication of future performance. Because many of our operating expenses are fixed and will not be affected by short-term fluctuations in revenues, short-term fluctuations in revenues may significantly impact operating results. Additional factors that may cause our stock price to fluctuate include the following:

- variability in demand from our existing customers;
- failure to meet the expectations of market analysts;
- changes in recommendations by market analysts;
- the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increases the likelihood of short-term fluctuation in revenues;
- consumer dissatisfaction with, or problems caused by, the performance of our products;
- the timing of new product announcements and introductions in comparison with our competitors;
- the level of our operating expenses;
- changes in competitive and other conditions in the consumer credit, financial services and insurance industries;

- fluctuations in domestic and international economic conditions, including a continuation of the substantial disruption currently being experienced by the global financial markets;
- our ability to complete large installations on schedule and within budget;
- acquisition-related expenses and charges; and
- timing of orders for and deliveries of software systems.

In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the stock prices of many technology companies and financial services companies, and these fluctuations sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as industry-specific and general economic conditions may adversely affect the market price of our common stock.

Due to ongoing uncertainty in economic conditions and weakness in financial credit markets, the fair value of our businesses has recently declined. If difficult market and economic conditions continue over a sustained period, we may experience a further decline in the fair value of one or more of our businesses from current levels. Such further declines in fair value may require us to record an impairment charge related to goodwill, which could adversely affect our results of operations, stock price and business.

Our products have long and variable sales cycles. If we do not accurately predict these cycles, we may not forecast our financial results accurately, and our stock price could be adversely affected.

We experience difficulty in forecasting our revenues accurately because the length of our sales cycles makes it difficult for us to predict the quarter in which sales will occur. In addition, our ICN selling approach is more complex than our prior sales approach because it emphasizes the sale of complete DM solutions involving multiple products or services across our customers' organizations. This makes forecasting of revenues in any given period more difficult. As a result of our ICN approach and lengthening sales cycles, revenues and operating results may vary significantly from period to period. For example, the sales cycle for licensing our products typically ranges from 60 days to 18 months. Customers are often cautious in making decisions to acquire our products, because purchasing our products typically involves a significant commitment of capital, and may involve shifts by the customer to a new software and/or hardware platform or changes in the customer's operational procedures. Since our DM strategy contemplates the sale of multiple decision solutions to a customer, expenditures by any given customer are expected to be larger than with our prior sales approach. This may cause customers, particularly those experiencing financial stress or budgetary constraints, to make purchasing decisions more cautiously. Delays in completing sales can arise while customers complete their internal procedures to approve large capital expenditures and test and accept our applications. Consequently, we face difficulty predicting the quarter in which sales to expected customers will occur and experience fluctuations in our revenues and operating results. If we are unable to accurately forecast our revenues, our stock price could be adversely affected.

We typically have revenue-generating transactions concentrated in the final weeks of a quarter, which may prevent accurate forecasting of our financial results and cause our stock price to decline.

Large portions of our software license agreements are consummated in the weeks immediately preceding quarter end. Before these agreements are consummated, we create and rely on forecasted revenues for planning, modeling and earnings guidance. Forecasts, however, are only estimates and actual results may vary for a particular quarter or longer periods of time. Consequently, significant discrepancies between actual and forecasted results could limit our ability to plan, budget or provide accurate guidance, which could adversely affect our stock price. Any publicly-stated revenue or earnings projections are subject to this risk.

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

Our DM strategy and our future success will depend in large part on our ability to attract and retain experienced sales, consulting, research and development, marketing, technical support and management personnel. The complexity of our products requires highly trained customer service and technical support personnel to assist customers with product installation and deployment. The labor market for these individuals is very competitive due to the limited number of people available with the necessary technical skills and understanding and may become more competitive with general market and economic improvement. We cannot be certain that our compensation strategies will be perceived as competitive by current or prospective employees. This could impair our ability to recruit and retain personnel. We have experienced difficulty in recruiting qualified personnel, especially technical, sales and consulting personnel, and we may need additional staff to support new customers and/or increased customer needs. We may also recruit skilled technical professionals from other countries to work in the United States. Limitations imposed by immigration laws in the United States and abroad and the availability of visas in the countries where we do business could hinder our ability to attract necessary qualified personnel and harm our business and future operating results. There is a risk that even if we invest significant resources in attempting to attract, train and retain qualified personnel, we will not succeed in our efforts, and our business could be harmed. The failure of the value of our stock to appreciate may adversely affect our ability to use equity and equity based incentive plans to attract and retain personnel, and may require us to use alternative and more expensive forms of compensation for this purpose.

The failure to obtain certain forms of model construction data from our customers or others could harm our business.

We must develop or obtain a reliable source of sufficient amounts of current and statistically relevant data to analyze transactions and update our products. In most cases, these data must be periodically updated and refreshed to enable our products to continue to work effectively in a changing environment. We do not own or control much of the data that we require, most of which is collected privately and maintained in proprietary databases. Customers and key business alliances provide us with the data we require to analyze transactions, report results and build new models. Our DM strategy depends in part upon our ability to access new forms of data to develop custom and proprietary analytic tools. If we fail to maintain sufficient data sourcing relationships with our customers and business alliances, or if they decline to provide such data due to legal privacy concerns, competition concerns, prohibitions or a lack of permission from their customers, we could lose access to required data and our products, and the development of new products might become less effective. In addition, certain of our products use data from state workers' compensation fee schedules adopted by state regulatory agencies. Third parties have asserted copyright interests in these data, and these assertions, if successful, could prevent us from using these data. Any interruption of our supply of data could seriously harm our business, financial condition or results of operations.

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

Our success depends, in part, upon our proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, patent, trade secret, and trademark laws, and nondisclosure and other contractual restrictions on copying and distribution to protect our proprietary technology. This protection of our proprietary technology is limited, and our proprietary technology could be used by others without our consent. In addition, patents may not be issued with respect to our pending or future patent applications, and our patents may not be upheld as valid or may not prevent the development of competitive products. Any disclosure, loss, invalidity of, or failure to protect our intellectual property could negatively impact our competitive position, and ultimately, our business. There can be no assurance that our protection of our intellectual property rights in the United States or abroad will be adequate or that others, including our competitors, will not use our proprietary technology without our consent. Furthermore, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and could harm our business, financial condition or results of operations.

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

If we are subject to infringement claims, it could harm our business.

We expect that products in the industry segments in which we compete, including software products, will increasingly be subject to claims of patent and other intellectual property infringement as the number of products and competitors in our industry segments grow. We may need to defend claims that our products infringe intellectual property rights, and as a result we may:

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

Breaches of security, or the perception that e-commerce is not secure, could harm our business.

Our business requires the appropriate and secure utilization of consumer and other sensitive information. Internet-based electronic commerce requires the secure transmission of confidential information over public networks, and several of our products are accessed through the Internet, including our consumer services accessible through the www.myfico.com website. Security breaches in

connection with the delivery of our products and services, including products and services utilizing the Internet, or well-publicized security breaches, and the trend toward broad consumer and general public notification of such incidents, could significantly harm our business, financial condition or results of operations. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting the networks that access our net-sourced products, consumer services and proprietary database information.

Protection from system interruptions is important to our business. If we experience a sustained interruption of our telecommunication systems, it could harm our business.

Systems or network interruptions could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue. These interruptions can include fires, floods, earthquakes, power losses, equipment failures and other events beyond our control.

Risks Related to Our Industry

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

We have a significant share of the available market in portions of our Scoring Solutions segment and for certain services in our Strategy Machine Solutions segment, specifically, the markets for account management services at credit card processors and credit card fraud detection software. To increase our revenues, we must enhance and improve existing products and continue to introduce new products and new versions of existing products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. We believe much of the future growth of our business and the success of our DM strategy will rest on our ability to continue to expand into newer markets for our products and services. Such areas are relatively new to our product development and sales and marketing personnel. Products that we plan to market in the future are in various stages of development. We cannot assure you that the marketplace will accept these products. If our current or potential customers are not willing to switch to or adopt our new products and services, either as a result of the quality of these products and services or due to other factors, such as economic conditions, our revenues will decrease.

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

In our markets, technology changes rapidly, and there are continuous improvements in computer hardware, network operating systems, programming tools, programming languages, operating systems, database technology and the use of the Internet. If we fail to enhance our current products and develop new products in response to changes in technology or industry standards, or if we fail to bring product enhancements or new product developments to market quickly enough, our products could rapidly become less competitive or obsolete. For example, the rapid growth of the Internet environment creates new opportunities, risks and uncertainties for businesses, such as ours, which develop software that must also be designed to operate in Internet, intranet and other online environments. Our future success will depend, in part, upon our ability to:

- innovate by internally developing new and competitive technologies;
- use leading third-party technologies effectively;
- continue to develop our technical expertise;
- anticipate and effectively respond to changing customer needs;
- initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and
- influence and respond to emerging industry standards and other technological changes.

If our competitors introduce new products and pricing strategies, it could decrease our product sales and market share, or could pressure us to reduce our product prices in a manner that reduces our margins.

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

- in-house analytic and systems developers;

- scoring model builders;
- enterprise resource planning (ERP) and customer relationship management (CRM) packaged solutions providers;
- business intelligence solutions providers;
- credit report and credit score providers;
- business process management solution providers;
- process modeling tools providers;
- automated application processing services providers;
- data vendors;
- neural network developers and artificial intelligence system builders;
- third-party professional services and consulting organizations;
- account/workflow management software providers; and
- software tools companies supplying modeling, rules, or analytic development tools.

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, certain of our fraud solutions products compete against other methods of preventing credit card fraud, such as credit cards that contain the cardholder's photograph, smart cards, cardholder verification and authentication solutions and other card authorization techniques. Many of our anticipated competitors have greater financial, technical, marketing, professional services and other resources than we do, and industry consolidation is creating even larger competitors in many of our markets. As a result, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources than we can to develop, promote and sell their products. Many of these companies have extensive customer relationships, including relationships with many of our current and potential customers. Furthermore, new competitors or alliances among competitors may emerge and rapidly gain significant market share. For example, TransUnion, Equifax and Experian have formed an alliance that has developed a credit scoring product competitive with our products. If we are unable to respond as quickly or effectively to changes in customer requirements as our competition, our ability to expand our business and sell our products will be negatively affected.

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

Legislation that is enacted by the U.S. Congress, the states, Canadian provinces, and other countries, and government regulations that apply to us or to our customers may expose us to liability, affect our ability to compete in certain markets, limit the profitability of or demand for our products, or render our products obsolete. If these laws and regulations require us to change our current products and services, it could adversely affect our business and results of operations.

Legislation and governmental regulation affect how our business is conducted and, in some cases, subject us to the possibility of future lawsuits arising from our products and services. Globally, legislation and governmental regulation also influence our current and prospective customers' activities, as well as their expectations and needs in relation to our products and services. Both our core businesses and our newer initiatives are affected globally by federal, regional, provincial, state and other jurisdictional regulations, including those in the following significant regulatory areas:

- Use of data by creditors and consumer reporting agencies. Examples in the U.S. include the Fair Credit Reporting Act ("FCRA"), the Fair and Accurate Credit Transactions Act ("FACTA"), which amends FCRA, and certain proposed regulations and studies mandated by FACTA, under consideration;
- Laws and regulations that limit the use of credit scoring models such as state "mortgage trigger" laws, state "inquiries" laws, state insurance restrictions on the use of credit based insurance scores, and the Consumer Credit Directive in the European Union.
- Fair lending practices, such as the Equal Credit Opportunity Act ("ECOA") and Regulation B.
- Privacy and security laws and regulations that limit the use and disclosure of personally identifiable information or require security procedures, including but not limited to the provisions of the Financial Services Modernization Act of 1999, also known as the Gramm Leach Bliley Act ("GLBA"); FACTA; the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"); the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act"); identity theft, file freezing, security breach notification and similar state privacy laws;
- Extension of credit to consumers through the Electronic Fund Transfers Act, as well as nongovernmental VISA and MasterCard electronic payment standards;

- Regulations applicable to secondary market participants such as Fannie Mae and Freddie Mac that could have an impact on our products;
- Insurance laws and regulations applicable to our insurance clients and their use of our insurance products and services;
- The application or extension of consumer protection laws, including, laws governing the use of the Internet and telemarketing, and credit repair;
- Laws and regulations applicable to operations in other countries, for example, the European Union's Privacy Directive and the Foreign Corrupt Practices Act; and
- Sarbanes-Oxley Act ("SOX") requirements to maintain and verify internal process controls, including controls for material event awareness and notification.
- The implementation of the Emergency Economic Stabilization Act of 2008 by federal regulators to manage the financial crisis in the United States;
- Laws and regulations regarding export controls as they apply to Fair Isaac products delivered in non-US countries.

In making credit evaluations of consumers, or in performing fraud screening or user authentication, our customers are subject to requirements of multiple jurisdictions, which may impose onerous and contradictory requirements. Privacy legislation such as GLBA or the European Union's Privacy Directive may also affect the nature and extent of the products or services that we can provide to customers, as well as our ability to collect, monitor and disseminate information subject to privacy protection. In addition to existing regulation, changes in legislative, judicial, regulatory or consumer environments could harm our business, financial condition or results of operations. These regulations and amendments to them could affect the demand for or profitability of some of our products, including scoring and consumer products. New regulations pertaining to financial institutions could cause them to pursue new strategies, reducing the demand for our products.

In response to recent market disruptions, legislators and financial regulators implemented a number of mechanisms designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions, assistance by the banking authorities in arranging acquisitions of weakened banks and broker-dealers, and implementation of programs by the Federal Reserve to provide liquidity to the commercial paper markets. The overall effects of these and other legislative and regulatory efforts on the financial markets are uncertain, and they may not have the intended stabilization effects. Should these or other legislative or regulatory initiatives fail to stabilize and add liquidity to the financial markets, our business, financial condition, results of operations and prospects could be materially and adversely affected. Whether or not legislative or regulatory initiatives or other efforts designed to address recent economic conditions successfully stabilize and add liquidity to the financial markets, we may need to modify our strategies, businesses or operations, and we may incur additional costs in order to compete in a changed business environment.

Our revenues depend, to a great extent, upon conditions in the consumer credit, financial services and insurance industries. If our clients' industries continue to experience a downturn, it will likely harm our business, financial condition or results of operations.

During fiscal 2008, 71% of our revenues were derived from sales of products and services to the consumer credit, financial services and insurance industries. Since mid-2007, global credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in the fall of 2008, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. The recent market developments and the potential for increased and continuing disruptions present considerable risks to our businesses and operations. These risks include potential bankruptcies or credit deterioration of financial institutions, many of which are our customers. Further deterioration or a continuation of recent market conditions is likely to lead to a continued decline in the revenue we receive from financial and other institutions.

While the rate of account growth in the U.S. bankcard industry has been slowing and many of our large institutional customers have consolidated in recent years, we have generated most of our revenue growth from our bankcard-related scoring and account management businesses by selling and cross-selling our products and services to large banks and other credit issuers. As the financial services industry continues to experience contraction in the number of participating institutions, we may have fewer opportunities for revenue growth due to reduced or changing demand for our products and services that support customer acquisition programs of our customers. In addition, industry contraction could affect the base of recurring revenues derived from contracts in which we are paid on a per-transaction basis as formerly separate customers combine their operations under one contract. There can be no assurance that we will be able to prevent future revenue contraction or effectively promote future revenue growth in our businesses.

While we are attempting to expand our sales of consumer credit, financial services and insurance products and services into international markets, the risks are greater as these markets are also experiencing substantial disruption and we are less well-known in them.

Risk Related to External Conditions

Continuing material adverse developments in global economic conditions, or the occurrence of certain other world events, could affect demand for our products and services and harm our business.

Purchases of technology products and services and decisioning solutions are subject to adverse economic conditions. When an economy is struggling, companies in many industries delay or reduce technology purchases, and we experience softened demand for our decisioning solutions and other products and services. Since mid-2007, global credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in the fall of 2008, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. The widespread economic downturn has also negatively affected the businesses and purchasing decisions of companies in the other industries we serve. These recent market developments and the potential for increased and continuing disruptions present considerable risks to our businesses and operations. If global economic conditions continue to experience stress and negative volatility, or if there is an escalation in regional or global conflicts or terrorism, we will likely experience reductions in the number of available customers and in capital expenditures by our remaining customers, longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition, which may adversely affect our business, results of operations and liquidity.

Whether or not legislative or regulatory initiatives or other efforts successfully stabilize and add liquidity to the financial markets, we may need to modify our strategies, businesses or operations, and we may incur additional costs in order to compete in a changed business environment. Given the volatile nature of the current economic downturn and the uncertainties underlying efforts to mitigate or reverse the downturn, we may not timely anticipate or manage existing, new or additional risks, as well as contingencies or developments, which may include regulatory developments and trends in new products and services. Our failure to do so could materially and adversely affect our business, financial condition, results of operations and prospects.

In operations outside the United States, we are subject to unique risks that may harm our business, financial condition or results of operations.

A growing portion of our revenues is derived from international sales. During fiscal 2008, 33% of our revenues were derived from business outside the United States. As part of our growth strategy, we plan to continue to pursue opportunities outside the United States, including opportunities in countries with economic systems that are in early stages of development and that may not mature sufficiently to result in growth for our business. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

- general economic and political conditions in countries where we sell our products and services;
- difficulty in staffing and efficiently managing our operations in multiple geographic locations and in various countries;
- effects of a variety of foreign laws and regulations, including restrictions on access to personal information;
- import and export licensing requirements;
- longer payment cycles;
- reduced protection for intellectual property rights;
- currency fluctuations;
- changes in tariffs and other trade barriers; and
- difficulties and delays in translating products and related documentation into foreign languages.

There can be no assurance that we will be able to successfully address each of these challenges in the near term. Additionally, some of our business will be conducted in currencies other than the U.S. dollar. Foreign currency transaction gains and losses are not currently material to our cash flows, financial position or results of operations. However, an increase in our foreign revenues could subject us to increased foreign currency transaction risks in the future.

In addition to the risk of depending on international sales, we have risks incurred in having research and development personnel located in various international locations. We currently have a substantial portion of our product development staff in international locations, some of which have political and developmental risks. If such risks materialize, our business could be damaged.

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Our anti-takeover defenses could make it difficult for another company to acquire control of Fair Isaac, thereby limiting the demand for our securities by certain types of purchasers or the price investors are willing to pay for our stock.

Certain provisions of our Restated Certificate of Incorporation, as amended, could make a merger, tender offer or proxy contest involving us difficult, even if such events would be beneficial to the interests of our stockholders. These provisions include adopting a Shareholder Rights Agreement, commonly known as a “poison pill,” and giving our board the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without stockholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from acquiring, a majority of our outstanding voting stock. These factors and certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in control or changes in our management, including transactions in which our stockholders might otherwise receive a premium over the fair market value of our common stock.

If we experience changes in tax laws or adverse outcomes resulting from examination of our income tax returns, it could adversely affect our results of operations.

We are subject to federal and state income taxes in the United States and in certain foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. Our future effective tax rates could be adversely affected by changes in tax laws, by our ability to generate taxable income in foreign jurisdictions in order to utilize foreign tax losses, and by the valuation of our deferred tax assets. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from such examinations will not have an adverse effect on our operating results and financial condition.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Issuer Purchases of Equity Securities (1)

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2008 through October 31, 2008	1,554	$ 15.69	—	$ 148,161,062
November 1, 2008 through November 30, 2008	—	$ —	—	$ 148,161,062
December 1, 2008 through December 31, 2008	28,353	$ 14.16	—	$ 148,161,062
	29,907	$ 14.24	—	$ 148,161,062

(1) In November 2007, our Board of Directors approved a common stock repurchase program that allows us to purchase shares of our common stock up to an aggregate cost of $250.0 million in the open market or through negotiated transactions. The November 2007 program does not have a fixed expiration date.

(2) Includes 29,907 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended December 31, 2008.

Item 3. ***Defaults Upon Senior Securities***

Not applicable.

Item 4. ***Submission of Matters to a Vote of Security Holders***

Not applicable.

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Item 5. ***Other Information***

Not applicable.

Item 6. ***Exhibits***

Exhibit Number	Description
10.1	Agreement dated December 4, 2008, between the Company and the Sandell Group. (Incorporated by reference to Exhibit 10.1 to Fair Isaac's Form 8-K filed on December 9, 2008.)
10.2	1992 Long-Term Incentive Plan as amended effective December 22, 2008.
10.3	Form of Nonstatutory Stock Option Agreement for Initial Grants to Non-Employee Directors.
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.
32.1	Section 1350 Certification of CEO.
32.2	Section 1350 Certification of CFO.

SIGNATURES

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

FAIR ISAAC CORPORATION

DATE: February 6, 2009 By /s/ CHARLES M. OSBORNE

Charles M. Osborne
Executive Vice President, Chief Financial Officer
(for Registrant as duly authorized officer and as Principal Financial Officer)

DATE: February 6, 2009 By /s/ MICHAEL J. PUNG

Michael J. Pung
Vice President, Finance
(Principal Accounting Officer)

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EXHIBIT INDEX

To Fair Isaac Corporation Report On Form 10-Q
For The Quarterly Period Ended December 31, 2008

Exhibit Number	Description	
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10.2	1992 Long-Term Incentive Plan as amended effective December 22, 2008.	Filed Electronically
10.3	Form of Nonstatutory Stock Option Agreement for Initial Grants to Non-Employee Directors.	Filed Electronically
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.	Filed Electronically
32.1	Section 1350 Certification of CEO.	Filed Electronically
32.2	Section 1350 Certification of CFO.	Filed Electronically

Exhibit 10.2

FAIR ISAAC CORPORATION

1992 LONG-TERM INCENTIVE PLAN

As amended effective December 22, 2008

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FAIR ISAAC CORPORATION 1992 LONG-TERM INCENTIVE PLAN
As amended Effective December 22, 2008

ARTICLE 1. INTRODUCTION.

The Plan was adopted by the Board on November 23, 1992, subject to approval by the Company's stockholders. The Board approved amendments to the Plan on November 21, 1995 and on November 16, 2001, subject to approval by the Company's stockholders. The Plan was also amended by either the Board or the Committee on December 23, 1996, on November 25, 1997, on November 19, 1999, on November 21, 2000, on April 1, 2003, on August 26, 2003, on May 15, 2005, on December 8, 2006, on August 26, 2008 and on December 22, 2008. All share amounts in this restatement have been adjusted to reflect stock splits on June 26, 1995, on June 4, 2001, on June 5, 2002, and on March 10, 2004. The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Key Employees to focus on critical long-range objectives, (b) encouraging the attraction and retention of Key Employees with exceptional qualifications and (c) linking Key Employees directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Shares, Stock Units, Options (which may constitute incentive stock options or nonstatutory stock options) or stock appreciation rights.

The Plan shall be governed by, and construed in accordance with, the laws of the State of California.

ARTICLE 2. ADMINISTRATION.

2.1 Committee Composition. The Plan shall be administered by the Committee. The Committee shall consist of two or more Outside Directors who shall be appointed by the Board (although Committee functions may be delegated by the Committee to an officer or officers to the extent that the Awards relate to persons who are not subject to the reporting requirements of Section 16 of the Exchange Act)."

2.2 Committee Responsibilities. The Committee shall (a) unless delegated to an officer or officers in accordance with Section 2.1, select the Key Employees who are to receive Awards under the Plan and determine the type, number, vesting requirements and other conditions of such Awards, (b) interpret the Plan and (c) make all other decisions relating to the operation of the Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons."

ARTICLE 3. SHARES AVAILABLE FOR GRANTS.

3.1 Basic Limitation. Any Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of Restricted Shares, Stock Units and Options awarded under the Plan shall not exceed 4,725,000 plus the number of Common Shares remaining available for awards under the Company's 1987 Stock Option Plan and Stock Option Plan for Non-employee Directors (the "Prior Plans") at the time this Plan is first approved by the stockholders. (No additional grants shall be made under the Prior Plans after this Plan has been approved by the stockholders.) Effective October 1, 1997, and on each October 1 thereafter until and including October 1, 2007, the aggregate number of Shares which may be issued under the Plan to individuals shall be increased by a number of Common Shares equal to 4 percent of the total number of Common Shares outstanding at the end of the most recently concluded fiscal year. Any Common Shares that have been reserved but not issued as Restricted Shares, Stock Units or Options during any fiscal year shall remain available for grant during any subsequent fiscal year. Notwithstanding the foregoing, no more than 5,062,500 Common Shares shall be available for the grant of ISOs for the remaining term of the Plan. The aggregate number of Common Shares which may be issued under the Plan shall at all times be subject to adjustment pursuant to Article 10.

3.2 Additional Shares. If any Stock Units or Options are forfeited or if any Options terminate for any other reason before being exercised, then such Stock Units or Options shall again become available for Awards under the Plan. If any options under the Prior Plans are forfeited or terminate for any other reason before being exercised, then such options shall become available for additional Awards under this Plan. However, if Options are surrendered upon the exercise of related SARs, then such Options shall not be restored to the pool available for Awards.

3.3 Dividend Equivalents. Any dividend equivalents distributed under the Plan shall not be applied against the number of Restricted Shares, Stock Units or Options available for Awards, whether or not such dividend equivalents are converted into Stock Units.

3.4 Outside Director Option Limitations. Notwithstanding the limitations set forth in Section 3.1 above, effective February 1, 2000, there shall be an additional 506,250 aggregate number of Options available for awards under the Plan to Outside Directors as further described in Section 4.2 below.

ARTICLE 4. ELIGIBILITY.

4.1 General Rules. Only Key Employees shall be eligible for designation as Participants by the Committee. Key Employees who are Outside Directors shall only be eligible for the grant of the NSOs described in Section 4.2.

4.2 Outside Directors. Any other provision of the Plan notwithstanding, the participation of Outside Directors in the Plan shall be subject to the following restrictions:

(a) Outside Directors shall receive no Awards other than the NSOs described in this Section 4.2.

(b)(i) Each person who first becomes an Outside Director on or after the date of the Company's 2000 annual meeting of stockholders shall, upon becoming an Outside Director,

receive an NSO covering 30,000 Common Shares (subject to adjustment under Article 10), hereinafter referred to as an “Initial Grant”. Such Initial Grant shall become exercisable in increments of 6,000 shares (subject to adjustment under Article 10) on each of the first through fifth anniversaries of the date of grant.

(ii) Each Outside Director who was acting as an Outside Director prior to the Company’s 2000 annual meeting of stockholders shall be entitled to receive an NSO grant of Common Shares in an amount sufficient to increase his or her Initial Grant to 30,000 Common Shares effective as of the date of such annual meeting.

(iii) On the date of each annual meeting of stockholders of the Company held on or after January 1, 2000, each Outside Director who has been an Outside Director at least since the prior annual meeting shall receive an NSO covering 11,250 Common Shares (subject to adjustment under Article 10), hereinafter referred to as an “Annual Grant.” Such Annual Grants shall be exercisable in full on the date of grant.

(iv) On the date of each annual meeting of stockholders of the Company held on or after January 1, 2000, each Outside Director who chairs a standing committee at the direction of the Chairman of the Board shall receive an NSO covering an additional 1,500 Common Shares (subject to Adjustment under Article 10) hereinafter referred to as a “Committee Grant”. Such Committee Grant shall be exercisable in full on the date of grant.

(v) On the date of each annual meeting of the stockholders of the Company held on or after January 1, 2002, each Outsider Director who has, prior to the date of such annual meeting, elected to receive an NSO in lieu of any cash paid to such Outside Director by virtue of such Outside Director serving as a member of the Company’s Board of Directors (the “Annual Cash Retainer”), shall receive an NSO covering the number of Common Shares equal to the Annual Cash Retainer paid to Outside Directors, multiplied by two, divided by the Fair Market Value of a Common Share on the date of grant, such grant shall be hereinafter referred to as a “Retainer Grant.” If the Annual Cash Retainer payable to an Outside Director is increased during the term for which such Outside Director has made an election to receive the Retainer Grant and such Outside Director continues to serve as a director of the Company on the date such Annual Cash Retainer is increased, an additional NSO shall be granted, calculated using the same formula as the Retainer Grant based on the increase in the Annual Cash Retainer with the date of grant being the date of the increase in the Annual Cash Retainer. Retainer Grants shall be exercisable in full on the date of grant.

(c) All NSOs granted to an Outside Director under this Section 4.2 prior to December 18, 2008 shall also become exercisable in full in the event of the termination of such Outside Director’s service for any reason. For NSOs granted to an Outside Director under this Section 4.2 from and following December 18, 2008, in the event of the termination of such Outside Director’s service for any reason, such NSOs shall become exercisable to the extent provided pursuant to the terms of the applicable Stock Option Agreement or as otherwise provided by the Committee. NSOs that are not exercisable, or do not either become exercisable or continue to vest, as of the termination of an Outside Director’s service, shall terminate as of such date.

(d) The Exercise Price under all NSOs granted to an Outside Director under this Section 4.2 shall be equal to 100% of the Fair Market Value of a Common Share on the date of grant, payable in one of the forms described in Sections 6.1, 6.2, 6.3 and 6.4.

(e) All NSOs granted to an Outside Director under this Section 4.2 shall terminate on the earlier of (i) the 10th anniversary of the date of grant or (ii) the date 12 months after the termination of such Outside Director's service for any reason, except as otherwise determined by the Committee, but in no event will any such NSO terminate later than the 10th anniversary of the date of grant.

4.3 Ten-Percent Stockholders. A Key Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any of its Subsidiaries shall not be eligible for the grant of an ISO unless the requirements set forth in section 422(c)(6) of the Code are satisfied.

4.4 Limitation on Option Grants. No person shall receive Options for more than 562,500 Common Shares (subject to adjustment under Article 10) in any single fiscal year of the Company.

ARTICLE 5. OPTIONS.

5.1 Stock Option Agreement. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The Stock Option Agreement shall specify whether the Option is an ISO or an NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

5.2 Awards Nontransferable. Except as provided in Article 15(ii), no Option granted under the Plan shall be transferable by the Optionee other than by will, by a beneficiary designation executed by the Optionee and delivered to the Company or by the laws of descent and distribution. An Option may be exercised during the lifetime of the Optionee only by him or her or by his or her guardian or legal representative. No Option or interest therein may be transferred, assigned, pledged or hypothecated by the Optionee during his or her lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

5.3 Number of Shares. Each Stock Option Agreement shall specify the number of Shares subject to the Option and shall provide for the adjustment of such number in accordance with Article 10.

5.4 Exercise Price. Each Stock Option Agreement shall specify the Exercise Price. The Exercise Price shall not be less than 100% of the Fair Market Value of a Common Share on the date of grant.

5.5 Exercisability and Term. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed 10 years from the date of grant. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. NSOs may also be awarded in combination with

Restricted Shares or Stock Units, and such an Award may provide that the NSOs will not be exercisable unless the related Restricted Shares or Stock Units are forfeited.

5.6 Effect of Change in Control. The Committee may determine, at the time of granting an Option or thereafter, that such Option (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Option in the event that a Change in Control occurs with respect to the Company. If the Committee finds that there is a reasonable possibility that, within the succeeding six months, a Change in Control will occur with respect to the Company, then the Committee may determine that any or all outstanding Options (and any SARs included therein) shall become fully exercisable as to all Common Shares subject to such Options.

5.7 Modification or Assumption of Options. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new options for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

ARTICLE 6. PAYMENT FOR OPTION SHARES.

6.1 General Rule. The entire Exercise Price of Common Shares issued upon exercise of Options shall be payable in cash at the time when such Common Shares are purchased, except as follows:

(a) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Article 6.

(b) In the case of an NSO, the Committee may at any time accept payment in any form(s) described in this Article 6.

Notwithstanding any provision in this Article 6 or in an Optionee’s Stock Option Agreement, an Optionee, shall not be permitted to exercise an Option in any manner which would violate applicable state and federal laws, including, without limitation, the Sarbanes-Oxley Act of 2002.

6.2 Surrender of Stock. To the extent that this Section 6.2 is applicable, payment for all or any part of the Exercise Price may be made with Common Shares which have already been owned by the Optionee for more than twelve months. Such Common Shares shall be valued at their Fair Market Value on the date when the new Common Shares are purchased under the Plan.

6.3 Exercise/Sale. To the extent that this Section 6.3 is applicable, payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable direction to a securities broker or other party approved by the Company to sell Common Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

6.4 Exercise/Pledge. To the extent that this Section 6.4 is applicable, payment may be made by the delivery (on a form prescribed by the Company) of an irrevocable direction to pledge Common Shares to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of all or part of the Exercise Price and any withholding taxes.

6.5 Other Forms of Payment. To the extent that this Section 6.5 is applicable, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

ARTICLE 7. STOCK APPRECIATION RIGHTS.

7.1 Grant of SARs. At the discretion of the Committee, an SAR may be included in each Option granted under the Plan, other than the NSOs granted to Outside Directors under Section 4.2. Such SAR shall entitle the Optionee (or any person having the right to exercise the Option after his or her death) to surrender to the Company, unexercised, all or any part of that portion of the Option which then is exercisable and to receive from the Company Common Shares or cash, or a combination of Common Shares and cash, as the Committee shall determine. If an SAR is exercised, the number of Common Shares remaining subject to the related Option shall be reduced accordingly, and vice versa. The amount of cash and/or the Fair Market Value of Common Shares received upon exercise of an SAR shall, in the aggregate, be equal to the amount by which the Fair Market value (on the date of surrender) of the Common Shares subject to the surrendered portion of the Option exceeds the Exercise Price. In no event shall any SAR be exercised if such Fair Market Value does not exceed the Exercise Price. An SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or at any subsequent time, but not later than six months before the expiration of such NSO.

7.2 Exercise of SARs. An SAR may be exercised to the extent that the Option in which it is included is exercisable, subject to the restrictions imposed by Rule 16b-3 (or its successor) under the Exchange Act, if applicable. If, on the date when an Option expires, the Exercise Price under such Option is less than the Fair Market Value on such date but any portion of such Option has not been exercised or surrendered, then any SAR included in such Option shall automatically be deemed to be exercised as of such date with respect to such portion. An Option granted under the Plan may provide that it will be exercisable as an SAR only in the event of a Change in Control.

ARTICLE 8. RESTRICTED SHARES AND STOCK UNITS.

8.1 Time, Amount and Form of Awards. Restricted Shares or Stock Units with respect to an Award Year may be granted during such Award Year or at any time thereafter. Awards under the Plan may be granted in the form of Restricted Shares, in the form of Stock Units, or in any combination of both. Restricted Shares or Stock Units may also be awarded in combination with NSOs, and such an Award may provide that the Restricted Shares or Stock Units will be forfeited in the event that the related NSOs are exercised.

8.2 Payment for Awards. To the extent that an Award is granted in the form of newly issued Restricted Shares, the Award recipient shall be required to pay the Company in

lawful money of the U.S. an amount equal to the par value of such Restricted Shares. To the extent that an Award is granted in the form of Stock Units or treasury shares, no cash consideration shall be required of Award recipients.

8.3 Vesting Conditions. Each Award of Restricted Shares or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Stock Award Agreement. A Stock Award Agreement may provide for accelerated vesting in the event of the Participant's death, disability or retirement or other events. The Committee may determine, at the time of making an Award or thereafter, that such Award shall become fully vested in the event that a Change in Control occurs with respect to the Company.

8.4 Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of cash, in the form of Common Shares, or in any combination of both. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Common Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Article 10.

8.5 Death of Recipient. Any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Units Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Award recipient's death. If no beneficiary was designated or if no designated beneficiary survives the Award recipient, then any Stock Units Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

8.6 Creditors' Rights. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Award Agreement.

ARTICLE 9. VOTING AND DIVIDEND RIGHTS.

9.1 Restricted Shares. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Stock Award Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid. Such additional Restricted Shares shall not reduce the number of Common Shares available under Article 3.

9.2 Stock Units. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, to the extent determined by the Committee, carry with it a right to dividend equivalents. Any such right would entitle the holder to be credited with an amount equal to all cash dividends paid on

one Common Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Common Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

ARTICLE 10. PROTECTION AGAINST DILUTION.

10.1 Adjustments. In the event of a subdivision of the outstanding Common Shares, a declaration of a dividend payable in Common Shares, a declaration of a dividend payable in a form other than Common Shares in an amount that has a material effect on the price of Common Shares, a combination or consolidation of the outstanding Common Shares (by reclassification or otherwise) into a lesser number of Common Shares, a recapitalization, a spinoff or a similar occurrence, the Committee shall make appropriate adjustments in one or more of (a) the number of Options, Restricted Shares and Stock Units available for future Awards under Article 3, (b) the number of NSOs to be granted to Outside Directors under Section 4.2, (c) the number of Stock Units included in any prior Award which has not yet been settled, (d) the number of Common Shares covered by each outstanding Option or (e) the Exercise Price under each outstanding Option. Except as provided in this Article 10, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

10.2 Reorganizations. In the event that the Company is a party to a merger or other reorganization, outstanding Options, Restricted Shares and Stock Units shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting or for settlement in cash.

ARTICLE 11. LONG-TERM PERFORMANCE AWARDS.

The Company may grant long-term performance awards under other plans or programs. Such awards may be settled in the form of Common Shares issued under this Plan. Such Common Shares shall be treated for all purposes under the Plan like Common Shares issued in settlement of Stock Units and shall reduce the number of Common Shares available under Article 3.

ARTICLE 12. LIMITATION ON RIGHTS.

12.1 Retention Rights. Neither the Plan nor any award granted under the Plan shall be deemed to give any individual a right to remain an employee or director of the Company or a Subsidiary. The Company and its Subsidiaries reserve the right to terminate the service of any employee or director at any time, with or without cause, subject to applicable laws, the Company’s certificate of incorporation and by-laws and a written employment agreement (if any).

12.2 Stockholders’ Rights. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or

her Award prior to the issuance of a stock certificate for such Common Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Articles 8, 9 and 10.

12.3 Regulatory Requirements. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Common Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Common Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

ARTICLE 13. LIMITATION ON PAYMENTS.

13.1 Basic Rule. Any provision of the Plan to the contrary notwithstanding, in the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any payment or transfer by the Company to or for the benefit of a Key Employee, whether paid or payable (or transferred or transferable) pursuant to the terms of this Plan or otherwise (a "Payment"), would be non-deductible by the Company for federal income tax purposes because of the provisions concerning "excess parachute payments" in section 280G of the Code, then the aggregate present value of all Payments shall be reduced (but not below zero) to the Reduced Amount; provided that the Committee, at the time of making an Award under this Plan or at any time thereafter, may specify in writing that such Award shall not be so reduced and shall not be subject to this Article 13. For purposes of this Article 13, the "Reduced Amount" shall be the amount, expressed as a present value, which maximizes the aggregate present value of the Payments without causing any Payment to be nondeductible by the Company because of section 280G of the Code.

13.2 Reduction of Payments. If the Auditors determine that any Payment would be nondeductible by the Company because of section 280G of the Code, then the Company shall promptly give the Key Employee notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Key Employee may then elect, in his or her sole discretion, which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall advise the Company in writing of his or her election within 10 days of receipt of notice. If no such election is made by the Key Employee within such 10-day period, then the Company may elect which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall notify the Key Employee promptly of such election. For purposes of this Article 13, present value shall be determined in accordance with section 280G(d)(4) of the Code. All determinations made by the Auditors under this Article 13 shall be binding upon the Company and the Key Employee and shall be made within 60 days of the date when a payment becomes payable or transferable. As promptly as practicable following such determination and the elections hereunder, the Company shall pay or transfer to or for the benefit of the Key Employee such amounts as are then due to him or her under the Plan and shall promptly pay or transfer to or for the benefit of the Key Employee in the future such amounts as become due to him or her under the Plan.

13.3 Overpayments and Underpayments. As a result of uncertainty in the application of section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that Payments will have been made by the Company which should not have been made (an "Overpayment") or that additional Payments which will not have been made by the Company could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Key Employee which the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Key Employee which he or she shall repay to the Company, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Key Employee to the Company if and to the extent that such payment would not reduce the amount which is subject to taxation under section 4999 of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Key Employee, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code.

13.4 Related Corporations. For purposes of this Article 13, the term "Company" shall include affiliated corporations to the extent determined by the Auditors in accordance with section 280G(d)(5) of the Code.

ARTICLE 14. WITHHOLDING TAXES.

14.1 General. To the extent required by applicable federal, state, local or foreign law, the recipient of any payment or distribution under the Plan shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of the receipt or vesting of such payment or distribution. The Company shall not be required to issue any Common Shares or make any cash payment under the Plan until such obligations are satisfied.

14.2 Share Withholding. The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold a portion of any Common Shares that otherwise would be issued to him or her or by surrendering a portion of any Common Shares that previously were issued to him or her. Such Common Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Common Shares to the Company may be subject to restrictions, including any restrictions required by rules of the Securities and Exchange Commission.

ARTICLE 15. ASSIGNMENT OR TRANSFER OF AWARDS.

(i) Except as provided in Article 14, any Award granted under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Article 15 shall be void. However, this Article 15 shall not preclude a Participant from designating a beneficiary who will receive any undistributed Awards in the event of the Participant's death, nor shall it preclude a transfer by will or by the laws of descent and distribution. In addition, neither this Article 15 nor any other provision of the Plan shall preclude a Participant from transferring or assigning Restricted Shares or Stock Units to

(a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of Restricted Shares or Stock Units from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Restricted Shares or Stock Units held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable Stock Award Agreement, as if such trustee were a party to such Agreement.

(ii) Notwithstanding paragraph (i) above, an NSO or portion thereof may be transferred by the Optionee by gift to (a) the Optionee's immediate family, (b) a partnership or limited liability company consisting solely of the Optionee and/or immediate family, or (c) to a trust established for the benefit of the Optionee and/or one or more members of the immediate family of the Optionee (including a charitable remainder trust whose income beneficiaries consist solely of such persons), or (d) as provided in the Optionee's Stock Option Agreement or with consent of the Board or Committee to any other person or entity to which a transfer of compensatory securities is permitted under the applicable rules for a Form S-8 registration statement, provided that such transfer will not be effective until notice of such transfer is delivered to the Corporation. For purposes of this paragraph (ii) "immediate family" means spouse, children and grandchildren. An Option or portion thereof may also be transferred pursuant to a domestic relations order of a court of competent jurisdiction.

ARTICLE 16. FUTURE OF THE PLAN.

16.1 Term of the Plan. The Plan, as set forth herein, shall become effective upon approval by the Stockholders of the Company. The Plan shall remain in effect until February 4, 2012, unless terminated earlier pursuant to Section 16.2, except that no ISOs shall be granted after November 15, 2011.

16.2 Amendment or Termination. The Board or the Committee may, at any time and for any reason, amend or terminate the Plan. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Option previously granted under the Plan.

ARTICLE 17. DEFINITIONS.

17.1 "Award" means any award of an Option (with or without a related SAR), a Restricted Share or a Stock Unit under the Plan.

17.2 "Award Year" means a fiscal year with respect to which an Award may be granted.

17.3 "Board" means the Company's Board of Directors, as constituted from time to time.

17.4 "Change in Control" means the occurrence of either of the following events:

(a) A change in the composition of the Board, as a result of which fewer than one-half of the incumbent directors are directors who either:

(i) Had been directors of the Company 24 months prior to such change; or

(ii) Were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination; or

(b) Any "person" (as such term is used in sections 13(d) and 14(d) of the Exchange Act) by the acquisition or aggregation of securities is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company.

17.5 "Code" means the Internal Revenue Code of 1986, as amended.

17.6 "Committee" means a committee of the Board, as described in Article 2.

17.7 "Common Share" means one share of the Common Stock of the Company.

17.8 "Company" means Fair Isaac Corporation, a Delaware corporation.

17.9 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

17.10 "Exercise Price" means the amount for which one Common Share may be purchased upon exercise of an Option, as specified in the applicable Stock Option Agreement.

17.11 "Fair Market Value" means the market price of Common Shares, determined by the Committee as follows:

(a) If the Common Shares were traded over-the-counter on the date in question, whether or not classified as a national market issue, then the Fair Market Value shall be equal to the mean between the last reported bid and asked prices quoted by the NASDAQ system for such date;

(b) If the Common Shares were traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite transactions report for such date; and

(c) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported by the Research Section of the National Association of Securities Dealers or in the Western Edition of The Wall Street Journal. Such determination shall be conclusive and binding on all persons.

17.12 "ISO" means an incentive stock option described in section 422(b) of the Code.

17.13 "Key Employee" means (a) a key common-law employee of the Company or of a Subsidiary, as determined by the Committee, or (b) an Outside Director. Service as an Outside Director shall be considered employment for all purposes of the Plan, except as provided in Sections 4.1 and 4.2.

17.14 "NSO" means an employee stock option not described in sections 422 or 423 of the Code.

17.15 "Option" means an ISO or NSO granted under the Plan and entitling the holder to purchase one Common Share.

17.16 "Optionee" means an individual or estate who holds an Option.

17.17 "Outside Director" shall mean a member of the Board who is not a common-law employee of the Company or of a Subsidiary.

17.18 "Participant" means an individual or estate who holds an Award.

17.19 "Plan" means this Fair Isaac Corporation 1992 Long-Term Incentive Plan, as it may be amended from time to time.

17.20 "Restricted Share" means a Common Share awarded under the Plan.

17.21 "SAR" means a stock appreciation right granted under the Plan.

17.22 "Stock Award Agreement" means the agreement between the Company and the recipient of a Restricted Share or Stock Unit which contains the terms, conditions and restrictions pertaining to such Restricted Share or Stock Unit.

17.23 "Stock Option Agreement" means the agreement between the Company and an Optionee which contains the terms, conditions and restrictions pertaining to his or her Option.

17.24 "Stock Unit" means a bookkeeping entry representing the equivalent of one Common Share and awarded under the Plan.

17.25 "Subsidiary" means any corporation, if the Company and/or one or more other Subsidiaries own not less than 50% of the total combined voting power of all classes of

outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

ARTICLE 18. EXECUTION.

To verify that this is the amended and restated Plan, the Company has caused its duly authorized officer to affix the corporate name and seal hereto.

FAIR ISAAC CORPORATION

By /s/ Mark R. Scadina

Mark R. Scadina
Senior Vice President, General Counsel
and Corporate Secretary

FAIR ISAAC CORPORATION
1992 LONG-TERM INCENTIVE PLAN

NONSTATUTORY STOCK OPTION AGREEMENT
INITIAL GRANTS
(FOR NON-EMPLOYEE DIRECTORS)

These are the terms and conditions applicable to the NONSTATUTORY STOCK OPTION granted by Fair Isaac Corporation, a Delaware corporation ("Fair Isaac"), to you, the optionee listed on the Notice of Grant of Stock Option attached hereto as the cover page (the "Cover Page"), effective as of the date of grant specified on the Cover Page. The Cover Page together with these Terms and Conditions of Nonstatutory Stock Option Agreement constitute the Nonstatutory Stock Option Agreement (the "Option Agreement"). This Option is granted pursuant to the terms of Fair Isaac's 1992 Long-term Incentive Plan, as amended (the "Plan"). Terms that are not defined in this Option Agreement will have the meanings given to them in the Plan.

Nonstatutory Stock Option

This Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code.

Vesting

The applicable percentage of this Option will vest and become exercisable on the Vesting Dates, as shown on the Cover Page. In addition, this entire Option will vest and become exercisable in full in the event that:

- Your service as a director of Fair Isaac (or any Subsidiary) terminates because of your Disability or death, or
- Fair Isaac is subject to a Change in Control while you are still a director of Fair Isaac (or any Subsidiary).

Options that are not exercisable, or do not become exercisable in accordance with the foregoing provisions, as of the termination of your service as a director, shall terminate as of such date. Vested Options may be exercised in the manner and during the period of time set forth in this Option Agreement.

Exercise Period

The right to purchase shares under this Option Agreement terminates at 3:00 p.m. Pacific Time on the earliest of

- the Expiration Date shown on the Cover Page; or
- the first anniversary date of the termination date of your service as a director of Fair Isaac (or any Subsidiary).

Restrictions On Exercise

You may not exercise this Option if the issuance of shares at that time would violate any law or regulation, as determined by Fair Isaac. Moreover, you cannot exercise this Option unless you have returned a signed copy of the Option Agreement to Fair Isaac.

Notice of Exercise

You must notify Fair Isaac in writing of your intent to exercise this Option. The notice must specify how many shares you wish to purchase and must also specify how your shares should be registered (i.e., in your name only, in your and your spouse's names as community property or as joint tenants with right of survivorship).

If someone else wants to exercise this Option after your death, that person must prove to Fair Isaac's satisfaction that he or she is entitled to do so.

Form of Payment

When you submit your notice, you must include payment of the exercise price shown on the Cover Page for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms, as approved by Fair Isaac in its sole discretion:

- Your personal check, a cashier's check or a money order;
- Irrevocable directions to a securities broker approved by Fair Isaac to sell shares underlying this Option and to deliver all or a portion of the sale proceeds to Fair Isaac in payment of the exercise price and the balance of the sale proceeds to you; or
- Certificates for shares of Fair Isaac common stock that you have owned for at least 12 months, along with any forms needed to effect a transfer of those shares to Fair Isaac with the value of the shares, determined as of the effective date of the exercise of this Option, applied to the exercise price.

Withholding Taxes

You are responsible to pay any withholding taxes that may be due as a result of your exercise of this Option. Fair Isaac will not withhold any taxes.

Restrictions on Resale

By signing the Option Agreement, you agree not to sell any shares at a time when applicable laws or Fair Isaac policies prohibit a sale.

Transfer of Option

Prior to your death, only you or a permitted assignee as defined herein may exercise this Option (unless this Option or a portion thereof has been transferred to your former spouse by a domestic relations order by a court of competent jurisdiction). You may transfer this Option or a portion of this Option to (i) members of your immediate family, a partnership or limited liability company consisting solely of you and/or members of your immediate family, or to a trust established for the benefit of you and/or members of your immediate family (including a charitable remainder trust whose income beneficiaries consist solely of such persons), and (ii) any other person or entity to which a transfer of compensatory securities is permitted under the applicable rules for a Securities and Exchange Commission Form S-8 registration statement. For purposes of the foregoing, "immediate family" means your spouse, children or grandchildren, including step-children or step-grandchildren. Any of these persons or entities to whom this Option may be transferred is a "permitted assignee." However, such transfer shall not be effective until you have delivered to Fair Isaac notice of such transfer and such permitted assignee agrees to be bound by the terms of this Option, this Option Agreement, the Plan and the insider trading (and other applicable) policies of Fair Isaac. You cannot transfer, pledge, hypothecate, assign or otherwise dispose of this Option, including using this Option as security for a loan. Any

	attempts to do any of these things contrary to the provisions of this Option or this Option Agreement, or the levy of any attachment or similar process upon this Option, shall be null and void. You may, however, dispose of this Option in your will or by a written beneficiary designation. Such a designation must be filed with Fair Isaac on the proper form.
Retention Rights	Neither your Option nor the terms of this Option Agreement give you the right to continue as a director of Fair Isaac (or any Subsidiaries) in any capacity. Fair Isaac (and any Subsidiaries) reserve the right to terminate your service at any time, with or without cause.
Stockholder Rights	You, or your assignees, estate, beneficiaries or heirs, have no rights as a stockholder of Fair Isaac until the Options have been exercised, and the exercise price has been received by Fair Isaac, and such rights are conferred upon your becoming a holder of record of the purchased shares. No adjustments are made for dividends or other rights if the applicable record date occurs before you become a holder of record, except as described in the Plan.
Adjustments	In the event of any adjustments to the capital stock of Fair Isaac as described in Article 10 of the Plan, the number of shares covered by this Option and the exercise price per share shall be adjusted as Fair Isaac may determine pursuant to the Plan.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its rules on choice of law).
Other Agreements	This Option Agreement and the Plan constitute the entire understanding between you and Fair Isaac regarding this Option. Any other prior agreements, commitments or negotiations concerning this Option are superseded. If there is any inconsistency between the provisions of this Option Agreement and the Plan, the provisions of the Plan shall govern. This Option Agreement may be amended only in writing.
Definitions	“Disability” means that you are unable to engage in any substantial gainful activity by reason of a medically determinable, physical or mental impairment that can be expected to result in death or that has lasted (or can be expected to last) for a continuous period of not less than 12 months.

By signing the Cover Page, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 31.1

CERTIFICATIONS

I, Mark N. Greene, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fair Isaac Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 6, 2009

/s/ MARK N. GREENE

Mark N. Greene
Chief Executive Officer

CERTIFICATIONS

I, Charles M. Osborne, certify that:

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

Date: February 6, 2009

/s/ CHARLES M. OSBORNE

Charles M. Osborne
Chief Financial Officer

EXHIBIT 32.1

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

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

Date: February 6, 2009

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

EXHIBIT 32.2

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

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

Date: February 6, 2009

/s/ CHARLES M. OSBORNE
Charles M. Osborne
Chief Financial Officer