

FAIR ISAAC CORP
Form 10-Q
February 08, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2009

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 January 31, 2010 was 46,495,026 (excluding 42,361,757 shares held by the Company as treasury stock).

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	30

PART II OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	30
<u>Item 1A. Risk Factors</u>	31
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 3. Defaults Upon Senior Securities</u>	40
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	41
<u>Item 5. Other Information</u>	41
<u>Item 6. Exhibits</u>	41
<u>Signatures</u>	42
<u>EX-3.1</u>	
<u>EX-3.2</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2009	September 30, 2009
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 206,207	\$ 178,157
Marketable securities available for sale, current portion	131,051	139,673
Accounts receivable, net	98,407	101,742
Prepaid expenses and other current assets	23,794	22,986
Total current assets	459,459	442,558
Marketable securities available for sale, less current portion	34,148	61,371
Other investments	11,074	11,074
Property and equipment, net	33,701	34,340
Goodwill	668,500	667,640
Intangible assets, net	35,152	38,255
Deferred income taxes	36,669	38,100
Other assets	9,871	10,550
	\$ 1,288,574	\$ 1,303,888
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 7,714	\$ 8,593
Accrued compensation and employee benefits	21,019	28,139
Other accrued liabilities	41,849	38,183
Deferred revenue	43,301	39,673
Total current liabilities	113,883	114,588
Revolving line of credit	295,000	295,000
Senior notes	275,000	275,000
Other liabilities	18,116	19,031
Total liabilities	701,999	703,619

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, 46,546 and 48,156 shares outstanding at December 31, 2009 and September 30, 2009, respectively)

Paid-in-capital

Treasury stock, at cost (42,311 and 40,701 shares at December 31, 2009 and September 30, 2009, respectively)

Retained earnings

Accumulated other comprehensive loss

Total stockholders' equity

465	482
1,104,204	1,106,292
(1,404,584)	(1,375,400)
903,063	886,324
(16,573)	(17,429)
586,575	600,269
\$ 1,288,574	\$ 1,303,888

See accompanying notes to condensed consolidated financial statements.

Table of Contents

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Quarter Ended December 31,	
	2009	2008
	(in thousands, except per share data)	
Revenues:		
Transactional and maintenance	\$ 115,106	\$ 123,658
Professional services	26,237	28,080
License	10,153	11,722
 Total revenues	 151,496	 163,460
Operating expenses:		
Cost of revenues (1)	42,519	59,019
Research and development	18,976	18,121
Selling, general and administrative (1)	55,203	54,769
Amortization of intangible assets (1)	3,165	3,247
Restructuring		8,078
 Total operating expenses	 119,863	 143,234
 Operating income	 31,633	 20,226
Interest income	539	1,655
Interest expense	(5,408)	(7,158)
Other income (expense), net	(381)	1,446
 Income from operations before income taxes	 26,383	 16,169
Provision for income taxes	8,697	4,059
 Net income	 \$ 17,686	 \$ 12,110
 Earnings per share:		
Basic	\$ 0.37	\$ 0.25
Diluted	\$ 0.37	\$ 0.25
 Shares used in computing earnings per share:		
Basic	47,606	48,478
Diluted	47,915	48,522

(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.

2

Table of Contents

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME
(Unaudited)

	Common Stock		Paid-in-Capital	Treasury Stock	Accumulated			
	Shares	Par Value			Retained Earnings	Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
Balance at September 30, 2009	48,156	\$ 482	\$ 1,106,292	\$ (1,375,400)	\$ 886,324	\$ (17,429)	\$ 600,269	
Share-based compensation			4,535				4,535	
Exercise of stock options	33		(658)	1,101			443	
Tax effect from share-based payment arrangements			(1,970)				(1,970)	
Repurchases of common stock	(1,736)	(17)		(33,376)			(33,393)	
Issuance of ESPP shares from treasury	1		(7)	18			11	
Issuance of restricted stock to employees from treasury	92		(3,988)	3,073			(915)	
Dividends paid					(947)		(947)	
Net income					17,686		17,686	\$ 17,686
Unrealized loss on investments						(203)	(203)	(203)
Cumulative translation adjustments						1,059	1,059	1,059
Balance at December 31, 2009	46,546	\$ 465	\$ 1,104,204	\$ (1,404,584)	\$ 903,063	\$ (16,573)	\$ 586,575	\$ 18,542

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Quarter Ended December	
	31,	
	2009	2008
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 17,686	\$ 12,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,087	9,583
Share-based compensation	4,535	5,471
Deferred income taxes		1,531
Tax effect from share-based payment arrangements	(1,970)	210
Excess tax benefits from share-based payment arrangements	(233)	(117)
Net amortization of premium on marketable securities	500	188
Provision for doubtful accounts, net	(250)	499
Net loss on sales of property and equipment	94	30
Changes in operating assets and liabilities		
Accounts receivable	3,706	19,755
Prepaid expenses and other assets	(361)	(928)
Accounts payable	(716)	(448)
Accrued compensation and employee benefits	(7,194)	(3,224)
Other liabilities	5,033	(14,478)
Deferred revenue	2,339	6,482
Net cash provided by operating activities	31,256	36,664
Cash flows from investing activities:		
Purchases of property and equipment	(4,488)	(5,554)
Cash proceeds from sale of product line assets	397	
Purchases of marketable securities	(28,081)	(55,852)
Proceeds from maturities of marketable securities	63,316	54,240
Distribution from cost method investees		1,300
Net cash provided by (used in) investing activities	31,144	(5,866)
Cash flows from financing activities:		
Cash provided by (used in) issuances of common stock under employee stock option and purchase plans	(461)	3,222
Dividends paid	(947)	(970)
Repurchases of common stock	(33,393)	
Excess tax benefits from share-based payment arrangements	233	117
Net cash provided by (used in) financing activities	(34,568)	2,369

Effect of exchange rate changes on cash	218	(5,639)
Increase in cash and cash equivalents	28,050	27,528
Cash and cash equivalents, beginning of year	178,157	129,678
Cash and cash equivalents, end of year	\$ 206,207	\$ 157,206
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds	\$ 1,958	\$ 15,687
Cash paid for interest	\$ 10,002	\$ 11,965

See accompanying notes to condensed consolidated financial statements.

Table of Contents**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

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 after October 1, 2009.

In December 2007, the Financial Accounting Standards Board (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.

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

Table of Contents

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 first quarter of fiscal 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 December 31,	
	2009	2008
	(In thousands)	
Cost of revenues	\$ 1,739	\$ 1,723
Selling, general and administrative expenses	1,426	1,524
	\$ 3,165	\$ 3,247

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 \$35.2 million and \$38.3 million, net of accumulated amortization of \$107.8 million and \$107.7 million, as of December 31, 2009 and September 30, 2009, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing at December 31, 2009, was as follows (in thousands):

Fiscal year

Remainder of fiscal 2010	\$ 7,829
2011	7,750
2012	6,173
2013	4,156
2014	2,407
Thereafter	6,837
	\$ 35,152

3. Restructuring Expenses

The following table summarizes our restructuring accruals and 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.

Table of Contents

	Accrual at September 30, 2009	Expense Additions	Cash Payments (In thousands)	Expense Reversals	Accrual at December 31, 2009
Facilities charges	\$ 3,771	\$	\$ (341)	\$	\$ 3,430
Less: current portion	(1,361)				(1,121)
Non-current	\$ 2,410				\$ 2,309

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. Cash payments for the severance costs were paid during fiscal 2009. There were no restructuring expenses incurred during the quarter ended December 31, 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 \$5.4 million during the quarter ended December 31, 2008.

5. Composition of Certain Financial Statement Captions

	December 31, 2009	September 30, 2009
	(In thousands)	
Property and equipment	\$ 210,255	\$ 206,068
Less: accumulated depreciation and amortization	(176,554)	(171,728)
	\$ 33,701	\$ 34,340

6. Share-Based Payments

We maintain the 1992 Long-term Incentive Plan (the 1992 Plan) under which we may grant stock options, stock appreciation rights, restricted stock, restricted stock units and common stock to officers, key employees and non-employee directors. The 1992 Plan will terminate in February 2012. In November 2003, our Board of Directors approved the adoption of the 2003 Employment Inducement Award Plan (the 2003 Plan). The 2003 Plan reserves shares of common stock solely for the granting of inducement stock options and other awards, as defined, that meet the employment inducement award exception to the New York Stock Exchange's listing standards requiring shareholder approval of equity-based inducement incentive plans. Except for the employment inducement award criteria, awards under the 2003 Plan will be generally consistent with those made under our 1992 Plan. The 2003 Plan shall remain in effect until terminated by the Board of Directors. Stock option awards granted during fiscal 2010 typically had a maximum term of seven years and vested ratably over four years.

Table of Contents

The following table summarizes option activity during the quarter ended December 31, 2009:

	Shares (In thousands)	Weighted- average Price	Weighted- average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at October 1, 2009	7,354	\$ 31.60		
Granted	528	20.31		
Exercised	(33)	13.54		
Forfeited	(94)	26.82		
Expired	(440)	36.10		
Outstanding at December 31, 2009	7,315	30.65	4.13	\$ 9,813

The following table summarizes restricted stock unit activity during the quarter ended December 31, 2009:

	Shares (In thousands)	Weighted- average Price
Outstanding at October 1, 2009	1,113	\$ 23.83
Granted	233	20.31
Released	(137)	26.45
Forfeited	(61)	23.92
Outstanding at December 31, 2009	1,148	22.80

7. Earnings Per Share

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

	Quarter Ended December 31, 2009		2008	
	(In thousands, except per share data)			
Numerator for diluted and basic earnings per share:				
Net Income	\$	17,686	\$	12,110
Denominator share:				
Basic weighted-average shares		47,606		48,478
Effect of dilutive securities		309		44
Diluted weighted-average shares		47,915		48,522

Earnings per share:

Basic	\$	0.37	\$	0.25
Diluted	\$	0.37	\$	0.25

The computation of diluted EPS for the quarters ended December 31, 2009 and 2008, excludes options to purchase approximately 5,476,000 and 7,949,000 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.

Table of Contents

8. 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. Also, in the first quarter of fiscal 2010, 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 SolutionTM 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 myFIC[®] solutions for consumers (previously included in the Strategy MachineTM 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 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.

Table of Contents

The following tables summarize segment information for the quarters ended December 31, 2009 and 2008:

	Quarter Ended December 31, 2009				Total
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	
Segment revenues:					
Transactional and maintenance	\$ 66,734	\$ 41,143	\$ 7,229	\$	\$ 115,106
Professional services	21,462	410	4,365		26,237
License	4,676		5,477		10,153
Total segment revenues	92,872	41,553	17,071		151,496
Segment operating expense	(67,180)	(14,278)	(14,179)	(16,526)	(112,163)
Segment operating income	\$ 25,692	\$ 27,275	\$ 2,892	\$ (16,526)	39,333
Unallocated share-based compensation expense					(4,535)
Unallocated amortization expense					(3,165)
Operating income					31,633
Unallocated interest income					539
Unallocated interest expense					(5,408)
Unallocated other expense, net					(381)
Income before income taxes					\$ 26,383
Depreciation expense	\$ 3,734	\$ 342	\$ 513	\$ 333	\$ 4,922

	Quarter ended December 31, 2008				Total
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	
Segment revenues:					
Transactional and maintenance	\$ 69,590	\$ 47,464	\$ 6,604	\$	\$ 123,658
Professional services	20,937	177	6,966		28,080
License	4,418		7,304		11,722
Total segment revenues	94,945	47,641	20,874		163,460
Segment operating expense	(75,593)	(15,273)	(16,985)	(18,587)	(126,438)
Segment operating income	\$ 19,352	\$ 32,368	\$ 3,889	\$ (18,587)	37,022
					(5,471)

Unallocated share-based compensation expense						
Unallocated amortization expense						(3,247)
Unallocated restructuring expense						(8,078)
Operating income						20,226
Unallocated interest income						1,655
Unallocated interest expense						(7,158)
Unallocated other income, net						1,446
Income before income taxes						\$ 16,169
Depreciation expense	\$ 4,818	\$ 437	\$ 588	\$ 493	\$ 6,336	

Table of Contents**9. Fair Value Measurements**

In fiscal 2009, we adopted guidance for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that we recognize or disclose at fair value on a recurring basis (at least annually). 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.

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 December 31, 2009:

	Active Markets for Identical Instruments	Significant Other Observable Inputs	Fair Value as of December 31, 2009
December 31, 2009	(Level 1)	(Level 2)	
Assets:			
Cash equivalents (1)	\$ 141,991	\$	\$ 141,991
U.S. corporate debt (2)		11,597	11,597
Non U.S. corporate debt (2)		42,838	42,838
U.S. government obligations (2)		106,781	106,781
Marketable securities (3)	3,982		3,982
Total	\$ 145,973	\$ 161,216	\$ 307,189

Table of Contents

	Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value as of September 30, 2009
September 30, 2009			
Assets:			
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)		146,610	146,610
Marketable securities (3)	3,760		3,760
Total	\$ 117,228	\$ 197,284	\$ 314,512

(1) Included in cash and cash equivalents on our balance sheet at December 31, 2009 and September 30, 2009. Not included in this table are cash deposits of \$64.2 million and \$64.7 million at December 31, 2009 and September 30, 2009, respectively.

(2) Included in marketable securities (short-term and long-term) on our balance sheet at December 31, 2009 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 December 31, 2009 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.

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.

10. 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.

Table of Contents

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

December 31, 2009**(In thousands)**

	Assets		Liabilities	
	Balance Sheet	Amount	Balance Sheet	Amount
Derivatives not designated as hedging instruments	Location	Amount	Location	Amount
	Other current assets		Other current liabilities	
Foreign currency forward contracts		\$		\$

The following table summarizes our outstanding forward foreign currency contracts, by currency at December 31, 2009:

	December 31, 2009		Fair Value
	Contract Amount		
	Foreign Currency	US\$	
		(In thousands)	US\$
Sell foreign currency:			
Canadian dollar (CAD)	CAD 1,050	\$ 997	\$
Euro (EUR)	EUR 6,100	8,780	
Japanese yen (JPY)	JPY 34,000	368	
Buy foreign currency:			
British pound (GBP)	GBP 3,459	5,600	

The forward foreign currency contracts were all entered into on December 31, 2009; therefore, the fair value was \$0 on that date.

The location in the consolidated statements of income and amounts of gains and losses related to derivative instruments not designated as hedging instruments are as follows:

Quarter ended December 31, 2009	Gain on Derivatives Recognized in Income	
	Location	Amount
Foreign currency forward contracts	Other income (expense), net	\$ 220

11. Income Taxes*Effective Tax Rate*

The effective income tax rate for the three months ended December 31, 2009 was 33.0% compared to 25.1% for the three months ended December 31, 2008. 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 in the first quarter of 2010 was primarily due to the expiration of the Federal Research and Development credit. Further changes were a result of changes in the foreign and domestic earnings mix.

The total unrecognized tax benefit for uncertain tax positions at December 31, 2009 is estimated to be approximately \$19.6 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 December 31, 2009, we have accrued interest of \$1.1 million

related to the unrecognized tax benefits.

12. 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

Table of Contents

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 December 31, 2009, 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%.

13. 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.

14. 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.

15. 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.

In September 2009, the FASB issued new accounting guidance related to non-software revenue arrangements with multiple deliverables. The guidance eliminates the requirement for entities to have objective and reliable evidence of fair value to separately account for deliverables. In many cases, this will create more units of accounting and less revenue deferral because certain deliverables previously were not separable from other elements of an arrangement.

The guidance will also require the use of the relative selling price approach to allocate the arrangement fees to the deliverables; use of the residual method is no longer acceptable. In addition, the FASB issued new guidance that 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

Table of Contents

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. The guidance for both standards is effective for fiscal years beginning on or after June 15, 2010 (though early adoption is permitted) and entities can elect to apply these issues on a prospective or a retrospective basis. We are in the process of determining what effect, if any; the adoption of this guidance will have on our consolidated financial statements.

Table of Contents**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, shall, 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 December 31, 2009, 78% 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 76% of our revenues during the quarters ended December 31, 2009 and 2008 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

Table of Contents

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 December 31, 2009, we achieved bookings of \$59.9 million, including two deals with a booking value of \$3.0 million or more. In comparison, bookings in the prior year quarter ended December 31, 2008 were \$52.5 million, including one deal with 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 \$51.2 million during the quarters ended December 31, 2009 and 2008, representing 34% and 31% 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. We expect annual cost savings of approximately \$30 million.

Current Business Environment

Throughout fiscal 2009 financial markets continued to experience significant volatility and general economic conditions remained unstable. These conditions have had a substantial impact on our customers, especially financial institutions. This has included continued 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. These unfavorable conditions continued to impact our business during the quarter ended December 31, 2009 and are expected to continue to affect us through most of 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 decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the quarters ended December 31, 2009 and 2008 are set forth in Note 8 to the accompanying condensed consolidated financial statements. All periods presented have been restated to reflect the aforementioned changes.

Table of Contents**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		Percentage of		Period-to-Period	
	December 31,		Revenues		Period-to-Period Change (In thousands)	Percentage Change
	2009	2008	2009	2008		
	(In thousands)					
Applications	\$ 92,872	\$ 94,945	61%	58%	\$ (2,073)	(2)%
Scores	41,553	47,641	28%	29%	(6,088)	(13)%
Tools	17,071	20,874	11%	13%	(3,803)	(18)%
Total revenue	\$ 151,496	\$ 163,460	100%	100%	(11,964)	(7)%

Quarter Ended December 31, 2009 Compared to Quarter Ended December 31, 2008 Revenues
Applications

Applications	Quarter Ended		Period-to-Period Change (In thousands)	Percentage Change
	December 31,			
	2009	2008		
	(In thousands)			
Transactional and maintenance	\$ 66,734	\$ 69,590	\$ (2,856)	(4)%
Professional services	21,462	20,937	525	3%
License	4,676	4,418	258	6%
Total	\$ 92,872	\$ 94,945	(2,073)	(2)%

Applications segment revenues decreased \$2.1 million due to a \$4.3 million decrease in revenues from our *originations solutions* and a \$2.4 million decrease in our *fraud solutions*. The revenue decline was partially offset by a \$4.6 million increase in our *marketing solutions*.

The decrease in *originations solutions* was attributable to 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 December 31, 2008. The decrease in *fraud solutions* revenues was attributable to the June 2009 divestiture of our RoamEx product line, which accounted for \$2.2 million of revenue in the quarter ended December 31, 2008. The increase in our *marketing solutions* revenues was attributable to sales of a new product, FICO[®] Retail Action Manager.

Scores

Scores	Quarter Ended		Period-to-Period Change	Percentage Change
	December 31,			
	2009	2008		

	(In thousands)		(In thousands)	
Transactional and maintenance	\$ 41,143	\$ 47,464	\$ (6,321)	(13)%
Professional services	410	177	233	132%
Total	\$ 41,553	\$ 47,641	(6,088)	(13)%

Table of Contents

Scores segment revenues decreased \$6.1 million due to a \$4.2 million decrease in our myFICO® business-to-consumer services and a \$1.9 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 \$1.8 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 quarters ended December 31, 2009 and 2008, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 20% and 19%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

Tools

Tools	Quarter Ended		Period-to-Period	
	2009	December 31, 2008	Period-to-Period Change	Percentage Change
	(In thousands)		(In thousands)	
Transactional and maintenance	\$ 7,229	\$ 6,604	\$ 625	9%
Professional services	4,365	6,966	(2,601)	(37)%
License	5,477	7,304	(1,827)	(25)%
Total	\$ 17,071	\$ 20,874	(3,803)	(18)%

Tools segment revenues decreased \$3.8 million primarily due to a decrease of license sales related to our 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.

Table of Contents**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		Percentage of		Period-to-Period Change (In thousands, except employees)	Period-to- Period Percentage Change
	2009	2008	2009	2008		
	(In thousands, except employees)					
Revenues	\$ 151,496	\$ 163,460	100%	100%	\$ (11,964)	(7)%
Operating expenses:						
Cost of revenues	42,519	59,019	28%	36%	(16,500)	(28)%
Research and development	18,976	18,121	13%	11%	855	5%
Selling, general and administrative	55,203	54,769	36%	34%	434	1%
Amortization of intangible assets	3,165	3,247	2%	2%	(82)	(3)%
Restructuring		8,078	%	5%	(8,078)	(100)%
Total operating expenses	119,863	143,234	79%	88%	(23,371)	(16)%
Operating income	31,633	20,226	21%	12%	11,407	56%
Interest income	539	1,655	%	1%	(1,116)	(67)%
Interest expense	(5,408)	(7,158)	(4)%	(4)%	1,750	(24)%
Other income (expense), net	(381)	1,446	%	1%	(1,827)	(126)%
Income from operations before income taxes	26,383	16,169	17%	10%	10,214	63%
Provision for income taxes	8,697	4,059	5%	3%	4,638	114%
Net income	\$ 17,686	\$ 12,110	12%	7%	5,576	46%
Number of employees at quarter end	2,091	2,360			(269)	(11)%

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 \$16.5 million in cost of revenues resulted from an \$8.3 million decrease in personnel and other labor-related costs, a \$4.5 million decrease in facilities and infrastructure costs, a \$2.6 million decrease in third party software and data costs and a \$1.1 million decrease in billable travel 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 consumer solutions that required data acquisition. The decrease in billable travel was driven by the overall reduction in professional services activities.

Over the next several quarters, we expect that cost of revenues as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2009.

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.

Table of Contents

The quarter over quarter increase of \$0.9 million in research and development expenditures was attributable primarily to a \$0.4 million increase in personnel and related costs, a \$0.4 million increase in facilities and infrastructure costs and a \$0.1 million increase in other expenses. The increase in personnel and related cost was due to increased salaries and incentives for the period ended December 31, 2009. The increase in facilities and infrastructure costs was due to an increase in allocated facility and information system costs.

Over the next several quarters, we expect that research and development expenditures as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2009.

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 \$0.4 million in selling, general and administrative expenses was attributable to a \$1.7 million increase in marketing expenses and a \$0.9 million increase in personnel and related costs, partially offset by a \$1.0 million decrease in professional fees, a \$0.7 million decrease in bad debt expense and a \$0.5 million decrease in other expenses. The quarter over quarter increase in marketing expenses was primarily due to lower expenses incurred in the prior quarter from management's efforts to reduce discretionary spending. Marketing activities were at historical levels in the current quarter. The increase in personnel and related cost was due to increased salaries and incentives for the period ended December 31, 2009. The decline in professional fees was primarily due to decreased legal fees. The decline in bad debt expense was due to successful collection efforts and a decrease in revenues.

Over the next several quarters, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2009.

Amortization of Intangible Assets

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

In fiscal 2010, we expect that amortization expense will be slightly lower than the amortization expense we recorded in fiscal 2009.

Restructuring

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.

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 \$1.1 million was attributable to a decline in interest rates and investment income yields due to market conditions.

Interest Expense

Interest expense recorded during the quarter ended December 31, 2009 included interest on our Senior Notes and interest associated with borrowings under our revolving line of credit. The decrease in interest expense of \$1.8 million was the result of lower average interest rates on our revolving line of credit.

Table of Contents

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 expense, net in the quarter ended December 31, 2009, primarily consisted of foreign exchange currency losses of \$0.3 million. In the quarter ended December 31, 2008, other income, net resulted from foreign exchange currency gains of \$1.3 million.

Provision for Income Taxes

Our effective tax rate was 33.0% and 25.1% during the quarters ended December 31, 2009 and 2008, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

Our effective tax rate for the quarter ended December 31, 2009, 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 quarter ended December 31, 2009 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 December 31,		Period-to-Period Change	Period-to-Period Percentage Change
	2009	2008		
	(In thousands)		(In thousands)	
Applications	\$ 25,692	\$ 19,352	\$ 6,340	33%
Scores	27,275	32,368	(5,093)	(16)%
Tools	2,892	3,889	(997)	(26)%
Corporate expenses	(16,526)	(18,587)	2,061	(11)%
Total segment operating income	39,333	37,022	2,311	6%
Unallocated stock-based compensation	(4,535)	(5,471)	936	(17)%
Unallocated amortization expense	(3,165)	(3,247)	82	(3)%
Unallocated restructuring		(8,078)	8,078	(100)%
Operating income	\$ 31,633	\$ 20,226	11,407	56%

The quarter over quarter increase of \$11.4 million in operating income was attributable to a reduction in segment and corporate operating expenses, a decrease in restructuring expenses and a decrease in share-based compensation expense, partially offset by a decline in segment revenues. At the segment level, the increase in segment operating income was driven by an increase of \$6.3 million in segment operating income in our Applications segment. This increase was partially offset by \$5.1 million decrease in segment operating income in our Scores segment and \$1.0 million decrease in segment operating income in our Tools segment.

The increase in Applications segment operating income was attributable to a significant decline in operating expenses, which was driven by our reengineering initiative. Under the reengineering initiative, we have reduced

operating costs through staff reductions, facility consolidations and restriction of discretionary expenditures.

The decrease in 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.

Table of Contents

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.

Capital Resources and Liquidity***Cash Flows from Operating Activities***

Our primary method for funding operations and growth has been through cash flows generated from operating activities. Net cash provided by operating activities decreased to \$31.3 million during the quarter ended December 31, 2009 from \$36.7 million during the quarter ended December 31, 2008. The reduction in operating cash flows was due partially to a decrease in the liability for compensation and employees benefits, primarily due to the timing of payments. Operating cash flows were positively impacted by an increase in earnings, an increase in other liabilities and deferred revenue and a decrease in accounts receivable.

Cash Flows from Investing Activities

Net cash provided by investing activities totaled \$31.1 million during the quarter ended December 31, 2009, compared to net cash used in investing activities of \$5.9 million in the quarter ended December 31, 2008. The change in cash flows from investing activities was primarily attributable to \$35.2 million in proceeds from maturities of marketable securities, net of purchases, during the quarter ended December 31, 2009 compared to \$1.6 million that was used for purchases of marketable securities, net of proceeds from maturities, during the quarter ended December 31, 2008.

Cash Flows from Financing Activities

Net cash used in financing activities totaled \$34.6 million in the quarter ended December 31, 2009, compared to net cash provided by financing activities of \$2.4 million in the quarter ended December 31, 2008. The change in cash flows from financing activities was primarily due to \$33.4 million of common stock repurchased in the quarter ended December 31, 2009 and a \$3.7 million decrease in net proceeds from the issuance of common stock under employee stock plans.

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 quarter ended December 31, 2009, we repurchased 1.7 million shares of our common stock for \$33.4 million. As of December 31, 2009, we had \$96.3 million remaining under this authorization.

Dividends

During the quarter ended December 31, 2009, 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

Table of Contents

typical of unsecured facilities. As of December 31, 2009, 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%.

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 December 31, 2009, we had \$371.4 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 recognition, the allowance for doubtful accounts, goodwill and other intangible assets resulting from business acquisitions, income taxes and contingencies and litigation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable based on the specific circumstances, the results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Revenue Recognition

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

fixed or determinable and collection is probable involves the use of assumptions. We evaluate contract terms and customer information to ensure that these criteria are met prior to our recognition of license fee revenue. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, the fair value of the respective elements, and change to a product's estimated life cycle could materially impact the amount of earned and unearned revenue.

Table of Contents

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

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

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

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

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

We provide consulting, training, model development and software integration services under both hourly-based time and materials and fixed-priced contracts. Revenues from these services are generally recognized as the services are performed. For fixed-price service contracts, we apply the percentage-of-completion method of contract accounting to determine progress towards completion, which requires the use of estimates. In such instances, management is required to estimate the input measures, generally based on hours incurred to date compared to total estimated hours of the project, with consideration also given to output measures, such as contract milestones, when applicable. Adjustments to estimates are made in the period in which the facts requiring such revisions become known

and, accordingly, recognized revenues and profits are subject to revisions as the contract progresses to completion. Estimated losses, if any, are recorded in the period in which current estimates of total contract revenue and contract costs indicate a loss. If substantive uncertainty related to customer acceptance of services exists, we apply the completed contract method of accounting and defer the associated revenue until the contract is completed. If we are unable to accurately estimate the input measures used for percentage-of-completion accounting, revenue would be deferred until the contract is complete, and this could have a material impact on our consolidated results of operations.

Table of Contents

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

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

As described above, sometimes our customer arrangements have multiple deliverables, including service elements. Generally, our multiple element arrangements fall within the scope of specific accounting standards that provide guidance regarding the separation of elements in multiple-deliverable arrangements and the allocation of consideration among those elements. If not, we apply separation provisions, which require us to unbundle multiple element arrangements into separate units of accounting when the delivered element(s) has stand-alone value and fair value of the undelivered element(s) exists. When we are able to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to each unit. If we are unable to unbundle the arrangement into separate units of accounting, we apply one of the accounting policies described above to the entire arrangement. Sometimes this results in recognizing the entire arrangement fee when delivery of the last element in a multiple element arrangement occurs. For example, if the last undelivered element is a service, we recognize revenue for the entire arrangement fee as the service is performed, or if no pattern of performance is discernable, we recognize revenue on a straight-line basis over the term of the arrangement.

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

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

Table of Contents

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 \$668.5 million of goodwill recorded on our consolidated balance sheet as of December 31, 2009. 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.

Table of Contents***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.

In September 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance related to non-software revenue arrangements with multiple deliverables. The guidance eliminates the requirement for entities to have objective and reliable evidence of fair value to separately account for deliverables. In many cases, this will create more units of accounting and less revenue deferral because certain deliverables previously were not separable from other elements of an arrangement. The guidance will also require the use of the relative selling price approach to allocate the arrangement fees to the deliverables; use of the residual method is no longer acceptable. In addition, the FASB issued new guidance that 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. The guidance for both

standards is effective for fiscal years beginning on or after June 15, 2010 (though early adoption is permitted) and entities can elect to apply this issue on a prospective or a retrospective basis. We are in the process of determining what effect, if any; the adoption of this guidance will have on our consolidated financial statements.

Table of Contents

The following table summarizes our outstanding forward foreign currency contracts, by currency at December 31, 2009:

	December 31, 2009		Fair
	Contract Amount		Value
	Foreign Currency	US\$ (In thousands)	US\$
Sell foreign currency:			
	CAD		
Canadian dollar (CAD)	1,050	\$ 997	\$
	EUR		
Euro (EUR)	6,100	8,780	
	JPY		
Japanese yen (JPY)	34,000	368	
Buy foreign currency:			
	GBP		
British pound (GBP)	3,459	5,600	

The forward foreign currency contracts were all entered into on December 31, 2009; 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.

Table of Contents

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.

Table of Contents

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;

Table of Contents

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.

Table of Contents

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

Table of Contents

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 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.

Table of Contents

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;

36

Table of Contents

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;

Table of Contents

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.

Table of Contents**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.

Table of Contents

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)

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2009 through October 31, 2009	2,491	\$ 21.49		\$ 129,661,314
November 1, 2009 through November 30, 2009	761,400	\$ 18.65	761,400	\$ 115,458,095
December 1, 2009 through December 31, 2009	1,016,823	\$ 19.77	974,349	\$ 96,267,920
	1,780,714	\$ 19.27	1,735,749	\$ 96,267,920

(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 44,965 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended December 31, 2009.

Item 3. *Defaults Upon Senior Securities*

Not applicable.

Table of Contents

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

Not applicable.

Item 5. *Other Information*

Not applicable.

Item 6. *Exhibits*

Exhibit Number	Description
3.1	Bylaws of Fair Isaac Corporation
3.2	Composite Restated Certificate of Incorporation of Fair Isaac Corporation
10.1	Transition Agreement dated November 16, 2009 by and between Fair Isaac Corporation and Michael H. Campbell. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 17, 2009.)
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.

Table of Contents

SIGNATURES

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

FAIR ISAAC CORPORATION

DATE: February 8, 2010

By /s/ THOMAS A. BRADLEY
Thomas A. Bradley
*Executive Vice President and Chief Financial
Officer*
*(for Registrant as duly authorized officer and
as Principal Financial Officer)*

DATE: February 8, 2010

By /s/ MICHAEL J. PUNG
Michael J. Pung
Vice President, Finance
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX
To Fair Isaac Corporation Report On Form 10-Q
For The Quarterly Period Ended December 31, 2009

Exhibit Number	Description	
3.1	Bylaws of Fair Isaac Corporation	Filed Electronically
3.2	Composite Restated Certificate of Incorporation of Fair Isaac Corporation	Filed Electronically
10.1	Transition Agreement dated November 16, 2009 by and between Fair Isaac Corporation and Michael H. Campbell. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 17, 2009.)	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