



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 March 31, 2010

**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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 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

Non-Accelerated Filer

Smaller Reporting Company

*(Do not check if a smaller reporting company)*

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

The number of shares of common stock outstanding on April 30, 2010 was 45,659,829 (excluding 43,196,954 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  
(Unaudited)

|   | <u>March 31, 2010</u>                 | <u>September 30, 2009</u> |
|---|---------------------------------------|---------------------------|
|   | (In thousands, except par value data) |                           |
| <b>Assets</b>   |                                       |                           |
| Current assets:   |                                       |                           |
| Cash and cash equivalents   | \$ 190,910                            | \$ 178,157                |
| Marketable securities available for sale, current portion   | 151,609                               | 139,673                   |
| Accounts receivable, net  | 88,412                                | 101,742                   |
| Prepaid expenses and other current assets   | 24,872                                | 22,986                    |
| Total current assets  | <u>455,803</u>                        | <u>442,558</u>            |
| Marketable securities available for sale, less current portion  | 39,484                                | 61,371                    |
| Other investments   | 11,074                                | 11,074                    |
| Property and equipment, net   | 32,800                                | 34,340                    |
| Goodwill  | 661,883                               | 667,640                   |
| Intangible assets, net  | 31,775                                | 38,255                    |
| Deferred income taxes   | 35,645                                | 38,100                    |
| Other assets  | 8,915                                 | 10,550                    |
|   | <u>\$ 1,277,379</u>                   | <u>\$ 1,303,888</u>       |
| <b>Liabilities and Stockholders' Equity</b>   |                                       |                           |
| Current liabilities:  |                                       |                           |
| Accounts payable  | \$ 9,054                              | \$ 8,593                  |
| Accrued compensation and employee benefits  | 24,918                                | 28,139                    |
| Other accrued liabilities   | 46,000                                | 38,183                    |
| Deferred revenue  | 40,805                                | 39,673                    |
| Total current liabilities   | <u>120,777</u>                        | <u>114,588</u>            |
| Revolving line of credit  | 295,000                               | 295,000                   |
| Senior notes  | 275,000                               | 275,000                   |
| Other liabilities   | 16,152                                | 19,031                    |
| Total liabilities   | <u>706,929</u>                        | <u>703,619</u>            |
| Commitments and contingencies   |                                       |                           |
| Stockholders' equity:   |                                       |                           |
| Preferred stock (\$0.01 par value; 1,000 shares authorized; none issued and outstanding)  | —                                     | —                         |
| Common stock (\$0.01 par value; 200,000 shares authorized, 88,857 shares issued, 45,861 and 48,156 shares outstanding at March 31, 2010 and September 30, 2009, respectively) | 459                                   | 482                       |
| Paid-in-capital   | 1,101,178                             | 1,106,292                 |
| Treasury stock, at cost (42,996 and 40,701 shares at March 31, 2010 and September 30, 2009, respectively)   | (1,419,674)                           | (1,375,400)               |
| Retained earnings   | 915,125                               | 886,324                   |
| Accumulated other comprehensive loss  | (26,638)                              | (17,429)                  |
| Total stockholders' equity  | <u>570,450</u>                        | <u>600,269</u>            |
|   | <u>\$ 1,277,379</u>                   | <u>\$ 1,303,888</u>       |

See accompanying notes to condensed consolidated financial statements.

**FAIR ISAAC CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

|  | <u>Quarter Ended March 31,</u>        |                  | <u>Six Months Ended March 31,</u> |                  |
|--|---------------------------------------|------------------|-----------------------------------|------------------|
|  | <u>2010</u>                           | <u>2009</u>      | <u>2010</u>                       | <u>2009</u>      |
|  | (in thousands, except per share data) |                  |                                   |                  |
| <b>Revenues:</b>   |                                       |                  |                                   |                  |
| Transactional and maintenance                                | \$ 113,701                            | \$ 119,454       | \$ 228,807                        | \$ 243,112       |
| Professional services  | 23,926                                | 31,312           | 50,163                            | 59,392           |
| License  | 6,093                                 | 8,569            | 16,246                            | 20,291           |
| <b>Total revenues</b>  | <u>143,720</u>                        | <u>159,335</u>   | <u>295,216</u>                    | <u>322,795</u>   |
| <b>Operating expenses:</b>                                   |                                       |                  |                                   |                  |
| Cost of revenues (1)   | 44,641                                | 53,476           | 87,160                            | 112,495          |
| Research and development                                     | 19,251                                | 18,924           | 38,227                            | 37,045           |
| Selling, general and administrative (1)                      | 53,697                                | 52,460           | 108,900                           | 107,229          |
| Amortization of intangible assets (1)                        | 3,070                                 | 3,156            | 6,235                             | 6,403            |
| Restructuring  | —                                     | 870              | —                                 | 8,948            |
| <b>Total operating expenses</b>                              | <u>120,659</u>                        | <u>128,886</u>   | <u>240,522</u>                    | <u>272,120</u>   |
| <b>Operating income</b>                                      | 23,061                                | 30,449           | 54,694                            | 50,675           |
| Interest income  | 507                                   | 1,245            | 1,046                             | 2,900            |
| Interest expense   | (5,423)                               | (6,527)          | (10,831)                          | (13,685)         |
| Other income (expense), net                                  | 1,027                                 | (298)            | 646                               | 1,148            |
| <b>Income from continuing operations before income taxes</b> | 19,172                                | 24,869           | 45,555                            | 41,038           |
| Provision for income taxes                                   | 6,180                                 | 6,761            | 14,877                            | 10,820           |
| <b>Income from continuing operations</b>                     | 12,992                                | 18,108           | 30,678                            | 30,218           |
| Loss from discontinued operations                            | —                                     | (363)            | —                                 | (363)            |
| <b>Net income</b>  | <u>\$ 12,992</u>                      | <u>\$ 17,745</u> | <u>\$ 30,678</u>                  | <u>\$ 29,855</u> |
| <b>Basic earnings (loss) per share:</b>                      |                                       |                  |                                   |                  |
| Continuing operations  | \$ 0.28                               | \$ 0.37          | \$ 0.65                           | \$ 0.62          |
| Discontinued operations                                      | —                                     | (0.01)           | —                                 | (0.01)           |
| <b>Total</b>   | <u>\$ 0.28</u>                        | <u>\$ 0.36</u>   | <u>\$ 0.65</u>                    | <u>\$ 0.61</u>   |
| <b>Diluted earnings (loss) per share:</b>                    |                                       |                  |                                   |                  |
| Continuing operations  | \$ 0.28                               | \$ 0.37          | \$ 0.65                           | \$ 0.62          |
| Discontinued operations                                      | —                                     | (0.01)           | —                                 | (0.01)           |
| <b>Total</b>   | <u>\$ 0.28</u>                        | <u>\$ 0.36</u>   | <u>\$ 0.65</u>                    | <u>\$ 0.61</u>   |
| <b>Shares used in computing earnings per share:</b>          |                                       |                  |                                   |                  |
| Basic  | 46,447                                | 48,813           | 47,033                            | 48,643           |
| Diluted  | 46,870                                | 48,828           | 47,399                            | 48,673           |

(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 INCOME**  
**(Unaudited)**

|   | <u>Common Stock</u>  |                      | <u>Paid-in-Capital</u>     | <u>Treasury Stock</u>        | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Loss</u> | <u>Total Stockholders' Equity</u> | <u>Comprehensive Income</u> |
|---|----------------------|----------------------|----------------------------|------------------------------|--------------------------|---|-----------------------------------|-----------------------------|
|   | <u>Shares</u>        | <u>Par Value</u>     |                            |                              |                          |   |                                   |                             |
| <b>Balance at September 30, 2009</b>                    | <b>48,156</b>        | <b>\$ 482</b>        | <b>\$ 1,106,292</b>        | <b>\$ (1,375,400)</b>        | <b>\$ 886,324</b>        | <b>\$ (17,429)</b>                          | <b>\$ 600,269</b>                 |                             |
| Share-based compensation                                | —                    | —                    | 9,382                      | —                            | —                        | —   | 9,382                             |                             |
| Exercise of stock options                               | 262                  | 3                    | (5,139)                    | 8,690                        | —                        | —   | 3,554                             |                             |
| Tax effect from share-based payment arrangements        | —                    | —                    | (3,419)                    | —                            | —                        | —   | (3,419)                           |                             |
| Repurchases of common stock                             | (2,694)              | (27)                 | —                          | (57,503)                     | —                        | —   | (57,530)                          |                             |
| Issuance of ESPP shares from treasury                   | 1                    | —                    | (11)                       | 31                           | —                        | —   | 20                                |                             |
| Issuance of restricted stock to employees from treasury | 136                  | 1                    | (5,927)                    | 4,508                        | —                        | —   | (1,418)                           |                             |
| Dividends paid  | —                    | —                    | —                          | —                            | (1,877)                  | —   | (1,877)                           |                             |
| Net income  | —                    | —                    | —                          | —                            | 30,678                   | —   | 30,678                            | \$ 30,678                   |
| Unrealized loss on investments                          | —                    | —                    | —                          | —                            | —                        | (287)                                       | (287)                             | (287)                       |
| Cumulative translation adjustments                      | —                    | —                    | —                          | —                            | —                        | (8,922)                                     | (8,922)                           | (8,922)                     |
| <b>Balance at March 31, 2010</b>                        | <b><u>45,861</u></b> | <b><u>\$ 459</u></b> | <b><u>\$ 1,101,178</u></b> | <b><u>\$ (1,419,674)</u></b> | <b><u>\$ 915,125</u></b> | <b><u>\$ (26,638)</u></b>                   | <b><u>\$ 570,450</u></b>          | <b><u>\$ 21,469</u></b>     |

See accompanying notes to condensed consolidated financial statements.

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

|  | <b>Six Months Ended March 31,</b> |                   |
|--|-----------------------------------|-------------------|
|  | <b>2010</b>                       | <b>2009</b>       |
|  | <b>(In thousands)</b>             |                   |
| <b>Cash flows from operating activities:</b>   |                                   |                   |
| Net income   | \$ 30,678                         | \$ 29,855         |
| Adjustments to reconcile net income to net cash provided by operating activities:      |                                   |                   |
| Depreciation and amortization  | 16,128                            | 19,397            |
| Share-based compensation   | 9,382                             | 10,648            |
| Deferred income taxes  | —                                 | 915               |
| Tax effect from share-based payment arrangements                                       | (3,419)                           | (2,680)           |
| Excess tax benefits from share-based payment arrangements                              | (1,038)                           | (121)             |
| Net amortization of premium on marketable securities                                   | 1,060                             | 406               |
| Provision for doubtful accounts, net   | (810)                             | 499               |
| Net loss on sales of property and equipment  | 56                                | 117               |
| Changes in operating assets and liabilities, net of disposition effects:               |                                   |                   |
| Accounts receivable  | 12,324                            | 28,419            |
| Prepaid expenses and other assets  | (644)                             | 325               |
| Accounts payable   | 20                                | 3,018             |
| Accrued compensation and employee benefits   | (3,138)                           | (4,257)           |
| Other liabilities  | 9,304                             | (7,913)           |
| Deferred revenue   | 62                                | 7,688             |
| Net cash provided by operating activities  | <u>69,965</u>                     | <u>86,316</u>     |
| <b>Cash flows from investing activities:</b>   |                                   |                   |
| Purchases of property and equipment  | (8,010)                           | (8,503)           |
| Cash proceeds from sale of property and equipment                                      | 50                                | —                 |
| Cash proceeds from sale of product line assets   | 490                               | —                 |
| Purchases of marketable securities   | (71,749)                          | (66,512)          |
| Proceeds from maturities of marketable securities                                      | 80,666                            | 64,590            |
| Distribution from cost method investees  | —                                 | 1,300             |
| Net cash provided by (used in) investing activities                                    | <u>1,447</u>                      | <u>(9,125)</u>    |
| <b>Cash flows from financing activities:</b>   |                                   |                   |
| Proceeds from issuances of common stock under employee stock option and purchase plans | 2,156                             | 2,974             |
| Dividends paid   | (1,877)                           | (1,946)           |
| Repurchases of common stock  | (57,530)                          | —                 |
| Excess tax benefits from share-based payment arrangements                              | 1,038                             | 121               |
| Net cash provided by (used in) financing activities                                    | <u>(56,213)</u>                   | <u>1,149</u>      |
| <b>Effect of exchange rate changes on cash</b>   | <u>(2,446)</u>                    | <u>(6,732)</u>    |
| Increase in cash and cash equivalents  | 12,753                            | 71,608            |
| Cash and cash equivalents, beginning of year   | 178,157                           | 129,678           |
| Cash and cash equivalents, end of year   | <u>\$ 190,910</u>                 | <u>\$ 201,286</u> |
| <b>Supplemental disclosures of cash flow information:</b>                              |                                   |                   |
| Cash paid for income taxes, net of refunds   | \$ 9,607                          | \$ 15,236         |
| Cash paid for interest   | \$ 10,629                         | \$ 14,063         |

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 (“FICO”) is a provider of analytic, software and data management products and services that enable businesses to automate, improve and connect decisions. FICO 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 and healthcare organizations.

In these consolidated financial statements, FICO is referred to as “we,” “us,” “our,” or “FICO”.

### *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 applicable accounting guidance. 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, 2009. 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 FICO and its subsidiaries. All intercompany accounts and transactions have been eliminated.

### *Use of Estimates*

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

### *Adoption of Recent Accounting Pronouncements*

In January 2010, the Financial Accounting Standards Board (“FASB”) issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). We adopted this guidance on January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning October 1, 2011. Other than requiring additional disclosures, adoption of this new guidance does not have a material impact on our financial statements.

In October 2009, the Financial Accounting Standards Board (“FASB”) issued two new accounting standards that removed certain tangible products from the scope of software revenue recognition guidance and altered the accounting for revenue arrangements with multiple deliverables. The new guidance narrows the definition of products subject to software accounting rules to exclude certain tangible products that contain software and non-software elements that function together to deliver the combined product’s essential functionality. As such, certain products that were previously accounted for under the scope of software revenue recognition guidance will no longer be accounted for as software. In addition, the guidance amended the accounting standards for multiple deliverable

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revenue arrangements to: (i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (ii) require an entity to allocate revenue in an arrangement using estimated selling prices (“ESP”) of deliverables if a vendor does not have vendor-specific objective evidence of selling price (“VSOE”) or third-party evidence of selling price (“TPE”); and (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

We elected to early adopt this accounting guidance and we have applied these standards to all applicable revenue arrangements entered into or materially modified beginning October 1, 2009. The adoption of these standards had an immaterial effect on our revenues, pre-tax income, net income and earnings per share during the three and six months ended March 31, 2010.

When a sales arrangement contains multiple deliverables we allocate revenue to each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE if available, TPE if VSOE is not available, or ESP if neither VSOE nor TPE is available. VSOE is generally limited to the price charged when the same or similar product is sold separately. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service. We define VSOE as a median price of recent standalone transactions that are priced within a narrow range, as defined by us. TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. It may be difficult for us to obtain sufficient information on competitor pricing to substantiate TPE and therefore we may not always be able to use TPE.

When we are unable to establish selling price using VSOE or TPE, we use ESP in its allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves weighting several factors based on the specific facts and circumstances of each arrangement. The factors include, but are not limited to, geographies, market conditions, gross margin objectives, pricing practices and controls and customer segment pricing strategies and the product lifecycle. We analyze selling prices used in our allocation of arrangement consideration on an annual basis, or more frequently if necessary. Selling prices will be analyzed more frequently if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting under the guidance if both of the following criteria are met: (i) the delivered item or items have value to the customer on a standalone basis and (ii) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We consider a deliverable to have standalone value if we sell this item separately or if the item is sold by another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to delivered products. Revenue from multiple element arrangements is allocated to the software and non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the new revenue accounting guidance. In circumstances where we cannot determine VSOE or TPE of the selling price for all of the deliverables in the arrangement, including the software deliverable, ESP is used for the purposes of performing this allocation.

We do not expect the adoption of this guidance will result in a change in our units of accounting or in how we allocate arrangement consideration to our units of accounting. In addition, we do not anticipate material changes in the pattern and timing of revenue recognition nor do we expect a material effect on our financial statements in periods subsequent to adoption. However, the new guidance may facilitate our efforts to optimize our offerings due to better alignment between the economics of an arrangement and the accounting. This may lead to engaging in new go-to-market practices in the future. In particular, we expect that the new accounting standards will enable us to better integrate products and services without VSOE into existing offerings and solutions. As these go-to-market strategies evolve, we may modify pricing practices in the future which could result in changes in selling prices, including both VSOE and ESP.

On October 1, 2009 we adopted new guidance on the accounting for business combinations. The guidance states that business combinations will result in all assets and liabilities of an acquired business being recorded at their fair values including contingent assets and liabilities. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. This guidance has been applied to all acquisitions contemplated subsequent to October 1, 2009.

In December 2007, the FASB issued new accounting guidance on non-controlling interests in consolidated financial statements. The guidance clarifies that a non-controlling 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. We adopted this guidance on October 1, 2009. The adoption of this guidance had an immaterial effect on our consolidated financial statements.

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On October 1, 2009, we adopted the authoritative guidance on fair value measurement for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not impact our consolidated financial statements.

On October 1, 2009, we adopted new accounting guidance for measuring liabilities at fair value. This guidance clarifies that the quoted price for an identical liability is a Level 1 measurement when no adjustments to the quoted price are necessary. If quoted prices for identical liabilities are not available, the guidance provides valuation techniques to be used in determining the fair value of the liability. The adoption of this standard did not impact our consolidated financial statements during the three and six months ended March 31, 2010.

In May 2008, the FASB issued new guidance on the accounting for convertible instruments that may be settled in cash upon conversion. The guidance requires that proceeds from the issuance of convertible debt instruments be allocated between debt (at a discount) and an equity component. The debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. We adopted this guidance on October 1, 2009. The guidance changed the accounting treatment for our Senior Convertible Notes, which were issued in August 2003; however, the only retrospective adjustment to our financial statements is a reclassification between equity accounts. The guidance does not require retrospective adoption if the instruments were not outstanding during any of the periods presented in the annual financial statements for the period of adoption, or if restatement would only lead to a reclassification between its opening equity accounts for periods presented in the annual financial statements. As a result, the adoption of this guidance did not impact our consolidated financial statements.

On October 1, 2009, we adopted new guidance to be used in determining the useful life of intangible assets. The guidance amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This new guidance is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The adoption of this guidance did not affect our consolidated financial statements.

## 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 March 31, |                 | Six Months Ended March 31, |                 |
|--|-------------------------|-----------------|----------------------------|-----------------|
|  | 2010                    | 2009            | 2010                       | 2009            |
|  | (In thousands)          |                 |                            |                 |
| Cost of revenues                             | \$ 1,711                | \$ 1,663        | \$ 3,450                   | \$ 3,386        |
| Selling, general and administrative expenses | 1,359                   | 1,493           | 2,785                      | 3,017           |
|  | <u>\$ 3,070</u>         | <u>\$ 3,156</u> | <u>\$ 6,235</u>            | <u>\$ 6,403</u> |

Cost of revenues reflects our amortization of completed technology and selling, general and administrative expenses reflects our amortization of other intangible assets. Intangible assets (excluding goodwill) were \$31.8 million and \$38.3 million, net of accumulated amortization of \$109.6 million and \$107.7 million, as of March 31, 2010 and September 30, 2009, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing at March 31, 2010, was as follows (in thousands):

| Fiscal year              |                  |
|--------------------------|------------------|
| Remainder of fiscal 2010 | \$ 4,663         |
| 2011                     | 7,671            |
| 2012                     | 6,094            |
| 2013                     | 4,103            |
| 2014                     | 2,407            |
| Thereafter               | 6,837            |
|                          | <u>\$ 31,775</u> |

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### 3. Restructuring Expenses

The following table summarizes our restructuring accruals for certain FICO 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.

|                       | <u>Accrual at<br/>September 30, 2009</u> | <u>Expense Additions</u> | <u>Cash Payments<br/>(In thousands)</u> | <u>Expense Reversals</u> | <u>Accrual at March<br/>31, 2010</u> |
|-----------------------|--|--------------------------|---|--------------------------|--------------------------------------|
| Facilities charges    | \$ 3,771                                 | \$ —                     | \$ (1,448)                              | \$ —                     | \$ 2,323                             |
| Less: current portion | (1,361)                                  |                          |   |                          | (916)                                |
| Non-current           | <u>\$ 2,410</u>                          |                          |   |                          | <u>\$ 1,407</u>                      |

There were no restructuring expenses incurred during the three and six months ended March 31, 2010.

During the first quarter of fiscal 2009, in connection with our reengineering initiative, we incurred net charges totaling \$8.1 million consisting mainly of \$5.9 million for severance costs associated with the reduction of 255 positions throughout the company and \$2.6 million associated with vacating excess leased space. 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 previously vacated. During the quarter ended March 31, 2009, we recognized a \$1.2 million charge due to unfavorable sublease arrangements we entered into for office space previously vacated. The charge was offset by a \$0.4 million reduction in other restructuring liabilities. Cash payments for the severance costs were paid during fiscal 2009.

### 4. Sale of Product Line Assets

In June 2009, we sold the assets associated with our LiquidCredit® for Telecom (“LCT”) and RoamEx® product lines. LCT and RoamEx solutions were included primarily in our Applications segment. The LCT sale, which was for \$3.5 million, included a \$0.5 million receivable for post-closing working capital adjustments. The RoamEx sale, which was for \$2.7 million, included a \$1.4 million escrow balance and a \$0.3 million receivable for post-closing working capital adjustments. Revenues attributable to the LCT and RoamEx product lines were \$5.3 million and \$10.7 million during the three and six months ended March 31, 2009.

### 5. Composition of Certain Financial Statement Captions

|   | <u>March 31, 2010</u> | <u>September 30, 2009</u> |
|---|-----------------------|---------------------------|
|   | <u>(In thousands)</u> |                           |
| Property and equipment                          | \$ 211,605            | \$ 206,068                |
| Less: accumulated depreciation and amortization | (178,805)             | (171,728)                 |
|   | <u>\$ 32,800</u>      | <u>\$ 34,340</u>          |

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### 6. Earnings Per Share

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

|   | Quarter Ended March 31,               |           | Six Months Ended March 31,            |           |
|---|---------------------------------------|-----------|---------------------------------------|-----------|
|   | 2010                                  | 2009      | 2010                                  | 2009      |
|   | (In thousands, except per share data) |           | (In thousands, except per share data) |           |
| Numerator for diluted and basic earnings per share — income from continuing operations: | \$ 12,992                             | \$ 18,108 | \$ 30,678                             | \$ 30,218 |
| Denominator — shares:   |                                       |           |                                       |           |
| Basic weighted-average shares   | 46,447                                | 48,813    | 47,033                                | 48,643    |
| Effect of dilutive securities   | 423                                   | 15        | 366                                   | 30        |
| Diluted weighted-average shares   | 46,870                                | 48,828    | 47,399                                | 48,673    |
| Earnings per share from continuing operations:  |                                       |           |                                       |           |
| Basic   | \$ 0.28                               | \$ 0.37   | \$ 0.65                               | \$ 0.62   |
| Diluted   | \$ 0.28                               | \$ 0.37   | \$ 0.65                               | \$ 0.62   |

The computation of diluted EPS for the quarters ended March 31, 2010 and 2009, excludes options to purchase approximately 4,796,000 and 8,264,000 shares of common stock, respectively, and for the six months ended March 31, 2010 and 2009 excludes options to purchase approximately 5,136,000 and 8,106,000 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

Effective October 1, 2009, we implemented an organizational restructuring resulting in a consolidation of our current operating segment structure from four segments to three. In addition, we changed our segment operating income reporting measure to exclude certain corporate general and administrative expenses. Previously, corporate expenses, which mainly include finance, legal and human resource related expenses, were allocated to the segments. In addition, amortization expense is no longer allocated to the individual segments. All periods presented have been restated to reflect these changes. The new segments are as follows:

- *Applications*. This segment includes the former Strategy Machine Solutions™ segment, excluding our myFICO® solutions for consumers, and associated professional services. Our Applications products 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.
- *Scores*. This segment includes our business-to-business scoring solutions, our myFICO® solutions for consumers (previously included in the Strategy Machine™ Solutions segment) and associated professional services. 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.
- *Tools*. This segment includes the former Analytic Software Tools segment and associated professional services. The Tools segment is composed of software tools that clients can use to create their own custom Decision Management applications.

The former Professional Services segment, which represents delivery and integration services, has been included within the applicable segment to which the services relate and is no longer its own segment.

Our Chief Executive Officer evaluates segment financial performance based on segment revenues and segment operating income. Segment operating expenses consist of direct and indirect costs principally related to personnel, facilities, consulting, travel and depreciation. 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 expense, amortization expense, various corporate charges and certain

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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 amounts are allocated to the segments from their internal cost centers as described above.

The following tables summarize segment information for the three and six months ended March 31, 2010 and 2009:

|  | Quarter Ended March 31, 2010 |           |                         |                                   |            |
|--|------------------------------|-----------|-------------------------|-----------------------------------|------------|
|  | Applications                 | Scores    | Tools<br>(In thousands) | Unallocated<br>Corporate Expenses | Total      |
| Segment revenues:                            |                              |           |                         |                                   |            |
| Transactional and maintenance                | \$ 64,703                    | \$ 41,885 | \$ 7,113                | \$ —                              | \$ 113,701 |
| Professional services                        | 19,621                       | 649       | 3,656                   | —                                 | 23,926     |
| License                                      | 2,572                        | —         | 3,521                   | —                                 | 6,093      |
| Total segment revenues                       | 86,896                       | 42,534    | 14,290                  | —                                 | 143,720    |
| Segment operating expense                    | (66,342)                     | (15,201)  | (13,710)                | (17,489)                          | (112,742)  |
| Segment operating income                     | \$ 20,554                    | \$ 27,333 | \$ 580                  | \$ (17,489)                       | 30,978     |
| Unallocated share-based compensation expense |                              |           |                         |                                   | (4,847)    |
| Unallocated amortization expense             |                              |           |                         |                                   | (3,070)    |
| Operating income                             |                              |           |                         |                                   | 23,061     |
| Unallocated interest income                  |                              |           |                         |                                   | 507        |
| Unallocated interest expense                 |                              |           |                         |                                   | (5,423)    |
| Unallocated other income, net                |                              |           |                         |                                   | 1,027      |
| Income before income taxes                   |                              |           |                         |                                   | \$ 19,172  |
| Depreciation expense                         | \$ 3,770                     | \$ 338    | \$ 530                  | \$ 333                            | \$ 4,971   |
|  |                              |           |                         |                                   |            |
|  | Quarter ended March 31, 2009 |           |                         |                                   |            |
|  | Applications                 | Scores    | Tools<br>(In thousands) | Unallocated<br>Corporate Expenses | Total      |
| Segment revenues:                            |                              |           |                         |                                   |            |
| Transactional and maintenance                | \$ 69,102                    | \$ 43,966 | \$ 6,386                | \$ —                              | \$ 119,454 |
| Professional services                        | 25,683                       | 580       | 5,049                   | —                                 | 31,312     |
| License                                      | 4,255                        | —         | 4,314                   | —                                 | 8,569      |
| Total segment revenues                       | 99,040                       | 44,546    | 15,749                  | —                                 | 159,335    |
| Segment operating expense                    | (64,705)                     | (15,989)  | (14,686)                | (24,303)                          | (119,683)  |
| Segment operating income                     | \$ 34,335                    | \$ 28,557 | \$ 1,063                | \$ (24,303)                       | 39,652     |
| Unallocated share-based compensation expense |                              |           |                         |                                   | (5,177)    |
| Unallocated amortization expense             |                              |           |                         |                                   | (3,156)    |
| Unallocated restructuring expense            |                              |           |                         |                                   | (870)      |
| Operating income                             |                              |           |                         |                                   | 30,449     |
| Unallocated interest income                  |                              |           |                         |                                   | 1,245      |
| Unallocated interest expense                 |                              |           |                         |                                   | (6,527)    |
| Unallocated other expense, net               |                              |           |                         |                                   | (298)      |
| Income before income taxes                   |                              |           |                         |                                   | \$ 24,869  |
| Depreciation expense                         | \$ 5,182                     | \$ 447    | \$ 529                  | \$ 500                            | \$ 6,658   |

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|  | Six Months Ended March 31, 2010 |                  |                         |                                   | Total            |
|--|---------------------------------|------------------|-------------------------|-----------------------------------|------------------|
|  | Applications                    | Scores           | Tools<br>(In thousands) | Unallocated<br>Corporate Expenses |                  |
| Segment revenues:                            |                                 |                  |                         |                                   |                  |
| Transactional and maintenance                | \$ 131,437                      | \$ 83,028        | \$ 14,342               | \$ —                              | \$ 228,807       |
| Professional services                        | 41,083                          | 1,059            | 8,021                   | —                                 | 50,163           |
| License                                      | 7,248                           | —                | 8,998                   | —                                 | 16,246           |
| Total segment revenues                       | <u>179,768</u>                  | <u>84,087</u>    | <u>31,361</u>           | <u>—</u>                          | <u>295,216</u>   |
| Segment operating expense                    | <u>(133,522)</u>                | <u>(29,479)</u>  | <u>(27,889)</u>         | <u>(34,015)</u>                   | <u>(224,905)</u> |
| Segment operating income                     | <u>\$ 46,246</u>                | <u>\$ 54,608</u> | <u>\$ 3,472</u>         | <u>\$ (34,015)</u>                | <u>70,311</u>    |
| Unallocated share-based compensation expense |                                 |                  |                         |                                   | (9,382)          |
| Unallocated amortization expense             |                                 |                  |                         |                                   | (6,235)          |
| Operating income                             |                                 |                  |                         |                                   | 54,694           |
| Unallocated interest income                  |                                 |                  |                         |                                   | 1,046            |
| Unallocated interest expense                 |                                 |                  |                         |                                   | (10,831)         |
| Unallocated other income, net                |                                 |                  |                         |                                   | 646              |
| Income before income taxes                   |                                 |                  |                         |                                   | <u>\$ 45,555</u> |
| Depreciation expense                         | <u>\$ 7,504</u>                 | <u>\$ 680</u>    | <u>\$ 1,043</u>         | <u>\$ 666</u>                     | <u>\$ 9,893</u>  |
| Six Months Ended March 31, 2009              |                                 |                  |                         |                                   |                  |
|  | Applications                    | Scores           | Tools<br>(In thousands) | Unallocated<br>Corporate Expenses | Total            |
| Segment revenues:                            |                                 |                  |                         |                                   |                  |
| Transactional and maintenance                | \$ 138,692                      | \$ 91,430        | \$ 12,990               | \$ —                              | \$ 243,112       |
| Professional services                        | 46,620                          | 757              | 12,015                  | —                                 | 59,392           |
| License                                      | 8,673                           | —                | 11,618                  | —                                 | 20,291           |
| Total segment revenues                       | <u>193,985</u>                  | <u>92,187</u>    | <u>36,623</u>           | <u>—</u>                          | <u>322,795</u>   |
| Segment operating expense                    | <u>(140,298)</u>                | <u>(31,262)</u>  | <u>(31,671)</u>         | <u>(42,890)</u>                   | <u>(246,121)</u> |
| Segment operating income                     | <u>\$ 53,687</u>                | <u>\$ 60,925</u> | <u>\$ 4,952</u>         | <u>\$ (42,890)</u>                | <u>76,674</u>    |
| Unallocated share-based compensation expense |                                 |                  |                         |                                   | (10,648)         |
| Unallocated amortization expense             |                                 |                  |                         |                                   | (6,403)          |
| Unallocated restructuring expense            |                                 |                  |                         |                                   | (8,948)          |
| Operating income                             |                                 |                  |                         |                                   | 50,675           |
| Unallocated interest income                  |                                 |                  |                         |                                   | 2,900            |
| Unallocated interest expense                 |                                 |                  |                         |                                   | (13,685)         |
| Unallocated other income, net                |                                 |                  |                         |                                   | 1,148            |
| Income before income taxes                   |                                 |                  |                         |                                   | <u>\$ 41,038</u> |
| Depreciation expense                         | <u>\$ 10,000</u>                | <u>\$ 884</u>    | <u>\$ 1,117</u>         | <u>\$ 993</u>                     | <u>\$ 12,994</u> |

**8. Fair Value Measurements**

In fiscal 2009, we adopted guidance for financial assets and liabilities and for non-financial assets and liabilities that we recognize or disclose at fair value on a recurring basis (at least annually). These include cash equivalents, available-for-sale marketable securities and our derivative financial instruments. We adopted the remaining aspects of the fair value measurement standard relative to nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis, prospectively effective October 1, 2009.

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Fair value is defined 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. The accounting guidance 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. Our Level 1 securities are comprised of money market funds and certain equity securities.
- 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 comprised of U.S. government and corporate debt 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.

### *Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following table represents financial assets that we measured at fair value on a recurring basis at March 31, 2010 and September 31, 2009:

|                                 | Active Markets for<br>Identical<br>Instruments<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Fair Value as of<br>March 31, 2010 |
|---------------------------------|---|---|------------------------------------|
| <b>March 31, 2010</b>           |   |   |                                    |
| <b>Assets:</b>                  |   |   |                                    |
| Cash equivalents (1)            | \$ 128,769  | \$ —  | \$ 128,769                         |
| U.S. corporate debt (2)         | —   | 20,490  | 20,490                             |
| Non U.S. corporate debt (2)     | —   | 44,809  | 44,809                             |
| U.S. government obligations (2) | —   | 96,508  | 96,508                             |
| Municipal obligations (2)       | —   | 25,028  | 25,028                             |
| Marketable securities (3)       | 4,258   | —   | 4,258                              |
| Total                           | <u>\$ 133,027</u>   | <u>\$ 186,835</u>                                   | <u>\$ 319,862</u>                  |
| <b>September 30, 2009</b>       |   |   |                                    |
| <b>Assets:</b>                  |   |   |                                    |
| Cash equivalents (1)            | \$ 113,468  | \$ —  | \$ 113,468                         |
| U.S. corporate debt (2)         | —   | 11,697  | 11,697                             |
| Non U.S. corporate debt (2)     | —   | 38,977  | 38,977                             |
| U.S. government obligations (2) | —   | 119,031   | 119,031                            |
| Municipal obligations (2)       | —   | 27,579  | 27,579                             |
| Marketable securities (3)       | 3,760   | —   | 3,760                              |
| Total                           | <u>\$ 117,228</u>   | <u>\$ 197,284</u>                                   | <u>\$ 314,512</u>                  |

(1) Included in cash and cash equivalents on our balance sheet at March 31, 2010 and September 30, 2009. Not included in this table are cash deposits of \$62.1 million and \$64.7 million at March 31, 2010 and September 30, 2009, respectively.

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- (2) Included in marketable securities (short-term and long-term) on our balance sheet at March 31, 2010 and September 30, 2009, respectively.
- (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 March 31, 2010 and September 30, 2009.

Where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing applies to our Level 1 investments. To the extent quoted prices in active markets for assets or liabilities are not available, 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. This methodology applies to our Level 2 investments. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period. During the three and six months ended March 31, 2010 there were no transfers of financial instruments between classification levels.

### *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

As previously discussed, we adopted the provisions of the fair value measurement accounting and disclosure guidance related to non-financial assets and liabilities recognized or disclosed at fair value on a nonrecurring basis on October 1, 2009. Assets and liabilities subject to this new guidance primarily include goodwill and indefinite-lived intangible assets measured at fair value for impairment assessments, long-lived assets measured at fair value for impairment assessments and non-financial assets and liabilities measured at fair value in business combinations. The adoption of this new guidance did not affect our financial position, results of operations or cash flows for the periods presented.

## **9. Derivative Financial Instruments**

We use derivative instruments to manage risks caused by fluctuations in foreign exchange rates. The primary objective of our derivative instruments is to protect the value of foreign currency denominated accounts receivable and cash balances from the effects of volatility in foreign exchange rates that might occur prior to conversion to their functional currency. We principally utilize foreign currency forward contracts, which enable us to buy and sell foreign currencies in the future at fixed exchange rates and economically offset changes in foreign currency exchange rates. We routinely enter into contracts to offset exposures denominated in the British pound, Euro, Canadian dollar and Japanese yen.

Foreign currency denominated accounts receivable and cash balances are re-measured at foreign currency rates in effect on the balance sheet date with the effects of changes in foreign currency rates reported in other income (expense), net. The forward contracts are not designated as hedges and are marked to market through other income (expense), net. Fair value changes in the forward contracts help mitigate the changes in the value of the re-measured accounts receivable and cash balances attributable to changes in foreign currency exchange rates. The forward contracts are short-term in nature and typically have average maturities at inception of less than three months.

The following table summarizes the fair value of our derivative instruments and their location in the consolidated balance sheet:

| March 31, 2010<br>(In thousands)                         | Assets                    |        | Liabilities               |        |
|--|---------------------------|--------|---------------------------|--------|
|  | Balance Sheet<br>Location | Amount | Balance<br>Sheet Location | Amount |
| <u>Derivatives not designated as hedging instruments</u> |                           |        |                           |        |
| Foreign currency forward contracts                       | Other current assets      | \$ —   | Other current liabilities | \$ —   |

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The following table summarizes our outstanding forward foreign currency contracts, by currency at March 31, 2010:

|                        | March 31, 2010   |          | Fair Value<br>US\$ |
|------------------------|------------------|----------|--------------------|
|                        | Contract Amount  |          |                    |
|                        | Foreign Currency | US\$     |                    |
|                        | (In thousands)   |          |                    |
| Sell foreign currency: |                  |          |                    |
| Canadian dollar (CAD)  | 1,550 CAD        | \$ 1,523 | \$ —               |
| Euro (EUR)             | 7,000 EUR        | 9,428    | —                  |
| Japanese yen (JPY)     | 74,000 JPY       | 794      | —                  |

|                       |           |       |   |
|-----------------------|-----------|-------|---|
| Buy foreign currency: |           |       |   |
| British pound (GBP)   | 3,401 GBP | 5,150 | — |

The forward foreign currency contracts were all entered into on March 31, 2010; therefore, the fair value was \$0 on that date.

Losses on derivative financial instruments are recorded in our consolidated statements of income as a component of other income (expense), net. These amounts are shown in the table below:

|                                    | Quarter Ended  | Six Months Ended |
|------------------------------------|----------------|------------------|
|                                    | March 31, 2010 | March 31, 2010   |
|                                    | (In thousands) |                  |
| Foreign currency forward contracts | \$ (344)       | \$ (124)         |

## 10. Income Taxes

### *Effective Tax Rate*

Our effective tax rate was 32.2% and 27.2% during the quarters ended March 31, 2010 and 2009, respectively, and 32.7% and 26.4% during the six months ended March 31, 2010 and 2009, 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 effective 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. The increase in our effective tax rate year over year was due to changes in the foreign and domestic earnings mix and the expiration of the Federal Research and Development credit.

The total unrecognized tax benefit for uncertain tax positions at March 31, 2010 is estimated to be approximately \$20.6 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 March 31, 2010, we have accrued interest of \$1.1 million related to the unrecognized tax benefits.

## 11. Revolving Line of Credit

We have a \$600 million unsecured revolving line of credit with a syndicate of banks that expires on October 20, 2011. Proceeds from the revolving line of credit 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 revolving line of credit 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 revolving line of credit exceed 50% of the total commitment, as well as facility fees. The revolving line of credit contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The revolving line of credit also contains covenants typical of unsecured facilities. As of March 31, 2010, we were in compliance with all covenants under this revolving line of credit and we had \$295.0 million of borrowings outstanding at an interest rate of 0.6%.

## **12. 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 line of credit including maintenance of consolidated leverage and fixed charge coverage ratios. The purchase agreement for the Senior Notes also includes covenants typical of unsecured facilities.

## **13. 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.

## **14. New Accounting Pronouncements Not Yet Adopted**

In June 2009, the FASB issued new accounting guidance related to the consolidation of variable interest entities. The guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We are in the process of determining what effect, if any, the adoption of this guidance will have on our consolidated financial statements.

## **15. Subsequent Events**

For the three and six months ended March 31, 2010, we have evaluated subsequent events for potential recognition and disclosure through the date of this filing. On April 19, 2010, we used \$50 million of cash to reduce our outstanding debt obligation on our revolving line of credit from \$295 million to \$245 million.

**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 Part II, Item 1A "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 2010.

**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, which include the industry standard FICO® score, and our Decision Management systems power 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, 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 banking (including consumer credit) and insurance industries, and during the quarter ended March 31, 2010, 76% of our revenues were derived from within these industries. A significant portion of our remaining revenues is derived from the healthcare and retail industries. 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 customer acquisition, cross selling and retention programs. Approximately 79% and 75% of our revenues during the quarters ended March 31, 2010 and 2009, respectively, and 78% and 75% of our revenues for the six months ended March 31, 2010 and 2009, 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 and non-recurring professional service arrangements.

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

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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 resold only as a result of a significant sales effort. During the quarter ended March 31, 2010, we achieved bookings of \$54.3 million, including two deals with a booking value of \$3.0 million or more. In comparison, bookings in the prior year quarter ended March 31, 2009 were \$46.8 million, with no deals generating a booking value 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 Part II, Item 1A "Risk Factors" below, 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. 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 \$46.8 million and \$51.2 million during the quarters ended March 31, 2010 and 2009, representing 33% and 32% of total consolidated revenues in each of these periods. International revenues totaled \$98.4 million and \$102.4 million during the six months ended March 31, 2010 and 2009, representing 33% and 32% of total consolidated revenues in each of these periods. We expect that the percentage of our revenues derived from international clients will increase in the future, subject to the impact of foreign currency fluctuations.

### **Reengineering Initiative**

In January 2009, we completed additional actions under our reengineering initiative. These actions were 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 with an estimated annual cost savings of \$30 million.

### **Current Business Environment**

Throughout fiscal 2009 financial markets experienced significant volatility and general economic conditions were unstable. These conditions had a substantial impact on our customers, especially financial institutions. This included 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 and related implementation services by our customers. During fiscal 2010 certain aspects of our business, including revenue associated with our Scores segment, have exhibited signs of stabilization. However, we continue to experience a long sales cycle for our products, which has negatively impacted our license and services revenue. These conditions are expected to continue to affect us through fiscal 2010.

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.

### **Segment Information**

Effective October 1, 2009, we implemented an organizational restructuring resulting in a consolidation of our current operating segment structure from four segments to three. The former Professional Services segment, which represents delivery and integration services, is now included within the applicable segment to which the services relate. Our current segment structure is as follows:

- *Applications.* This segment includes the Decision Management applications formerly included within the Strategy Machine Solutions™ segment, excluding our myFICO® solutions for consumers, and associated professional services.
- *Scores.* This segment includes our business-to-business Scoring Solutions, our myFICO® solutions for consumers (previously included in the Strategy Machine™ Solutions segment) and associated professional services.
- *Tools.* This segment includes the Decision Management tools formerly included within the Analytic Software Tools segment and associated professional services.

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

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decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the three and six months ended March 31, 2010 and 2009 are set forth in Note 7 to the accompanying condensed consolidated financial statements. All periods presented have been restated to reflect the aforementioned changes.

**RESULTS OF OPERATIONS**

**Revenues**

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

| Segment       | Quarter Ended March 31, |                   | Percentage of Revenues |             | Period-to-Period Change<br>(In thousands) | Period-to-Period Percentage Change |
|---------------|-------------------------|-------------------|------------------------|-------------|---|------------------------------------|
|               | 2010                    | 2009              | 2010                   | 2009        |   |                                    |
|               | (In thousands)          |                   |                        |             |   |                                    |
| Applications  | \$ 86,896               | \$ 99,040         | 60%                    | 62%         | \$ (12,144)                               | (12)%                              |
| Scores        | 42,534                  | 44,546            | 30%                    | 28%         | (2,012)                                   | (5)%                               |
| Tools         | 14,290                  | 15,749            | 10%                    | 10%         | (1,459)                                   | (9)%                               |
| Total revenue | <u>\$ 143,720</u>       | <u>\$ 159,335</u> | <u>100%</u>            | <u>100%</u> | (15,615)                                  | (10)%                              |

  

| Segment       | Six Months Ended March 31, |                   | Percentage of Revenues |             | Period-to-Period Change<br>(In thousands) | Period-to-Period Percentage Change |
|---------------|----------------------------|-------------------|------------------------|-------------|---|------------------------------------|
|               | 2010                       | 2009              | 2010                   | 2009        |   |                                    |
|               | (In thousands)             |                   |                        |             |   |                                    |
| Applications  | \$ 179,768                 | \$ 193,985        | 61%                    | 60%         | \$ (14,217)                               | (7)%                               |
| Scores        | 84,087                     | 92,187            | 28%                    | 29%         | (8,100)                                   | (9)%                               |
| Tools         | 31,361                     | 36,623            | 11%                    | 11%         | (5,262)                                   | (14)%                              |
| Total revenue | <u>\$ 295,216</u>          | <u>\$ 322,795</u> | <u>100%</u>            | <u>100%</u> | (27,579)                                  | (9)%                               |

**Quarter Ended March 31, 2010 Compared to Quarter Ended March 31, 2009 Revenues**

**Applications**

| Applications                  | Quarter Ended March 31, |                  | Period-to-Period Change<br>(In thousands) | Period-to-Period Percentage Change |
|-------------------------------|-------------------------|------------------|---|------------------------------------|
|                               | 2010                    | 2009             |   |                                    |
|                               | (In thousands)          |                  |   |                                    |
| Transactional and maintenance | \$ 64,703               | \$ 69,102        | \$ (4,399)                                | (6)%                               |
| Professional services         | 19,621                  | 25,683           | (6,062)                                   | (24)%                              |
| License                       | 2,572                   | 4,255            | (1,683)                                   | (40)%                              |
| Total                         | <u>\$ 86,896</u>        | <u>\$ 99,040</u> | (12,144)                                  | (12)%                              |

Applications segment revenues decreased \$12.1 million due to a \$6.5 million decrease in revenues from our *originations solutions*, a \$5.9 million decrease in revenues from our *customer management solutions*, a \$2.2 million decrease in our *fraud solutions* and a \$1.4 million decrease in our *collection and recovery solutions*. The revenue decline was partially offset by a \$4.0 million increase in our *marketing solutions*.

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The decrease in *originations solutions* was attributable to a decrease in services related to implementation of our products and the June 2009 divestiture of our Liquid Credit Service for Telecom product line, which accounted for \$3.2 million of revenue in the quarter ended March 31, 2009. Professional services were also negatively impacted because we established VSOE for certain analytic model consulting services during the quarter ended March 31, 2009. With all other revenue recognition criteria met, professional services amounts previously recorded as deferred revenue were recognized during the quarter ended March 31, 2009. The decrease in *customer management solutions* was attributable to a decrease in volumes associated with transactional-based agreements and a decline in professional services revenue from software implementation services. The decrease in *fraud solutions* revenues was attributable to the June 2009 divestiture of our RoamEx product line, which accounted for \$2.1 million of revenue in the quarter ended March 31, 2009. The decrease in *collection and recovery solutions* was attributable to a decline in license sales and a decline in professional services revenue from software implementation services. The increase in our *marketing solutions* revenues was attributable to sales of a new product, FICO® Retail Action Manager.

### Scores

| Scores                        | Quarter Ended March 31, |                        | Period-to-Period<br>Change<br>(In thousands) | Period-to-Period<br>Percentage<br>Change |
|-------------------------------|-------------------------|------------------------|--|--|
|                               | 2010<br>(In thousands)  | 2009<br>(In thousands) |  |  |
| Transactional and maintenance | \$ 41,885               | \$ 43,966              | \$ (2,081)                                   | (5)%                                     |
| Professional services         | 649                     | 580                    | 69   | 12%                                      |
| Total                         | <u>\$ 42,534</u>        | <u>\$ 44,546</u>       | (2,012)                                      | (5)%                                     |

Scores segment revenues decreased \$2.0 million primarily due to a decrease in our myFICO® business-to-consumer services. The decline in our business-to-consumer services was primarily attributable to Experian terminating its relationship with myFICO.com in February 2009. 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 2010.

During the quarters ended March 31, 2010 and 2009, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 21% and 18%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

### Tools

| Tools                         | Quarter Ended March 31, |                        | Period-to-Period<br>Change<br>(In thousands) | Period-to-Period<br>Percentage<br>Change |
|-------------------------------|-------------------------|------------------------|--|--|
|                               | 2010<br>(In thousands)  | 2009<br>(In thousands) |  |  |
| Transactional and maintenance | \$ 7,113                | \$ 6,386               | \$ 727                                       | 11%                                      |
| Professional services         | 3,656                   | 5,049                  | (1,393)                                      | (28)%                                    |
| License                       | 3,521                   | 4,314                  | (793)  | (18)%                                    |
| Total                         | <u>\$ 14,290</u>        | <u>\$ 15,749</u>       | (1,459)                                      | (9)%                                     |

Tools segment revenues decreased \$1.5 million primarily due to a decrease of license sales related to our FICO™ Blaze Advisor® product, which was negatively impacted by the current business environment. In addition, professional services revenue declined due to the completion of several large installations in prior periods.

**Six Months Ended March 31, 2010 Compared to Six Months Ended March 31, 2009 Revenues****Applications**

| Applications                  | Six Months Ended March 31, |                   | Period-to-Period<br>Change<br>(In thousands) | Period-to-Period<br>Percentage<br>Change |
|-------------------------------|----------------------------|-------------------|--|--|
|                               | 2010                       | 2009              |  |  |
|                               | (In thousands)             |                   |  |  |
| Transactional and maintenance | \$ 131,437                 | \$ 138,692        | \$ (7,255)                                   | (5)%                                     |
| Professional services         | 41,083                     | 46,620            | (5,537)                                      | (12)%                                    |
| License                       | 7,248                      | 8,673             | (1,425)                                      | (16)%                                    |
| Total                         | <u>\$ 179,768</u>          | <u>\$ 193,985</u> | (14,217)                                     | (7)%                                     |

Applications segment revenues decreased \$14.2 million due to a \$10.8 million decrease in revenues from our *originations solutions*, a \$5.5 million decrease in our *customer management solutions*, a \$4.6 million decrease in our *fraud solutions*, and a \$1.9 million decrease from our other applications solutions. The revenue decline was partially offset by an \$8.6 million increase in our *marketing solutions*.

The decrease in *originations solutions* was attributable to a decrease in professional services and the June 2009 divestiture of our Liquid Credit Service for Telecom product line, which accounted for \$6.4 million of revenue during the six months ended March 31, 2009. The decrease in *customer management solutions* was attributable to a decrease in volumes associated with transactional-based agreements. The decrease in *fraud solutions* revenues was attributable to the June 2009 divestiture of our RoamEx product line, which accounted for \$4.3 million of revenue during the six months ended March 31, 2009. The increase in our *marketing solutions* revenues was attributable to sales of a new product, FICO® Retail Action Manager.

**Scores**

| Scores                        | Six Months Ended March 31, |                  | Period-to-Period<br>Change<br>(In thousands) | Period-to-Period<br>Percentage<br>Change |
|-------------------------------|----------------------------|------------------|--|--|
|                               | 2010                       | 2009             |  |  |
|                               | (In thousands)             |                  |  |  |
| Transactional and maintenance | \$ 83,028                  | \$ 91,430        | \$ (8,402)                                   | (9)%                                     |
| Professional services         | 1,059                      | 757              | 302  | 40%                                      |
| Total                         | <u>\$ 84,087</u>           | <u>\$ 92,187</u> | (8,100)                                      | (9)%                                     |

Scores segment revenues decreased \$8.1 million due to a \$6.5 million decrease in our myFICO® business-to-consumer services and a \$1.6 million decrease in our business-to-business Scores. The decline in our business-to-consumer services was primarily attributable to Experian terminating its relationship with myFICO.com. Business-to-business Scores revenue was impacted by a \$2.8 million reduction in revenues from our services sold directly to users. These services have experienced increased pricing pressure in addition to 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 2010.

During the six months ended March 31, 2010 and 2009, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 20% and 18%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

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**Tools**

| Tools                         | Six Months Ended March 31, |           | Period-to-Period<br>Change<br>(In thousands) | Period-to-Period<br>Percentage<br>Change |
|-------------------------------|----------------------------|-----------|--|--|
|                               | 2010                       | 2009      |  |  |
|                               | (In thousands)             |           |  |  |
| Transactional and maintenance | \$ 14,342                  | \$ 12,990 | \$ 1,352                                     | 10%                                      |
| Professional services         | 8,021                      | 12,015    | (3,994)                                      | (33)%                                    |
| License                       | 8,998                      | 11,618    | (2,620)                                      | (23)%                                    |
| Total                         | \$ 31,361                  | \$ 36,623 | (5,262)                                      | (14)%                                    |

Tools segment revenues decreased \$5.3 million primarily due to a decrease of license sales related to our FICOTM Blaze Advisor® product, which was negatively impacted by the current business environment. In addition, professional services revenue declined due to the completion of several large installations in prior periods.

**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 March 31,          |            | Percentage of Revenues |      | Period-to-Period<br>Change<br>(In thousands,<br>except employees) | Period-to-Period<br>Percentage<br>Change |
|--|----------------------------------|------------|------------------------|------|---|--|
|  | 2010                             | 2009       | 2010                   | 2009 |   |  |
|  | (In thousands, except employees) |            |                        |      |   |  |
| Revenues   | \$ 143,720                       | \$ 159,335 | 100%                   | 100% | \$ (15,615)   | (10)%                                    |
| Operating expenses:                                      |                                  |            |                        |      |   |  |
| Cost of revenues   | 44,641                           | 53,476     | 31%                    | 34%  | (8,835)   | (17)%                                    |
| Research and development                                 | 19,251                           | 18,924     | 13%                    | 12%  | 327   | 2%                                       |
| Selling, general and administrative                      | 53,697                           | 52,460     | 38%                    | 33%  | 1,237   | 2%                                       |
| Amortization of intangible assets                        | 3,070                            | 3,156      | 2%                     | 2%   | (86)  | (3)%                                     |
| Restructuring  | —                                | 870        | —%                     | —%   | (870)   | (100)%                                   |
| Total operating expenses                                 | 120,659                          | 128,886    | 84%                    | 81%  | (8,227)   | (6)%                                     |
| Operating income   | 23,061                           | 30,449     | 16%                    | 19%  | (7,388)   | (24)%                                    |
| Interest income  | 507                              | 1,245      | —%                     | 1%   | (738)   | (59)%                                    |
| Interest expense   | (5,423)                          | (6,527)    | (4)%                   | (4)% | 1,104   | (17)%                                    |
| Other income (expense), net                              | 1,027                            | (298)      | 1%                     | —%   | 1,325   | (445)%                                   |
| Income from continuing operations<br>before income taxes | 19,172                           | 24,869     | 13%                    | 16%  | (5,697)   | (23)%                                    |
| Provision for income taxes                               | 6,180                            | 6,761      | 4%                     | 5%   | (581)   | (9)%                                     |
| Income from continuing operations                        | 12,992                           | 18,108     | 9%                     | 11%  | (5,116)   | (28)%                                    |
| Loss from discontinued operations                        | —                                | (363)      | —%                     | —%   | 363   | (100)%                                   |
| Net income   | \$ 12,992                        | \$ 17,745  | 9%                     | 11%  | (4,753)   | (27)%                                    |
| Number of employees at quarter end                       | 2,147                            | 2,184      |                        |      | (37)  | (2)%                                     |

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|                                     | <u>Six Months Ended March 31,</u>       |             | <u>Percentage of Revenues</u> |             | <u>Period-to-Period Change</u><br><u>(In thousands, except employees)</u> | <u>Period-to-Period Percentage Change</u> |
|-------------------------------------|---|-------------|-------------------------------|-------------|---|---|
|                                     | <u>2010</u>                             | <u>2009</u> | <u>2010</u>                   | <u>2009</u> |   |   |
|                                     | <u>(In thousands, except employees)</u> |             |                               |             |   |   |
| Revenues                            | \$ 295,216                              | \$ 322,795  | 100%                          | 100%        | \$ (27,579)   | (9)%                                      |
| Operating expenses:                 |   |             |                               |             |   |   |
| Cost of revenues                    | 87,160                                  | 112,495     | 29%                           | 35%         | (25,335)  | (23)%                                     |
| Research and development            | 38,227                                  | 37,045      | 13%                           | 11%         | 1,182   | 3%  |
| Selling, general and administrative | 108,900                                 | 107,229     | 37%                           | 33%         | 1,671   | 2%  |
| Amortization of intangible assets   | 6,235                                   | 6,403       | 2%                            | 2%          | (168)   | (3)%                                      |
| Restructuring                       | —                                       | 8,948       | —%                            | 3%          | (8,948)   | (100)%                                    |
| Total operating expenses            | 240,522                                 | 272,120     | 81%                           | 84%         | (31,598)  | (12)%                                     |
| Operating income                    | 54,694                                  | 50,675      | 19%                           | 16%         | 4,019   | 8%  |
| Interest income                     | 1,046                                   | 2,900       | —%                            | 1%          | (1,854)   | (64)%                                     |
| Interest expense                    | (10,831)                                | (13,685)    | (4)%                          | (4)%        | 2,854   | (21)%                                     |
| Other income, net                   | 646                                     | 1,148       | —%                            | —%          | (502)   | (44)%                                     |
| Income from continuing operations   |   |             |                               |             |   |   |
| before income taxes                 | 45,555                                  | 41,038      | 15%                           | 13%         | 4,517   | 11%                                       |
| Provision for income taxes          | 14,877                                  | 10,820      | 5%                            | 4%          | 4,057   | 37%                                       |
| Income from continuing operations   | 30,678                                  | 30,218      | 10%                           | 9%          | 460   | 2%  |
| Loss from discontinued operations   | —                                       | (363)       | —%                            | —%          | 363   | (100)%                                    |
| Net income                          | \$ 30,678                               | \$ 29,855   | 10%                           | 9%          | 823   | 3%  |

**Cost of Revenues**

Cost of revenues consists primarily of employee salaries and benefits for personnel directly involved in developing, installing and supporting revenue products; travel costs; 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 business-to-consumer services.

The quarter over quarter decrease of \$8.8 million in cost of revenues resulted from a \$4.3 million decrease in personnel and other labor-related costs, a \$4.2 million decrease in facilities and infrastructure costs and a \$0.3 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 facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

The year-to-date period over period decrease of \$25.3 million in cost of revenues resulted from a \$12.7 million decrease in personnel and other labor-related costs, an \$8.7 million decrease in facilities and infrastructure costs, a \$3.4 million decrease in third party software and data costs and a \$0.5 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 facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities. The decrease in third party software and data costs was due to decreased sales in our myFICO<sup>®</sup> business-to-consumer services that required data acquisition.

Over the next several quarters, we expect that cost of revenues as a percentage of revenues will decrease slightly when compared to those incurred during the quarter ended March 31, 2010.

***Research and Development***

Research and development expenses include the personnel and related overhead costs incurred in the development of new products and services, including the research of mathematical and statistical models and the development of new versions of Applications and Tools products.

Research and development expenditures for the quarter ended March 31, 2010 were consistent with expenditures in the quarter ended March 31, 2009.

The year-to-date period over period increase of \$1.2 million in research and development expenditures was attributable primarily to a \$0.6 million increase in personnel and related costs and \$0.6 million increase in other expenses. The increase in personnel and related cost was due to increased salaries for the period ended March 31, 2010.

Over the next several quarters, we expect that research and development expenditures will be consistent with those incurred during the quarter ended March 31, 2010.

***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 increase of \$1.2 million in selling, general and administrative expenses was attributable to a \$4.7 million increase in personnel and related costs and a \$0.9 million increase in travel expenses, partially offset by a \$1.1 million decrease in marketing expenses, a \$1.0 million decrease in professional fees, a \$1.0 million decrease in facilities and infrastructure costs, a \$0.6 million decrease in bad debt expense and a \$0.7 million decrease in other costs. The quarter over quarter increase in personnel and related costs was primarily due to increased salaries and benefits for the period ended March 31, 2010. The increase in travel expenses was due to increased travel to support sales efforts. The decrease in marketing expense was attributable to the timing of marketing campaigns and related activities. The decline in professional fees was primarily due to decreased legal fees. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities in previous quarters. The decline in bad debt expense was due to successful collection efforts.

The year-to-date period over period increase of \$1.7 million in selling, general and administrative expenses was attributable to a \$5.6 million increase in personnel and related costs and a \$1.2 million increase in travel expenses, partially offset by a \$2.0 million decrease in professional fees, a \$1.3 million decrease in bad debt expense, a \$1.0 million decrease in facilities and infrastructure costs and a \$0.8 million decrease in other costs. The quarter over quarter increase in personnel and related costs was primarily due to increased salaries and benefits for the six months ended March 31, 2010. The increase in travel expenses was due to increased travel to support sales efforts. The decline in professional fees was primarily due to decreased legal fees. The decline in bad debt expense was due to successful collection efforts. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities in previous quarters.

Over the next several quarters, we expect that selling, general and administrative expenses will be consistent with those incurred during the quarter ended March 31, 2010.

***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.

Over the next several quarters, we expect that amortization expense will be slightly lower than the amortization expense we recorded during the quarter ended March 31, 2010.

### ***Restructuring***

During the quarter ended March 31, 2009, we recognized a \$1.2 million charge due to unfavorable sublease arrangements we entered into for office space previously vacated. The charge was offset by a \$0.4 million reduction in other restructuring liabilities.

During the quarter ended December 31, 2008, in connection with our reengineering initiative, 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 all severance costs were paid during fiscal 2009. We also recognized charges of \$2.6 million associated with vacating excess leased space. The charge represents future cash lease payments, net of estimated sublease income, which will be paid by fiscal 2018. 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 previously vacated.

We did not incur any restructuring charges during the three and six months ended March 31, 2010.

### ***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 \$0.7 million was attributable to a decline in interest rates and investment income yields due to market conditions.

The year-to-date decrease in interest income of \$1.9 million was attributable to a decline in interest rates and investment yields due to market conditions.

### ***Interest Expense***

Interest expense recorded during the quarter ended March 31, 2010 included interest on our Senior Notes and interest associated with borrowings under our revolving line of credit. The decrease in interest expense of \$1.1 million in such quarter was the result of lower average interest rates on our revolving line of credit.

The year-to-date decrease in interest expense of \$2.9 million was attributable to lower average interest rates on our revolving line of credit in fiscal 2010.

Interest expense associated with our revolving line of credit will likely increase over time due to an increase in market interest rates or if we refinance the revolving line of credit at a higher interest rate.

### ***Other Income (Expense), 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 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 (expense), net in the quarter ended March 31, 2010, primarily consisted of gains on the sale of assets of \$0.9 million. In the quarter ended March 31, 2009, other income (expense), net resulted from foreign exchange currency loss of \$0.4 million.

Other income (expense), net in the six months ended March 31, 2010, primarily consisted of gains on the sale of assets of \$0.9 million and foreign exchange currency losses of \$0.5 million. In the six months ended March 31, 2009, other income (expense), net resulted from foreign exchange currency gains of \$1.0 million.

### ***Provision for Income Taxes***

Our effective tax rate was 32.2% and 27.2% during the quarters ended March 31, 2010 and 2009, respectively and 32.7% and 26.4% during the six months ended March 31, 2010 and 2009, 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 three and six months ended March 31, 2010, was negatively affected by the delay in the extension of the U.S. federal research tax credit. We were unable to recognize this tax credit during the three and six months ended March 31,

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2010 as legislation providing for reinstatement of this credit was not yet enacted.

### 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 March 31, |                  | Period-to-Period<br>Change<br>(In thousands) | Period-to-Period<br>Percentage<br>Change |
|--------------------------------------|-------------------------|------------------|--|--|
|                                      | 2010<br>(In thousands)  | 2009             |  |  |
| Applications                         | \$ 20,554               | \$ 34,335        | \$ (13,781)                                  | (40)%                                    |
| Scores                               | 27,333                  | 28,557           | (1,224)                                      | (4)%                                     |
| Tools                                | 580                     | 1,063            | (483)  | (45)%                                    |
| Corporate expenses                   | (17,489)                | (24,303)         | 6,814  | (28)%                                    |
| Total segment operating income       | 30,978                  | 39,652           | (8,674)                                      | (22)%                                    |
| Unallocated stock-based compensation | (4,847)                 | (5,177)          | 330  | (6)%                                     |
| Unallocated amortization expense     | (3,070)                 | (3,156)          | 86   | (3)%                                     |
| Unallocated restructuring            | —                       | (870)            | 870  | (100)%                                   |
| Operating income                     | <u>\$ 23,061</u>        | <u>\$ 30,449</u> | (7,388)                                      | (24)%                                    |

| Segment                              | Six Months Ended March 31, |                  | Period-to-Period<br>Change<br>(In thousands) | Period-to-Period<br>Percentage<br>Change |
|--------------------------------------|----------------------------|------------------|--|--|
|                                      | 2010<br>(In thousands)     | 2009             |  |  |
| Applications                         | \$ 46,246                  | \$ 53,687        | \$ (7,441)                                   | (14)%                                    |
| Scores                               | 54,608                     | 60,925           | (6,317)                                      | (10)%                                    |
| Tools                                | 3,472                      | 4,952            | (1,480)                                      | (30)%                                    |
| Corporate expenses                   | (34,015)                   | (42,890)         | 8,875  | (21)%                                    |
| Total segment operating income       | 70,311                     | 76,674           | (6,363)                                      | (8)%                                     |
| Unallocated stock-based compensation | (9,382)                    | (10,648)         | 1,266  | (12)%                                    |
| Unallocated amortization expense     | (6,235)                    | (6,403)          | 168  | (3)%                                     |
| Unallocated restructuring            | —                          | (8,948)          | 8,948  | (100)%                                   |
| Operating income                     | <u>\$ 54,694</u>           | <u>\$ 50,675</u> | 4,019  | 8%                                       |

The quarter over quarter decrease of \$7.4 million in operating income was attributable to a decline in segment revenues partially offset by a decrease in corporate operating expenses and a decrease in restructuring expenses. At the segment level, the decrease in segment operating income was driven by a decrease of \$13.8 million in segment operating income in our Applications segment, a decrease of \$1.2 million in our Scores segment and a decrease of \$0.5 million in our Tools segment.

The decrease in our Applications segment was attributable to a decrease in revenue as well as an increase in segment operating expenses, primarily due to increasing salary and benefit expenses.

The decrease in our Scores segment operating income was attributable primarily to a decline in revenues derived from business-to-consumer services and services that we provided directly to users in financial services.

In our Tools segment, the decrease in segment operating income was primarily attributable to a decrease in Blaze Advisor revenues and a decrease in professional services implementations, partially offset by lower operating expenses for professional services implementations.

The decrease in corporate expenses was due to staff reductions and facility consolidations, driven by our reengineering initiative.

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The year-to-date period over period increase of \$4.0 million in operating income was attributable to a reduction in segment and corporate operating expenses, which was driven by our reengineering initiative, a decrease in restructuring expenses and a decrease in share-based compensation expense, partially offset by a decline in segment revenues. Under the reengineering initiative, we have reduced operating costs through staff reductions, facility consolidations and restriction of discretionary expenditures. At the segment level, our segment operating income was negatively impacted by a \$7.4 million decrease in our Applications segment, a \$6.3 million decrease in our Scores segment and \$1.5 million decrease in our Tools segment.

The decrease in our Applications segment operating income was attributable to a decrease in revenue, partially offset by a decrease in operating expenses, which was driven by our reengineering initiative.

The decrease in our Scores segment operating income was attributable primarily to a decline in revenues derived from business-to-consumer services and services that we provided directly to users in financial services partially offset by a decrease in operating expenses, which was driven by our reengineering initiative.

In our Tools segment, the decrease in segment operating income was primarily attributed to a decrease in Blaze Advisor revenues, partially offset by lower operating expenses, which was driven by our reengineering initiative.

The decrease in corporate expenses was due to staff reductions and facility consolidations, driven by our reengineering initiative.

### ***Discontinued Operations***

In March 2009, we recorded a charge of \$0.4 million, net of tax, resulting from the resolution of a final working capital adjustment in favor of the purchaser.

## **Capital Resources and Liquidity**

### ***Cash Flows from Operating Activities***

Operating cash flows were impacted by a \$12.3 million decrease in accounts receivable, a \$9.3 million increase in other liabilities and a \$0.1 million increase in deferred revenue for the six months ended March 31, 2010 compared to a \$28.4 million decrease in accounts receivable, a \$7.9 million decrease in other liabilities and a \$7.7 million increase in deferred revenue for the six months ended March 31, 2009.

### ***Cash Flows from Investing Activities***

Net cash provided by investing activities totaled \$1.5 million during the six months ended March 31, 2010, compared to cash used of \$9.1 million in the six months ended March 31, 2009. The increase in cash flows from investing activities was primarily attributable to \$8.9 million in proceeds from maturities of marketable securities, net of purchases, during the six months ended March 31, 2010 compared to \$1.9 million that was used for purchases of marketable securities, net of proceeds from maturities, during the six months ended March 31, 2009.

### ***Cash Flows from Financing Activities***

Net cash used in financing activities totaled \$56.2 million in the six months ended March 31, 2010, compared to net cash provided by financing activities of \$1.1 million in during the six months ended March 31, 2009. The decrease in cash flows from financing activities was primarily due to the repurchase of \$57.5 million of common stock during the six months ended March 31, 2010.

### ***Repurchases of Common Stock***

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. From time to time, we repurchase our common stock in the open market pursuant to this program. During the three and six months ended March 31, 2010, we repurchased 1.0 million shares of our common stock for \$24.1 million and 2.7 million shares of common stock for \$57.5 million, respectively. As of March 31, 2010, we had \$72.1 million remaining under this authorization.

### ***Dividends***

During the quarter ended March 31, 2010, 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.

### ***Revolving Line of Credit***

We have a \$600 million unsecured revolving line of credit with a syndicate of banks that expires in October 2011. Proceeds from the revolving line of credit 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 revolving line of credit 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 revolving line of credit exceed 50% of the total commitment, as well as facility fees. The revolving line of credit contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The revolving line of credit also contains covenants typical of unsecured facilities. As of March 31, 2010, we were in compliance with all covenants under the revolving line of credit and we had \$295.0 million of borrowings outstanding at an interest rate of 0.6%. On April 19, 2010, we used \$50 million of cash to reduce our outstanding debt obligation on our revolving line of credit from \$295 million to \$245 million.

### ***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 line of credit 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 March 31, 2010, we had \$382.0 million in cash, cash equivalents and marketable security investments. We believe that these balances, as well as available borrowings from our \$600 million revolving line of credit 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 October 2011. 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, or if we refinance our existing debt, 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

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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 Licenses*

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. The determination of whether fees are fixed or determinable and collection is probable involves the use of assumptions. 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 collectability is not probable, revenue is deferred until the earlier of when collectability 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. We evaluate contract terms and customer information to ensure that these criteria are met prior to our recognition of license fee revenue.

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. 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.

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.

#### *Transactional-based Revenues*

Transactional-based revenue is recognized when persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured. Revenues from our credit scoring, data processing, data management and internet delivery services are recognized as these services are performed. Revenues from transactional or unit-based license fees under software license arrangements, network service and internally-hosted software agreements are recognized based on minimum contractual amounts or on system usage that exceeds minimum contractual amounts. Certain of our transactional-based revenues are based on transaction or active account volumes as reported by our clients. In instances where volumes are reported to us in arrears, we estimate volumes based on preliminary customer transaction information or 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 is received, and this could have a material impact on our results of operations during the period of time that we changed accounting methods.

#### *Consulting Services*

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

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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.

### *Hosting Services*

We sell hosting services (“ASP”) where a customer may access the software that resides on our servers. The ASP model typically includes an up-front fee and a monthly commitment from the customer that commences upon completion of the implementation through the remainder of the contractual term. The up-front fee is the initial setup fee, or the implementation fee. The monthly commitment includes, but is not limited to, a fixed monthly fee or a transactional fee based on system usage that exceeds monthly minimums. Revenue is recognized from ASP when there is persuasive evidence of an arrangement, the service has been provided to the customer, the amount of fees is fixed or determinable and the collection of the Company’s fees is probable. We do not view the activities of signing the contract or providing initial setup services as discrete earnings events. Revenue is deferred until the date the customer commences use of our services at which point the up-front fees are recognized ratably over the contractual term of the customer arrangement. ASP transactional fees are recorded monthly as earned.

### *Non-Software Multiple-Deliverable Arrangements*

Each deliverable within a multiple-deliverable revenue arrangement is accounted for as a separate unit of accounting if the following criteria are met: (i) the delivered item or items have value to the customer on a standalone basis and (ii) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. We consider a deliverable to have standalone value if we sell this item separately or if the item is sold by another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to delivered products. Revenue for multiple element arrangements is allocated to the software and non-software deliverables based on a relative selling price. We use VSOE in our allocation of arrangement consideration when it is available. We define VSOE as a median price of recent standalone transactions that are priced within a narrow range, as defined by us. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE. In circumstances when VSOE does not exist, we then assess whether we can obtain third-party evidence (“TPE”) of the selling price. It may be difficult for us to obtain sufficient information on competitor pricing to substantiate TPE and therefore we may not always be able to use TPE. When we are unable to establish selling price using VSOE or TPE, we use estimated selling price (“ESP”) in its allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact if the product or service were sold by us on a standalone basis. Our determination of ESP involves weighting several factors based on the specific facts and circumstances of each arrangement. The factors include, but are not limited to, geographies, market conditions, gross margin objectives, pricing practices and controls and customer segment pricing strategies and the product lifecycle. We analyze selling prices used in our allocation of arrangement consideration on an annual basis, or more frequently if necessary. Selling prices will be analyzed more frequently if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

### *Gross vs. Net Revenue Reporting*

We apply accounting guidance to determine whether we report revenue for certain transactions based upon the gross amount billed to the customer, or the net amount retained by us. In accordance with the guidance we record revenue on a gross basis for sales in which we have acted as the principal and 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 collectability 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.

***Business Acquisitions; Valuation of Goodwill and Other Intangible Assets***

Our business acquisitions typically result in the recognition of goodwill and other intangible assets, 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 based on forecasted cash flows associated with the assets over the estimated useful lives. Goodwill is not amortized, but is assessed at least annually 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; 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 with finite useful lives, 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. Indefinite-lived intangible assets are assessed annually for impairment by comparing the fair value of such intangible assets, measured using discounted cash flows, to the respective fair value. To the extent the fair value is less than the associated carrying value, impairment is recorded. 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 as of our last testing date on July 1, 2009, 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.

Due to ongoing uncertainty in economic conditions and weakness in financial credit markets, which have adversely affected the fair value of our reporting units, we will continue to carefully monitor and evaluate the carrying value of goodwill. We had \$661.9 million of goodwill recorded on our consolidated balance sheet as of March 31, 2010. As of the most recent testing date (July 1, 2009), the fair value of our reporting units (as configured at that time) exceeded their respective carrying values by between \$20 million and \$329 million. 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 fiscal 2009 year-end 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 as required in the accounting literature. 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. 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. We estimate the expected term of options granted 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. To the extent an adjustment in our deferred tax assets relates to a business combination the adjustment is recorded either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. Although we believe that our estimates are reasonable, there is no assurance that our 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 accounting guidance related to the 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 June 2009, the FASB issued new accounting guidance related to the consolidation of variable interest entities. The guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We are in the process of determining what effect, if any, the adoption of this guidance will have on our consolidated financial statements.

**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 March 31, 2010 and September 30, 2009:

|                           | March 31, 2010    |                        |                        | September 30, 2009 |                        |                      |
|---------------------------|-------------------|------------------------|------------------------|--------------------|------------------------|----------------------|
|                           | <u>Cost Basis</u> | <u>Carrying Amount</u> | <u>Average Yield</u>   | <u>Cost Basis</u>  | <u>Carrying Amount</u> | <u>Average Yield</u> |
|                           |                   |                        |                        |                    |                        |                      |
|                           |                   |                        | (Dollars in thousands) |                    |                        |                      |
| Cash and cash equivalents | \$ 190,910        | \$ 190,910             | 0.07%                  | \$ 178,157         | \$ 178,157             | 0.12%                |
| Short-term investments    | 151,438           | 151,609                | 0.99%                  | 139,149            | 139,673                | 1.26%                |
| Long-term investments     | 35,171            | 35,227                 | 1.08%                  | 57,437             | 57,611                 | 1.44%                |
|                           | <u>\$ 377,519</u> | <u>\$ 377,746</u>      | 0.53%                  | <u>\$ 374,743</u>  | <u>\$ 375,441</u>      | 0.75%                |

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 March 31, 2010 and September 30, 2009:

|              | March 31, 2010   |                         |                   | September 30, 2009 |                         |                   |
|--------------|------------------|-------------------------|-------------------|--------------------|-------------------------|-------------------|
|              | <u>Principal</u> | <u>Carrying Amounts</u> | <u>Fair Value</u> | <u>Principal</u>   | <u>Carrying Amounts</u> | <u>Fair Value</u> |
|              |                  |                         |                   |                    |                         |                   |
|              |                  |                         | (In thousands)    |                    |                         |                   |
| Senior Notes | \$ 275,000       | \$ 275,000              | \$ 306,865        | \$ 275,000         | \$ 275,000              | \$ 301,295        |

We have interest rate risk with respect to our five-year \$600 million unsecured revolving line of credit. Interest on amounts borrowed under the revolving line of credit 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 March 31, 2010 and September 30, 2009.

**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 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.

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The following table summarizes our outstanding forward foreign currency contracts, by currency at March 31, 2010:

|                        | March 31, 2010   |          | Fair Value<br>US\$ |
|------------------------|------------------|----------|--------------------|
|                        | Contract Amount  |          |                    |
|                        | Foreign Currency | US\$     |                    |
|                        | (In thousands)   |          |                    |
| Sell foreign currency: |                  |          |                    |
| Canadian dollar (CAD)  | 1,550 CAD        | \$ 1,523 | \$ —               |
| Euro (EUR)             | 7,000 EUR        | 9,428    | —                  |
| Japanese yen (JPY)     | 74,000 JPY       | 794      | —                  |
| Buy foreign currency:  |                  |          |                    |
| British pound (GBP)    | 3,401 GBP        | 5,150    | —                  |

The forward foreign currency contracts were all entered into on March 31, 2010; 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 FICO's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of FICO'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 FICO's disclosure controls and procedures are effective to ensure that information required to be disclosed by FICO 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 FICO'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 related in part 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 alleged in the lawsuit violations of antitrust laws, unfair competitive practices and false advertising, trademark infringement, and breach of contract. We sought injunctive relief, and compensatory and punitive damages. 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. On February 9, 2009, the Court granted our motions to strike counterclaims the remaining defendants had attempted to bring against us in the case, allowing them to assert only a counterclaim for trademark cancellation. On July 24, 2009, the Court issued a summary judgment order, which limited the claims to be tried. The Court dismissed our antitrust, contract, and certain false advertising claims. The Court allowed our trademark infringement, unfair competition, and passing off claims to proceed to trial. After a three-week trial on these claims, the jury ruled in the defendants' favor on November 20, 2009. We have filed post-trial motions to address issues in the trial, and the defendants have filed post-trial motions seeking payment of certain attorneys' fees and costs. Rulings on these post-trial motions are expected in the coming months. Should the jury verdict stand, we plan to appeal. We also expect to appeal the dismissal of our antitrust, contract, and false advertising claims.

**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 expanded 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.

***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 and collections and recovery solutions 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 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 recent 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 and retailers. 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 credit scoring products 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.***

Most of our products rely on distributors, and we intend to continue to market and distribute our products through existing and future distributor relationships. Our Scores 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;

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- 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.

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

As part of our management approach, we implemented a reengineering initiative designed to grow revenues through strategic resource allocation and improve profitability through cost reductions. Periodically, implementation of our reengineering initiative may reduce our revenues as a result of our exit from non-strategic product lines. Our reengineering initiative 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 initiative, or a lower, or no, positive impact on revenues from strategic resource allocation. If our reengineering initiative is not successful, our revenues, results of operations and business may suffer.

### ***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, banking 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.

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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 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 fiscal 2009 year-end 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 selling approach is complex 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 sales 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, 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

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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. 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](http://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 Scores segment and for certain services in our Application 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;

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- 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 laws, such as the Truth In Lending Act ("TILA") and Regulation Z, and 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, advertising, endorsements and testimonials and credit repair;

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- 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 FICO 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 banking 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 2009, 76% of our revenues were derived from sales of products and services to the banking 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 banking 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, banking 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 2009, 32% 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 FICO, 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)**

| <u>Period</u>                              | <u>Total<br/>Number of<br/>Shares<br/>Purchased<br/>(2)</u> | <u>Average<br/>Price Paid<br/>per Share</u> | <u>Total Number of<br/>Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced<br/>Plans or<br/>Programs</u> | <u>Maximum<br/>Dollar Value of<br/>Shares that May<br/>Yet Be<br/>Purchased<br/>Under the Plans<br/>or Programs</u> |
|--|---|---|---|---|
| January 1, 2010 through January 31, 2010   | 183,306   | \$ 21.70                                    | 166,400   | \$ 92,660,870   |
| February 1, 2010 through February 28, 2010 | 6,159   | \$ 21.37                                    | —   | \$ 92,660,870   |
| March 1, 2010 through March 31, 2010       | 791,516   | \$ 25.94                                    | 791,516   | \$ 72,131,525   |
|  | <u>980,981</u>  | <u>\$ 25.12</u>                             | <u>957,916</u>  | <u>\$ 72,131,525</u>  |

- (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 23,065 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended March 31, 2010.

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

Not applicable.

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

Our annual meeting of stockholders was held on February 2, 2010 and the following actions were taken:

#### 1. **Election of Directors**

Stockholders elected nine directors for one-year terms. The vote tabulation for individual directors was:

| <u>NOMINEE</u>                | <u>FOR</u> | <u>WITHHELD</u> |
|-------------------------------|------------|-----------------|
| Mr. A. George Battle          | 36,172,165 | 2,060,758       |
| Mr. Nicholas F. Graziano, III | 37,779,563 | 453,360         |
| Dr. Mark N. Greene            | 37,794,033 | 438,890         |
| Mr. Alex W. Hart              | 37,565,019 | 667,904         |
| Mr. James D. Kirsner          | 37,428,489 | 804,434         |
| Mr. William J. Lansing        | 37,154,189 | 1,078,734       |
| Mr. Rahul L. Merchant         | 37,398,187 | 834,736         |
| Ms. Margaret L. Taylor        | 37,686,243 | 546,680         |
| Mr. Duane E. White            | 37,797,128 | 435,795         |

#### 2. **Amendment of Restated Certificate of Incorporation**

The stockholders approved the amendment of our Restated Certificate of Incorporation to eliminate cumulative voting in the election of directors (with 34,917,228 votes for, 3,278,650 votes against, 37,045 abstentions and 4,220,917 broker non-votes). The amendment became effective upon its filing with the state of Delaware, which was accomplished February 3, 2010.

#### 3. **Amendment of Bylaws**

The stockholders approved the amendment of our Bylaws to change the standard for the election of directors in uncontested elections from a plurality voting standard to a majority voting standard (with 36,782,061 votes for, 1,411,383 votes against, 39,479 abstentions and 4,220,917 broker non-votes).

#### 4. **Ratification of Independent Auditors**

The stockholders ratified the appointment of Deloitte & Touche LLP as our independent auditors for the fiscal year ending September 30, 2010 (with 41,496,407 votes for, 923,193 votes against, 34,240 abstentions and 0 broker non-votes).

### Item 5. *Other Information*

Not applicable.

### Item 6. *Exhibits*

| <u>Exhibit Number</u> | <u>Description</u>   |
|-----------------------|--|
| 3.1                   | Bylaws of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q filed on February 8, 2010.)   |
| 3.2                   | Composite Restated Certificate of Incorporation of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q filed on February 8, 2010.)          |
| 10.1                  | Letter Agreement dated January 15, 2010 by and between the Company and Charles Ill. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 20, 2010.) |
| 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.   |



**EXHIBIT INDEX**

**To Fair Isaac Corporation Report On Form 10-Q  
For The Quarterly Period Ended March 31, 2010**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |                           |
|---------------------------|---|---------------------------|
| 3.1                       | Bylaws of Fair Isaac Corporation  | Incorporated by Reference |
| 3.2                       | Composite Restated Certificate of Incorporation of Fair Isaac Corporation           | Incorporated by Reference |
| 10.1                      | Letter Agreement dated January 15, 2010 by and between the Company and Charles Ill. | Incorporated by Reference |
| 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      |

## 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: May 7, 2010

/s/ MARK N. GREENE

Mark N. Greene

Chief Executive Officer

**CERTIFICATIONS**

I, Thomas A. Bradley, 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: May 7, 2010

/s/ THOMAS A. BRADLEY

Thomas A. Bradley

Chief Financial Officer

**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: May 7, 2010

/s/ MARK N. GREENE

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Mark N. Greene

Chief Executive Officer

**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: May 7, 2010

/s/ THOMAS A. BRADLEY

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Thomas A. Bradley  
Chief Financial Officer