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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

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

[NO FEE REQUIRED]

For the transition period _____ to _____

Commission File Number 0-16439

Fair Isaac Corporation

(Exact name of registrant as specified in its charter)

DELAWARE	**94-1499887**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

200 Smith Ranch Road, San Rafael, California 94903

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(415) 472-2211

Fair, Isaac and Company, Incorporated

(Former name, former address and former fiscal year, if changed since last report)

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 requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No o

The number of shares of common stock outstanding on March 31, 2003 was 47,161,737 (excluding 9,765,227 shares held by the Company as treasury stock).

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PART 1. FINANCIAL INFORMATION

ITEM 1. ***Condensed Consolidated Financial Statements***

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	March 31, 2003	September 30, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 75,719	$ 96,834
Marketable securities available for sale	90,098	184,377
Receivables, net	124,820	121,456
Other current assets	19,765	17,498
Deferred income taxes	8,158	8,009
Total current assets	318,560	428,174
Marketable securities available for sale	128,018	140,398
Other investments	8,441	9,804
Property and equipment, net	53,792	63,898
Goodwill	428,292	430,739
Intangibles, net	87,602	89,375
Deferred income taxes	45,384	45,384
Other assets	6,667	4,741
	$1,076,756	$1,212,513
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 13,027	$ 7,603
Accrued compensation and employee benefits	26,409	28,153
Other accrued liabilities	31,684	36,532
Deferred revenue	19,735	17,921
Total current liabilities	90,855	90,209
Convertible subordinated notes, net of discount	140,631	139,922
Other liabilities	6,261	8,910
Total liabilities	237,747	239,041
Stockholders' equity:		
Preferred stock ($0.01 par value; 1,000 authorized; none issued and outstanding)	—	—
Common stock ($0.01 par value; 100,000 shares authorized, 56,927 and 55,619 shares issued and 47,162 and 50,665 shares outstanding at March 31, 2003 and September 30, 2002, respectively)	472	507
Paid-in-capital	964,915	927,169
Treasury stock, at cost (9,765 and 4,954 shares at March 31, 2003 and September 30, 2002, respectively)	(380,403)	(163,038)
Unearned compensation	(5,169)	(7,128)
Retained earnings	259,505	216,041
Accumulated other comprehensive loss	(311)	(79)
Total stockholders' equity	839,009	973,472
	$1,076,756	$1,212,513

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended March 31,		Six Months Ended March 31,	
	2003	2002	2003	2002
Revenues	$158,598	$87,050	$305,330	$172,111
Operating expenses:				
Cost of revenues	64,041	39,127	124,695	77,712
Research and development	17,119	7,301	34,366	14,778
Selling, general and administrative	31,724	18,719	63,898	36,661
Amortization of intangibles	3,419	609	6,681	1,134
Merger-related expenses	606	—	2,616	—
Total operating expenses	116,909	65,756	232,256	130,285
Operating income	41,689	21,294	73,074	41,826
Interest income	1,766	1,646	4,362	3,410
Interest expense on convertible subordinated notes	(2,326)	—	(4,648)	—
Other (expense) income, net	(25)	318	494	413
Income before income taxes	41,104	23,258	73,282	45,649
Provision for income taxes	15,459	9,073	27,847	17,917
Net income	$ 25,645	$14,185	$ 45,435	$ 27,732
Earnings per share:				
Basic	$ 0.54	$ 0.41	$ 0.93	$ 0.81
Diluted	$ 0.51	$ 0.39	$ 0.89	$ 0.77
Shares used in computing earnings per share:				
Basic	47,898	34,532	49,042	34,359
Diluted	50,453	36,287	51,291	36,120

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock								
	Shares	Par Value	Paid-in-Capital	Treasury Stock	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income (Loss)
Balance at September 30, 2002	**50,665**	**$507**	**$927,169**	**$(163,038)**	**$(7,128)**	**$216,041**	**$ (79)**	**$ 973,472**	
Exercise of stock options	1,307	13	29,648	—	—	—	—	29,661	
Tax benefit from exercised stock options	—	—	9,561	—	—	—	—	9,561	
Amortization of unearned compensation	—	—	—	—	1,572	—	—	1,572	
Forfeitures of stock options assumed in HNC acquisition	—	—	(387)	—	387	—	—	—	
Repurchases of common stock	(4,938)	(49)	—	(221,920)	—	—	—	(221,969)	
Issuance of ESPP and ESOP shares from treasury	128	1	(1,076)	4,555	—	—	—	3,480	
Dividends paid	—	—	—	—	—	(1,971)	—	(1,971)	
Net income	—	—	—	—	—	45,435	—	45,435	$45,435
Unrealized losses on investments, net of tax of $186	—	—	—	—	—	—	(292)	(292)	(292)
Cumulative translation adjustments	—	—	—	—	—	—	60	60	60
Balance at March 31, 2003	**47,162**	**$472**	**$964,915**	**$(380,403)**	**$(5,169)**	**$259,505**	**$(311)**	**$ 839,009**	**$45,203**

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended March 31,	
	2003	**2002**
Cash flows from operating activities		
Net income	$ 45,435	$ 27,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,058	13,589
Share of equity in (earnings) losses and impairment of equity investments	(50)	1,071
Gain on sales of marketable securities	(662)	(1,605)
Amortization of unearned compensation	1,572	499
Tax benefit from exercise of stock options	9,561	8,520
Net amortization of premium on marketable securities	595	388
Provision for doubtful accounts	2,850	26
Amortization of discount on convertible subordinated notes	709	—
Loss on sale of property and equipment	15	120
Changes in operating assets and liabilities:		
Receivables	(6,906)	(4,770)
Other assets	(1,214)	(46)
Accounts payable	5,424	7,884
Accrued compensation and employee benefits	(1,744)	(1,554)
Other accrued liabilities and other liabilities	(5,983)	(2,271)
Deferred revenue	1,898	268
Net cash provided by operating activities	74,558	49,851
Cash flows from investing activities		
Purchases of property and equipment	(6,673)	(11,200)
Cash proceeds from sale of product line	3,000	—
Cash paid in acquisitions, net of cash acquired	(7,150)	(2,593)
Purchases of marketable securities	(191,684)	(49,407)
Proceeds from sales of marketable securities	250,598	91,371
Proceeds from maturities of marketable securities	47,035	7,860
Net cash provided by investing activities	95,126	36,031
Cash flows from financing activities		
Proceeds from issuances of common stock	33,141	15,968
Dividends paid	(1,971)	(919)
Repurchases of common stock	(221,969)	(19,439)
Net cash used in financing activities	(190,799)	(4,390)
(Decrease) increase in cash and cash equivalents	(21,115)	81,492
Cash and cash equivalents, beginning of period	96,834	24,608
Cash and cash equivalents, end of period	$ 75,719	$106,100
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 1,856	$ 1,312
Cash paid for interest	$ 3,938	$ 13

See accompanying notes to condensed consolidated financial statements.

FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

1. Nature of Business

Fair Isaac Corporation (formerly Fair, Isaac and Company, Incorporated)

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

On March 31, 2003, Fair, Isaac and Company, Incorporated changed its name to Fair Isaac Corporation. In this report, Fair Isaac Corporation is referred to as "we," "us," "our," and "Fair Isaac." HNC Software Inc., which we acquired in August 2002, is referred to as "HNC."

Basis of Presentation

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q. 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) 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, as amended, for the fiscal year ended September 30, 2002. 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

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

On April 22, 2002, our Board of Directors authorized a three-for-two stock split, effected in the form of a 50% stock dividend to holders of our common stock on record on May 15, 2002. All share and per share amounts within the accompanying condensed consolidated financial statements and notes have been restated to reflect this stock split.

Certain prior period amounts have been reclassified to conform to current period presentation.

Adoption of New Accounting Pronouncements

We adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002. Disclosures related to SFAS No. 142 are included in Note 3.

We adopted the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, on January 1, 2003. SFAS No. 146 revises the accounting for specified employee and contract terminations that are part of restructuring activities and allows recognition of a liability for the cost associated with an exit or disposal activity only when the liability is incurred and can be measured at fair value. This statement applies on a prospective basis to exit or disposal activities that are initiated after December 31, 2002.

We adopted the initial recognition and measurement provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, on January 1, 2003, which apply on a prospective basis to guarantees issued or modified after December 31, 2002. We adopted the disclosure provisions of FIN No. 45 during the quarter ended December 31, 2002. Related disclosures are included in Note 12. We do not have guarantees that fall within the measurement and recognition provisions of FIN No. 45.

We adopted the interim disclosure provisions of SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, during our second quarter ended March 31, 2003. Related interim disclosures are included herein.

Stock-Based Compensation

We measure compensation expense for our employee stock-based compensation awards using the intrinsic value method and provide pro forma disclosures of net income and earnings per share as if a fair value method had been applied. Therefore, compensation cost for employee stock awards is measured as the excess, if any, of the fair value of our common stock at the grant date over the amount an employee must pay to acquire the stock and is amortized over the related service periods using the straight-line method. Compensation expense previously recorded for unvested employee stock-based compensation awards that are forfeited upon employee termination is reversed in the period of forfeiture.

The following table compares net income and earnings per share as reported to the pro forma amounts that would be reported had compensation expense been recognized for our stock-based compensation plans in accordance with the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2003	2002	2003	2002
Net income, as reported	$25,645	$14,185	$45,435	$27,732
Add: Stock-based employee compensation expense included in reported net income, net of tax impact	476	152	975	303
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5,401)	(3,802)	(8,874)	(6,029)
Pro forma net income	$20,720	$10,535	$37,536	$22,006
Earnings per share, as reported:				
Basic	$ 0.54	$ 0.41	$ 0.93	$ 0.81
Diluted	$ 0.51	$ 0.39	$ 0.89	$ 0.77
Pro forma earnings per share:				
Basic	$ 0.43	$ 0.31	$ 0.77	$ 0.64
Diluted	$ 0.41	$ 0.29	$ 0.73	$ 0.61

2. Acquisition and Pro Forma Results of Operations

Spectrum Managed Care, Inc.

On December 31, 2002, we acquired substantially all of the assets of the medical bill review business of Spectrum Managed Care ("Spectrum"), a wholly owned subsidiary of Ward North America Holding, Inc., for cash consideration of $7,150. We placed $250 of the purchase price into escrow to secure potential future indemnification obligations of the seller. This acquisition was consummated in order to expand our outsourced medical bill review service offering and has been accounted for using the purchase method of accounting. The results of operations of Spectrum have been included in the consolidated results of operations beginning on December 31, 2002.

The total consideration paid, including accrued acquisition costs of $25, was allocated to the acquired assets as follows:

Assets	
Property and equipment	$ 127
Customer contracts and relationships	4,908
Goodwill	2,140
	$7,175

The acquired definite-lived intangible assets (contracts and relationships) have a weighted average estimated useful life of approximately 10 years and are being amortized over this term based on the forecasted cash flows associated with the assets. All of this goodwill is expected to be deductible for tax purposes.

Pro Forma Results of Operations

During the prior fiscal year ended September 30, 2002, we acquired the following businesses in transactions that were accounted for using the purchase method of accounting: i) acquisition of substantially all of the assets of Nykamp Consulting Group, Inc. ("Nykamp") in December 2001, and ii) acquisition of HNC in August 2002. The following table summarizes the pro forma results of our operations for the six months ended March 31, 2003 and 2002, and for the quarter ended March 31, 2002, as if the Nykamp, HNC and Spectrum acquisitions had occurred on October 1, 2001, instead of their respective later acquisition dates:

	Six Months Ended March 31, 2003		Six Months Ended March 31, 2002		Quarter Ended March 31, 2002	
	Historical	Pro Forma Combined	Historical	Pro Forma Combined	Historical	Pro Forma Combined
Revenues	$305,330	$306,655	$172,111	$285,657	$87,050	$143,580
Net income	$ 45,435	$ 45,519	$ 27,732	$ 24,363	$14,185	$ 11,542
Basic earnings per share	$ 0.93	$ 0.93	$ 0.81	$ 0.46	$ 0.41	$ 0.22
Diluted earnings per share	$ 0.89	$ 0.89	$ 0.77	$ 0.44	$ 0.39	$ 0.21

3. Accounting for Goodwill and Intangible Assets

We adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002. Under the provisions of SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment at least annually or more frequently if impairment indicators arise. All of our remaining intangible assets have definitive lives and are being amortized in accordance with this statement.

In connection with our adoption of SFAS No. 142, we were also required to assess whether goodwill within our reporting units was impaired at the date of our adoption of this statement using a two-step transitional impairment test. As prescribed by this statement, we have determined that our reporting units are the same as our reportable segments (see Note 9). We completed the first step of our transitional impairment testing during the quarter ended March 31, 2003, and determined that goodwill was not impaired as of October 1, 2002. Accordingly, we are not required to complete the second step of the impairment test.

Intangible assets that are subject to amortization under SFAS No. 142 consist of the following:

	March 31, 2003	September 30, 2002
Completed technology	$42,000	$42,000
Customer contracts and relationships	44,764	39,855
Tradename	9,090	9,090
Other	714	714
	96,568	91,659
Less accumulated amortization	(8,966)	(2,284)
	$87,602	$89,375

Amortization expense associated with our definite-lived intangible assets totaled $3,419 and $6,681 during the quarter and six months ended March 31, 2003, respectively. Amortization expense associated with our definite-lived intangible assets totaled $84 during both the quarter and six months ended March 31, 2002. Estimated future intangible asset amortization expense as of March 31, 2003, is as follows:

Six Months Ending September 30, 2003	$ 6,838
Fiscal Year Ending September 30,	
2004	13,665
2005	13,627
2006	13,474
2007	11,640
2008	3,083
Thereafter	25,275
	$87,602

For comparative purposes, the following table summarizes reported results for the quarter and six months ended March 31, 2002, adjusted to exclude the amortization of goodwill as if the provisions of SFAS No. 142 had been adopted as of the beginning of these respective periods:

		Earnings Per Share	
	Net Income	Basic	Diluted
Quarter Ended March 31, 2002:			
As reported	$14,185	$0.41	$0.39
Amortization of goodwill, net of tax impact	525	0.02	0.02
As adjusted	$14,710	$0.43	$0.41
Six Months Ended March 31, 2002:			
As reported	$27,732	$0.81	$0.77
Amortization of goodwill, net of tax impact	1,050	0.03	0.03
As adjusted	$28,782	$0.84	$0.80

The following table summarizes changes to goodwill during the six months ended March 31, 2003, both in total and as allocated to our operating segments (Note 9).

	Scoring	Strategy Machines	Professional Services	Analytic SW Tools	Total
Balance at September 30, 2002	$85,508	$331,558	$2,706	$10,967	$430,739
Goodwill acquired in Spectrum acquisition (see Note 2)	—	2,140	—	—	2,140
Purchase accounting adjustments	29	112	371	4	516
Product line dispositions (see Note 4)	—	(5,103)	—	—	(5,103)
Balance at March 31, 2003	$85,537	$328,707	$3,077	$10,971	$428,292

During the six months ended March 31, 2003, we adjusted our preliminary allocation of the Nykamp purchase price to reflect the reduction of certain assets acquired by us, which resulted in a $371 increase to goodwill. During this period we also adjusted our preliminary allocation of the HNC purchase price, which resulted in a $145 net increase to goodwill. The HNC adjustments reflect primarily a $1,454 reduction in the carrying amount of our cost-basis equity investment in Azure Venture Partners I, L.P. (“Azure”), offset by a $1,309 net reduction in assumed liabilities, principally related to revisions made to our estimate of future facility lease exit costs. The reduction in the Azure investment carrying amount was made based on valuation estimates obtained from Azure management, from which we determined that the fair value of this investment approximated $596 as of the HNC merger date. We had originally recorded this investment at $2,050. We are committed to invest an additional $2,200 into Azure. The ultimate timing of this additional investment will be dependent on when the fund managers make additional capital calls. The most recent capital call requires us to invest an additional $500 into this fund in May 2003. It is possible that additional capital calls may require us to invest some or all of our remaining commitment during fiscal 2003.

4. Sales of Product Line Assets

In October 2002, we executed an agreement with Open Solutions, Inc. (“OSI”), pursuant to which we sold HNC’s former Profit Vision product line, associated customer base, intellectual property rights and other related assets in exchange for a $950 secured promissory note from OSI and OSI’s assumption of certain related product line liabilities. The promissory note received bears interest at the rate of 4.5% per annum and all principal and interest is payable in full in October 2005. The promissory note is secured by the assets sold to OSI. We discounted this note by $185 to reflect estimated market interest rates and are amortizing this discount over the term of the note using the effective interest method.

In November 2002, we executed an agreement with Bridium, Inc. (“Bridium”), pursuant to which we sold HNC’s former Connectivity Manager product line, associated customer base, intellectual property rights and other related assets in exchange for $3,000 in cash and a $3,000 secured promissory note from Bridium, as well as Bridium’s assumption of certain related product line liabilities. The promissory note received bears interest at the rate of 7.0% per annum and is due and payable in twelve quarterly installments commencing in April 2003 and ending in April 2006. The promissory note is secured by the assets sold to Bridium and is also guaranteed by Bridium’s parent company. We discounted this note by $415 to reflect estimated market interest rates and are amortizing this discount over the term of the note using the effective interest method.

As the above dispositions of former HNC assets occurred shortly after the HNC acquisition and their fair value did not change significantly from the date of the HNC acquisition, no gain or loss was recorded in connection with these transactions. The difference between the book value of net assets sold and consideration received in each transaction was recorded as an adjustment to goodwill.

5. Credit Agreement

In November 2002, we executed a credit agreement with a financial institution that provides for a $15,000 revolving line of credit through February 2004. Under the agreement we are required to comply with various financial covenants, which include but are not limited to, minimum levels of domestic liquidity, parameters for treasury stock repurchases, dividend payments, and merger and acquisition requirements. At our option, borrowings under this agreement bear interest at the rate of LIBOR plus 1.25% (which was 2.55% at March 31, 2003) or at the financial institution’s Prime Rate (which was 4.25% at March 31, 2003), payable monthly. The agreement also includes a letter of credit subfeature that allows us to issue commercial and standby letters of credit up to a maximum amount of $5,000 and a foreign exchange facility that allows us to enter into contracts with the financial institution to purchase and sell certain currencies, subject to a maximum aggregate amount of $20,000 and other specified limits. As of March 31, 2003, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of March 31, 2003, this credit facility also served to collateralize certain letters of credit aggregating $669, issued by us in the normal course of business. Available borrowings under this credit agreement are reduced by the principal amount of letters of credit outstanding under the facility.

6. Restructuring and Merger-Related Expenses

The following table summarizes activity for the six months ended March 31, 2003, related to restructuring accruals previously recorded in connection with the HNC acquisition:

	Accrual at September 30, 2002	Cash Payments	Accrual at March 31, 2003
Facilities charges	$3,076	$ (435)	$2,641
Employee separation	1,530	(1,041)	489
	$4,606	$(1,476)	$3,130

During the quarter and six months ended March 31, 2003, we also incurred incremental merger-related expenses totaling $606 and $2,616, respectively, consisting primarily of retention bonuses.

7. Earnings Per Share

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

	Quarter Ended March 31,		Six Months Ended March 31,	
	2003	2002	2003	2002
Numerator — net income	$25,645	$14,185	$45,435	$27,732
Denominator — shares:				
Basic weighted-average shares	47,898	34,532	49,042	34,359
Effect of dilutive securities	2,555	1,755	2,249	1,761
Diluted weighted-average shares	50,453	36,287	51,291	36,120
Earnings per share:				
Basic	$ 0.54	$ 0.41	$ 0.93	$ 0.81
Diluted	$ 0.51	$ 0.39	$ 0.89	$ 0.77

The computation of diluted EPS for the quarters ended March 31, 2003 and 2002, excludes stock options to purchase 347 and 1,295 shares of common stock, respectively, and for the six months ended March 31, 2003 and 2002, excludes stock options to purchase 1,791 and 969 shares of common stock, respectively. The shares were excluded as the exercise prices for such options were greater than the average market price of our common stock, and their inclusion would be antidilutive. The computation of diluted EPS for the quarter and six months ended March 31, 2003, also excludes 2,703 shares of common stock issuable upon conversion of our convertible subordinated notes, as the inclusion of such shares would have been antidilutive.

8. Repurchases of Common Stock

During the six months ended March 31, 2003, we repurchased 4,938 shares of our common stock for an aggregate cost of $221,969. The shares were repurchased pursuant to a program approved by our Board of Directors in the prior fiscal year that allowed us to repurchase up to 6,000 shares of our common stock. In March 2003, we concluded our repurchase of all approved shares under this program.

9. Segment Information

Following the merger with HNC, we reorganized into four segments worldwide. These segments correspond to the new internal management of our business operations based on products. The reportable segments are Scoring Solutions, Strategy Machine™ Solutions, Professional Services, and Analytic Software Tools.

The Scoring Solutions segment includes scoring services distributed through major credit reporting agencies, ScoreNet® services, PreScore® services and insurance bureau scoring services sold through credit reporting agencies.

The Strategy Machine Solutions segment primarily includes revenues derived from the following products: TRIAD™ credit account management services distributed through third-party bankcard processors, Fair Isaac MarketSmart Decision System® solution, CompAdvisor® and AutoAdvisor® Medical Bill Review and Outsourced Cost Containment Services, RoamEx® Roamer Data Exchanger, LiquidCredit® service, TelAdaptive® service, CardAlert™ Fraud Manager and consumer services available through our myFICO.com web site and strategic alliance partners' web sites, List Processing and Strategy Science products, as well as software license and maintenance revenues related to our Falcon™ Fraud Manager, Capstone® Decision Manager, and TRIAD™ end-user products.

The Professional Services segment includes all consulting, implementation and custom analytics services.

The Analytic Software Tools segment principally includes software license and maintenance revenues associated with Fair Isaac Blaze Decision System™ software, Fair Isaac Blaze Advisor™ software and Model Builder software products.

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

depreciation and amortization. Indirect costs are allocated to the segments generally based on relative segment revenues, fixed rates established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. Our Chief Executive Officer does not evaluate the financial performance of each segment based on its respective assets or capital expenditures; rather, depreciation and amortization amounts are allocated to the segments from their internal cost centers as described above.

The following tables summarize segment information for the quarters and six months ended March 31, 2003 and 2002. Segment information during the quarter and six months ended March 31, 2002, has been restated to conform to the current segment presentation.

	Quarter Ended March 31, 2003				
	Scoring	Strategy Machines	Professional Services	Analytic SW Tools	Total
Revenues	$ 32,868	$100,563	$ 20,231	$ 4,936	$ 158,598
Operating expenses	(15,505)	(75,051)	(19,327)	(6,420)	(116,303)
Segment operating income	$ 17,363	$ 25,512	$ 904	$(1,484)	42,295
Unallocated merger-related expenses					(606)
Operating income					41,689
Unallocated interest expense — convertible subordinated notes					(2,326)
Unallocated interest and other income, net					1,741
Income before income taxes					$ 41,104
Depreciation and amortization	$ 3,007	$ 6,566	$ 1,473	$ 367	$ 11,413

	Quarter Ended March 31, 2002				
	Scoring	Strategy Machines	Professional Services	Analytic SW Tools	Total
Revenues	$ 30,165	$ 39,657	$ 14,590	$ 2,638	$ 87,050
Operating expenses	(13,874)	(34,402)	(15,416)	(2,064)	(65,756)
Segment operating income	$ 16,291	$ 5,255	$ (826)	$ 574	21,294
Unallocated interest and other income, net					1,964
Income before income taxes					$ 23,258
Depreciation and amortization	$ 1,745	$ 4,029	$ 949	$ 160	$ 6,883

	Six Months Ended March 31, 2003				
	Scoring	Strategy Machines	Professional Services	Analytic SW Tools	Total
Revenues	$ 66,960	$ 186,552	$ 40,481	$ 11,337	$ 305,330
Operating expenses	(30,945)	(146,962)	(39,113)	(12,620)	(229,640)
Segment operating income	$ 36,015	$ 39,590	$ 1,368	$ (1,283)	75,690
Unallocated merger-related expenses					(2,616)
Operating income					73,074
Unallocated interest expense — convertible subordinated notes					(4,648)
Unallocated interest and other income, net					4,856
Income before income taxes					$ 73,282
Depreciation and amortization	$ 6,109	$ 13,206	$ 2,995	$ 748	$ 23,058

	Six Months Ended March 31, 2002				
	Scoring	Strategy Machines	Professional Services	Analytic SW Tools	Total
Revenues	$ 60,710	$ 80,122	$ 26,838	$ 4,441	$ 172,111
Operating expenses	(28,680)	(69,245)	(28,604)	(3,756)	(130,285)
Segment operating income	$ 32,030	$ 10,877	$ (1,766)	$ 685	41,826
Unallocated interest and other income, net					3,823
Income before income taxes					$ 45,649
Depreciation and amortization	$ 3,494	$ 8,054	$ 1,767	$ 274	$ 13,589

Our revenues and percentage of revenues by reportable market segments are as follows for the quarters and six months ended March 31, 2003 and 2002, the majority of which are derived from the sale of products and services within the consumer credit, financial services and insurance industries:

	Quarter Ended March 31,				Sixth Months Ended March 31,			
	2003		2002		2003		2002	
Scoring Solutions	$ 32,868	21%	$30,165	35%	$ 66,960	22%	$ 60,710	35%
Strategy Machine Solutions	100,563	63%	39,657	45%	186,552	61%	80,122	46%
Professional Services	20,231	13%	14,590	17%	40,481	13%	26,838	16%
Analytic SW Tools	4,936	3%	2,638	3%	11,337	4%	4,441	3%
	$158,598	100%	$87,050	100%	$305,330	100%	$172,111	100%

In addition, our revenues and percentage of revenues on a geographical basis are summarized below for the quarters and six months ended March 31, 2003 and 2002. No single country outside of the United States accounted for 10% or more of revenue in either quarter or six month period.

	Quarter Ended March 31,				Six Months Ended March 31,			
	2003		2002		2003		2002	
United States	$121,431	77%	$67,924	78%	$243,251	80%	$138,743	81%
International	37,167	23%	19,126	22%	62,079	20%	33,368	19%
	$158,598	100%	$87,050	100%	$305,330	100%	$172,111	100%

10. San Diego Lease Commitment

During the quarter ended March 31, 2003, we executed a non-cancelable seven-year lease agreement that commences in August 2003 for a new San Diego, California office facility. The lease also provides for two five-year renewal options. Minimum future commitments under this lease as of March 31, 2003, are as follows:

Six Months Ending September 30, 2003	$ 633
Fiscal Year Ending September 30,	
2004	3,799
2005	3,799
2006	3,799
2007	3,799
2008	3,908
Thereafter	8,305
	$28,042

The lease agreement also grants us the right to use certain furniture and fixtures during the lease term and provides us with the option to purchase such assets at the end of the initial lease term for one dollar. We will record these assets at their estimated fair

value upon the commencement of this lease, along with a corresponding capital lease liability equal to the present value of the minimum lease payments allocated from the above commitment.

11. Contingencies

We are involved in various claims and legal actions arising in the ordinary course of business. We believe that these claims and actions will not have a material adverse impact on our results of operations, liquidity or financial condition. However, the amount of the liabilities associated with these claims and actions, if any, cannot be determined with certainty.

12. Guarantees

In the ordinary course of business, we are not subject to potential obligations under guarantees that fall within the scope of FIN No. 45 except for standard indemnification and warranty provisions that are contained within many of our customer license and service agreements, as well as standard indemnification agreements that we have executed with certain of our officers and directors, and give rise only to the disclosure requirements prescribed by FIN No. 45. In addition, under previously existing accounting principles generally accepted in the United States of America, we continue to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the guarantees and indemnifications when those losses are estimable.

Indemnification and warranty provisions contained within our customer license and service agreements are generally consistent with those prevalent in our industry. The duration of our product warranties generally does not exceed 90 days following delivery of our products. We have not incurred significant obligations under customer indemnification or warranty provisions historically and do not expect to incur significant obligations in the future. Accordingly, we do not maintain accruals for potential customer indemnification or warranty-related obligations. The indemnification agreements that we have executed with certain of our officers and directors would require us to indemnify such officers and directors in certain instances. We have not incurred obligations under these indemnification agreements historically and do not expect to incur significant obligations in the future. Accordingly, we do not maintain accruals for potential officer or director indemnification obligations. The maximum potential amount of future payments that we could be required to make under the indemnification provisions in our customer license and service agreements, and officer and director agreements is unlimited.

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 concerning our merger with HNC Software Inc., expected synergies, execution of integration plans and increases in shareholder value as a result of the merger; (iv) statements of assumptions underlying such statements, (v) statements regarding business relationships with vendors, customers or collaborators; and (vi) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as "believes," "anticipates," "expects," "intends," "targeted," "should," "potential," "goals," "strategy," and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Management's Discussion and Analysis of Financial Condition and Results of Operations-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-K, 10-Q and 8-K.

RESULTS OF OPERATIONS

Overview

We are a leader in enterprise decision management, providing analytic, software and data management products and services that enable businesses to automate and improve their decisions. Our predictive modeling, decision analysis, intelligence management, decision management systems and consulting services power more than 25 billion decisions a year. We help companies acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Most leading banks and credit card issuers rely on our solutions, as do many insurers, retailers, telecommunications providers, healthcare organizations and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure of credit risk, to manage their financial health.

Most of our revenues are derived from the sale of products and services within the consumer credit, financial services and insurance industries, and during the quarter and six months ended March 31, 2003, approximately 83% and 82%, respectively, of our revenues were derived from within these industries. A significant portion of our remaining revenues is derived from the telecommunications, healthcare and retail industries, as well as the government sector. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. A significant portion of our revenues is derived from recurring sources, generally including, but not limited to, transactional-based software license fees, license fees that recur annually under long-term software license arrangements, transactional fees derived under scoring, network service or internal hosted software arrangements, and software maintenance fees. Transactional-based and other recurring revenues are, 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 account management activity; workers' compensation and automobile medical injury insurance claims; and wireless and wireline calls and subscriber levels. The portion of our revenues that is derived from non-recurring sources generally includes, but is not limited to, perpetual or time-based licenses with upfront, non-recurring payment terms and non-recurring professional service arrangements.

On August 5, 2002, we completed our acquisition of HNC, a provider of analytic and decision management software. Results of operations of HNC are included prospectively from the date of acquisition. As a result of this acquisition, and to lesser degrees the Nykamp acquisition consummated in December 2001 and the Spectrum acquisition consummated in December 2002, our financial results during the quarter and six months ended March 31, 2003, are not directly comparable to those during the quarter and six months ended March 31, 2002.

Following our acquisition of HNC, we changed our reportable business segments to reflect the new primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Our current reportable segments are: Scoring Solutions, Strategy Machine Solutions, Professional Services and Analytic Software Tools. Segment information for the quarter and six months ended March 31, 2002, has been restated to conform to the quarter and six months ended March 31, 2003 presentation for comparability. Comparative segment revenues, operating income, and related financial information for the quarter and six month periods ended March 31, 2003 and 2002 are set forth in Note 9 to the Condensed Consolidated Financial Statements.

Revenues

The following table displays (a) the percentage of revenues by segment during the quarters and six months ended March 31, 2003 and 2002, and (b) the percentage change in segment revenues from the corresponding periods in the prior fiscal year.

Segment	Percentage of Revenues Quarter Ended March 31, 2003	Percentage of Revenues Quarter Ended March 31, 2002	Period-to-Period Percentage Change	Percentage of Revenues Six Months Ended March 31, 2003	Percentage of Revenues Six Months Ended March 31, 2002	Period-to-Period Percentage Change
Scoring Solutions	21%	35%	9%	22%	35%	10%
Strategy Machine Solutions	63%	45%	154%	61%	46%	133%
Professional Services	13%	17%	39%	13%	16%	51%
Analytic Software Tools	3%	3%	87%	4%	3%	155%
Total Revenues	100%	100%	82%	100%	100%	77%

Total revenues increased by $71.5 million from $87.1 million during the quarter ended March 31, 2002, to $158.6 during the quarter ended March 31, 2003. **Scoring Solutions** segment revenues increased by $2.7 million from $30.2 million during the quarter ended March 31, 2002, to $32.9 million during the quarter ended March 31, 2003, primarily due to a $2.5 million increase in PreScore service revenues and a $0.6 million increase in revenues derived from risk scoring services at the credit reporting agencies, partially offset by a $0.4 million net decrease in various other product revenues. The increase in PreScore revenues is attributable primarily to a higher level of marketing efforts by credit card issuers. The growth in risk scoring services resulted primarily from increased sales of scores for account review as well as mortgage origination and refinancing. During the quarter ended March 31, 2003, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for approximately 18% of our total revenues, including revenues from these customers that are recorded in our other segments. **Strategy Machine Solutions** segment revenues increased by $60.9 million from $39.7 million during the quarter ended March 31, 2002, to $100.6 million during the quarter ended March 31, 2003, due primarily to the addition of $50.2 million of revenues derived from products and services previously offered by HNC, a $4.2 million increase in revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, a $4.2 million increase in TRIAD revenues and a $2.3 million net increase in various other product revenues. The increase in consumer score services revenue is attributable primarily to an increase in customer volume and to higher average selling prices resulting from the expansion of product offerings. The increase in TRIAD revenues is attributable primarily to an increase in perpetual license sales and an increase in transactional volume associated with our Processor Triad services quarter over quarter. **Professional Services** segment revenues increased by $5.6 million from $14.6 million during the quarter ended March 31, 2002, to $20.2 million during the quarter ended March 31, 2003, primarily due to the addition of $7.1 million of revenues resulting from the acquisition of HNC, partially offset by a $1.5 million net decrease associated with various other professional service offerings. **Analytic Software Tools** segment revenues increased by $2.3 million from $2.6 million during the quarter ended March 31, 2002, to $4.9 million during the quarter ended March 31, 2003, primarily due to the addition of $3.2 million in Blaze Advisor revenues resulting from the acquisition of HNC, partially offset by a $0.9 million decrease in revenues associated with various other product revenues.

Total revenues increased by $133.2 million from $172.1 million during the six months ended March 31, 2002, to $305.3 million during the six months ended March 31, 2003. **Scoring Solutions** segment revenues increased by $6.3 million from $60.7 million during the six months ended March 31, 2002, to $67.0 million during the six months ended March 31, 2003, primarily due to a $4.6 million increase in PreScore service revenues and a $2.6 million increase in revenues derived from risk scoring services at the credit reporting agencies, partially offset by a $0.9 million net decrease in various other product revenues. The increase in PreScore revenues is attributable primarily to a higher level of marketing efforts by credit card issuers. The growth in risk scoring services resulted primarily from increased sales of scores for account review as well as mortgage origination and refinancing. During the six months ended March 31, 2003, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for approximately 19% of our total revenues, including revenues from these customers that are recorded in our other segments. **Strategy Machine Solutions** segment revenues increased by $106.5 million from $80.1 million during the six months ended March 31, 2002, to $186.6 million during the six months ended March 31, 2003, due primarily to the addition of $93.6 million of revenues derived from products and services previously offered by HNC, a $7.3 million increase in revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, a $4.9 million increase in TRIAD revenues and a $0.7 million net increase in various other product revenues. The increase in consumer score services revenue is attributable primarily to an increase in customer volume and to higher average selling prices resulting from the expansion of product offerings. The increase in TRIAD revenues is attributable primarily to an increase in perpetual license sales

and an increase in transactional volume associated with our Processor Triad services period over period. **Professional Services** segment revenues increased by $13.7 million from $26.8 million during the six months ended March 31, 2002, to $40.5 million during the six months ended March 31, 2003, primarily due to increased revenues of $13.4 million resulting from the acquisition of the HNC along with a $0.3 million net increase associated with various other professional service offerings. **Analytic Software Tools** segment revenues increased by $6.9 million from $4.4 million during the six months ended March 31, 2002, to $11.3 million during the six months ended March 31, 2003, primarily due to the addition of $8.3 million in Blaze Advisor revenues resulting from the acquisition of HNC, partially offset by $1.4 million decrease in revenues associated with various other product revenues.

Revenues derived from clients outside the United States totaled $37.2 million and $19.1 million during the quarters ended March 31, 2003 and 2002, respectively, representing 23% and 22% of total consolidated revenues in each of these periods. Revenues derived from clients outside the United States totaled $62.1 million and $33.4 million during the six months ended March 31, 2003 and 2002, respectively, representing 20% and 19% of total consolidated revenues in each of these periods.

Operating Expenses and Other Income (Expense)

The following table sets forth for the fiscal periods indicated (a) the percentage of revenues represented by certain line items in our Condensed Consolidated Statements of Income and (b) the percentage change in the amount of each such line item in the quarter and six months ended March 31, 2003, from the corresponding periods in the prior fiscal year.

	Percentage of Revenues Quarter Ended March 31,			Percentage of Revenues Six Months Ended March 31,		
	2003	2002	Period-to-Period Percentage Change	2003	2002	Period-to-Period Percentage Change
Revenues	100%	100%	82%	100%	100%	77%
Operating expenses:						
Cost of revenues	41%	45%	64%	41%	45%	60%
Research and development	11%	8%	134%	11%	9%	133%
Selling, general and administrative	20%	22%	69%	21%	21%	74%
Amortization of intangibles	2%	1%	461%	2%	1%	489%
Merger-related expenses	—	—	100%	1%	—	100%
Total operating expenses	74%	76%	78%	76%	76%	78%
Operating income	26%	24%	96%	24%	24%	75%
Interest income	1%	2%	7%	1%	2%	28%
Interest expense on convertible subordinated notes	(1)%	—	100%	(1)%	—	100%
Other (expense) income, net	—	—	(108)%	—	—	20%
Income before income taxes	26%	26%	77%	24%	26%	61%
Provision for income taxes	10%	10%	70%	9%	10%	55%
Net income	16%	16%	81%	15%	16%	64%

Cost of Revenues

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

The quarter over quarter increase in cost of revenues was principally due to the HNC acquisition. Cost of revenues, as a percentage of revenues, decreased in the quarter ended March 31, 2003, as compared to the quarter ended March 31, 2002. This percentage decrease was attributable primarily to the addition of higher margin product offerings from the HNC acquisition, including Falcon Fraud Manager, Capstone Decision Manager, RoamEx and Blaze Advisor, and to higher margins achieved by our consumer score services through myFICO.com due to increased revenues and related cost efficiencies.

The year to date period over year to date period increase in cost of revenues was principally due to the HNC acquisition. Cost of revenues, as a percentage of revenues, decreased in the six months ended March 31, 2003, as compared to the six months ended March 31, 2002. This percentage decrease was attributable primarily to the addition of higher margin product offerings from the HNC acquisition, including Falcon Fraud Manager, Capstone Decision Manager, RoamEx and Blaze Advisor, and to higher margins achieved by our consumer score services through myFICO.com due to increased revenues and related cost efficiencies.

Research and Development

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

The quarter over quarter increase in research and development expenses was principally due to the HNC acquisition. Research and development expenses, as a percentage of revenues, increased in the quarter ended March 31, 2003, as compared to the quarter ended March 31, 2002. This percentage increase was attributable primarily to a higher level of research and development efforts associated with product lines acquired from HNC, including the development of a new software platform technology, and to increased research and development efforts within our Strategy Machine Solutions segment.

The year to date period over year to date period increase in research and development expenses was principally due to the HNC acquisition. Research and development expenses, as a percentage of revenues, increased in the six months ended March 31, 2003, as compared to the six months ended March 31, 2002. This percentage increase was attributable primarily to a higher level of research and development efforts associated with product lines acquired from HNC, including the development of a new software platform technology, and to increased research and development efforts within our Strategy Machine Solutions segment.

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 in selling, general and administrative expenses was principally due to the HNC acquisition. Selling, general and administrative expenses, as a percentage of revenues, decreased in the quarter ended March 31, 2003, as compared to the quarter ended March 31, 2002. This percentage decrease was attributable primarily to a reduction in selling, general and administrative personnel and other costs due to efficiencies achieved by the HNC merger, partially offset by an increase in our provision for doubtful accounts, media expenditures, professional service fees and sales commissions.

The year to date period over year to date period increase in selling, general and administrative expenses was principally due to the HNC acquisition. Selling, general and administrative expenses, as a percentage of revenues, remained relatively flat during the six months ended March 31, 2003, as compared to the six months ended March 31, 2002. The consistency in this percentage reflected primarily a reduction in selling, general and administrative personnel and other costs due to efficiencies achieved by the HNC merger, offset primarily by an increase in our provision for doubtful accounts, media expenditures, professional service fees and sales commissions.

Amortization of Intangibles

Amortization of intangibles consists of amortization expense that we have recorded on intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Effective October 1, 2002, we adopted SFAS No. 142 and accordingly, ceased the amortization of goodwill and indefinite-lived intangible assets. Amortization expense for the quarter ended March 31, 2003, totaled $3.4 million as compared to amortization expense of $0.6 million for the quarter ended March 31, 2002. The increase is attributable primarily to the incremental amortization of intangible assets recorded in connection with the HNC acquisition on August 5, 2002, and to a lesser degree the full quarter of amortization of intangible assets resulting from our acquisition of assets from Spectrum Managed Care in December 2002.

Amortization expense for the six months ended March 31, 2003, totaled $6.7 million as compared to amortization expense of $1.1 million for the six months ended March 31, 2002. The increase is attributable primarily to the incremental amortization of

intangible assets recorded in connection with the HNC acquisition on August 5, 2002, and to a lesser degree the full six months of amortization of intangible assets resulting from our acquisition of assets from Nykamp Consulting Group in December 2001 and three months of amortization of intangible assets resulting from our acquisition of assets from Spectrum Managed Care in December 2002.

Our definite-lived intangible assets are being amortized using the straight-line method or based on forecasted cash flows associated with the assets over periods ranging from three to fifteen years.

Merger-related Expenses

We incurred incremental HNC-related merger expenses totaling $0.6 million and $2.6 million during the quarter and six months ended March 31, 2003, respectively, consisting primarily of retention bonuses. No such expenditures were incurred in the same prior year periods.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. Interest income totaled $1.8 million for the quarter ended March 31, 2003, as compared to $1.6 million for the quarter ended March 31, 2002. Interest income totaled $4.4 million for the six months ended March 31, 2003, as compared to $3.4 million for the six months ended March 31, 2002. The period over period increases were attributable primarily to higher average cash and investment balances, principally resulting from our acquisition of HNC on August 5, 2002, partially offset by lower interest and investment income yields due to lower market rates of return.

Interest Expense on Convertible Subordinated Notes

As a result of the HNC acquisition and subsequent merger of the HNC entity, we are the issuer of $150.0 million in 5.25% Convertible Subordinated Notes (the “Notes”) due in September 2008. The Notes were recorded at their fair value of $139.7 million on the acquisition date, as determined based on their quoted market price, which resulted in our recognition of a $10.3 million note discount. The carrying amount of the Notes is being accreted to $150.0 million over their remaining term using the effective interest method, resulting in an effective interest rate of approximately 6.64% per annum. Interest expense on the notes recorded by us totaled $2.3 million and $4.6 million during the quarter and six months ended March 31, 2003, respectively.

Other (Expense) Income, Net

Other expense, net totaled less than $0.01 million during the quarter ended March 31, 2003, as compared to other income, net of $0.3 million recorded during the quarter ended March 31, 2002. The decrease in other income, net is attributable primarily to a $1.0 million reduction in gains recorded from the sale of marketable securities during the quarter ended March 31, 2003, as compared to the quarter ended March 31, 2002, partially offset by the non-recurrence of a $0.8 million loss associated with the impairment and write-off of an equity investment recorded during the quarter ended March 31, 2002.

Other income, net totaled $0.5 million during the six months ended March 31, 2003, as compared to $0.4 million during the six months ended March 31, 2002. The increase in other income, net is attributable primarily to the non-recurrence of a $1.1 million loss associated with the impairment and write-off of an equity investment recorded during the six months ended March 31, 2002, partially offset by a $0.9 million reduction in gains recorded from the sale of marketable securities during the six months ended March 31, 2003, as compared to the six months ending March 31, 2002.

Provision for Income Taxes

Our effective tax rate was 37.6% and 39.0% during the quarters ended March 31, 2003 and 2002, respectively, and 38% and 39.25% during the six months ended March 31, 2003 and 2002, respectively. The period-over-period decreases are primarily due to the increased availability of research and development tax credits. 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.

Operating Income

Operating income increased from $21.3 million for the quarter ended March 31, 2002 to $41.7 million for the quarter ended March 31, 2003. This increase was attributable primarily to the HNC acquisition and to a lesser degree increased revenues and operating income associated with legacy Fair Isaac product offerings, partially offset by HNC merger-related expenses during the quarter ended March 31, 2003. At the segment level, the increase in operating income was attributable primarily to increased segment operating income derived from our Strategy Machines Solutions and Scoring Solutions segments. The increase in Strategy Machines Solutions segment operating income was driven primarily by the growth of segment revenues and operating margins quarter over quarter, principally as a result of additional revenues derived from products and services previously offered by HNC along with an increase in revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, and an increase in TRIAD revenues. The increase in consumer score services revenue is attributable primarily to an increase in customer volume and to higher average selling prices resulting from the expansion of product offerings. The increase in TRIAD revenues is attributable primarily to an increase in client server perpetual license sales and to an increase in transactional volume associated with our Netsourced Triad services quarter over quarter. HNC merger-related cost efficiencies also contributed to the increase in Strategy Machines Solutions segment operating income. The increase in Scoring Solutions segment operating income was driven primarily by an increase in PreScore revenues and to an increase in revenues derived from risk scoring services at the credit reporting agencies. The increase in PreScore revenues is attributable primarily to a higher level of marketing efforts by credit card issuers. The growth in risk scoring services resulted primarily from increased sales of scores for account review as well as mortgage origination and refinancing, while associated operating margins remained relatively consistent quarter over quarter.

Operating income increased from $41.8 million for the six months ended March 31, 2002 to $73.1 million for the six months ended March 31, 2003. This increase was attributable primarily to the HNC acquisition and to a lesser degree increased revenues and operating income associated with legacy Fair Isaac product offerings, partially offset by HNC merger-related expenses incurred during the six months ended March 31, 2003. At the segment level, the increase in operating income was attributable primarily to increased segment operating income derived from our Strategy Machines Solutions and Scoring Solutions segments. The increase in Strategy Machines Solutions segment operating income was driven primarily by the growth of segment revenues and operating margins quarter over quarter, principally as a result of additional revenues derived from products and services previously offered by HNC along with an increase in revenues derived from consumer score services through myFICO.com and strategic alliance partners' web sites, and an increase in TRIAD revenues. The increase in consumer score services revenue is attributable primarily to an increase in customer volume and to higher average selling prices resulting from the expansion of product offerings. The increase in TRIAD revenues is attributable primarily to an increase in client server perpetual license sales and to an increase in transactional volume associated with our Netsourced Triad services period over period. HNC merger-related cost efficiencies also contributed to the increase in Strategy Machines Solutions segment operating income. The increase in Scoring Solutions segment operating income was driven primarily by an increase in PreScore revenues and to an increase in revenues derived from risk scoring services at the credit reporting agencies. The increase in PreScore revenues is attributable primarily to a higher level of marketing efforts by credit card issuers. The growth in risk scoring services resulted primarily from increased sales of scores for account review as well as mortgage origination and refinancing, while associated operating margins remained relatively consistent period over period.

Capital Resources and Liquidity

Our working capital at March 31, 2003 and September 30, 2002, totaled $227.7 million and $338.0 million, respectively. The decrease in working capital during the six months ended March 31, 2003, is attributable primarily to a $115.4 million decline in cash and cash equivalents and short-term marketable securities, offset by an aggregate $5.1 million increase in other net working capital accounts. The decline in cash and cash equivalents and short-term marketable securities is principally due to the use of $222.0 million for stock repurchases, offset by net cash provided by operating, investing and other financing activities during the quarter, as described below. The increase in other net working capital balances consisted primarily of a $3.4 million increase in net receivables, a $2.3 million increase in other current assets, a $1.7 million decrease in accrued compensation and employee benefits and a $4.8 million decrease in other accrued liabilities, offset by a $5.4 million increase in accounts payable and a $1.8 million increase in deferred revenue. The increase in net receivables was attributable primarily to an increase in revenues during the quarter ended March 31, 2003, as compared to the quarter preceding September 30, 2002, partially offset by an increase in our allowance for doubtful accounts. The increase in other current assets was attributable primarily to an increase in prepaid expenditures, partially offset by a net decrease in other current assets. The decrease in accrued compensation and employee benefits was attributable primarily to a decrease in accrued incentive compensation, partially offset by an increase in accrued salaries. The decrease in other accrued liabilities was attributable primarily to a reduction in HNC merger-related accruals, partially offset by a net increase in other miscellaneous accruals. The increase in accounts payable was attributable primarily to the timing of vendor disbursements. The increase in deferred revenue was attributable primarily to an increase in customer prepayments.

Our primary method for funding operations and growth has been through cash flows generated from operations. Net operating cash flows increased from $49.9 million during the six months ended March 31, 2002 to $74.6 million during the six months ended March 31, 2003, reflecting an increase in net earnings before non-cash charges and the effect of other net working capital changes, as discussed herein.

Net cash provided by investing activities totaled $95.1 million during the six months ended March 31, 2003, as compared to net cash provided by investing activities of $36.0 million during the six months ended March 31, 2002. The increase in net cash provided by investing activities during the six months ended March 31, 2003, as compared to the six months ended March 31, 2002, is attributable primarily to $56.1 million increase in sales and maturities of marketable securities, net of purchases, a $4.5 million reduction in property and equipment purchases and the receipt of $3.0 million in cash proceeds from the sale of a product line in the current period, offset by a $4.6 million increase in net cash paid in acquisitions period over period.

Net cash used in financing activities totaled $190.8 million and $4.4 million during the six months ended March 31, 2003 and 2002, respectively. The increase in net cash used in financing activities during the six months ended March 31, 2003, as compared to the six months ended March 31, 2002, is attributable primarily to the use of $222.0 million in cash to repurchase common stock in the current period and to a $1.1 million increase in dividends, partially offset by an increase in proceeds from the issuance of common stock period over period.

From time to time, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. During the six months ended March 31, 2003, we expended $222.0 million in connection with our repurchase of approximately 4.9 million shares of common stock pursuant to a 6.0 million share repurchase program announced in August 2002. In March 2003, we concluded our repurchase of all approved shares under this program.

We paid quarterly dividends of two cents per share, or a total of four cents per share, during the six months ended March 31, 2003 and 2002. 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.

We are the issuer of $150.0 million of 5.25% Convertible Subordinated Notes (the "Notes") that mature on September 1, 2008. The Notes are convertible into shares of Fair Isaac common stock at a conversion rate of approximately 18.02 shares of Fair Isaac common stock per $1,000 principal amount of the Notes, subject to anti-dilution adjustment. The Notes are general unsecured obligations of Fair Isaac and are subordinated in right of payment to all existing and future senior indebtedness of Fair Isaac. Interest on the Notes is payable on March 1 and September 1 of each year until maturity. We may redeem the Notes on or after September 5, 2004, or earlier if the price of Fair Isaac common stock reaches certain levels. If we redeem the Notes prior to September 1, 2007, we will be required to pay a redemption premium as prescribed by the indenture.

We are party to a credit agreement with a financial institution that provides for a $15.0 million revolving line of credit through February 2004. Under the agreement we are required to comply with various financial covenants, which include but are not limited to, minimum levels of domestic liquidity, parameters for treasury stock repurchases, dividend payments, and merger and acquisition requirements. At our option, borrowings under this agreement bear interest at the rate of LIBOR plus 1.25% or at the financial institution's Prime Rate, payable monthly. The agreement also includes a letter of credit subfeature that allows us to issue commercial and standby letters of credit up to a maximum amount of $5.0 million and a foreign exchange facility that allows us to enter contracts with the financial institution to purchase and sell certain currencies, subject to a maximum aggregate amount of $20.0 million and other specified limits. As of March 31, 2003, no borrowings were outstanding under this agreement and we were in compliance with all related covenants. As of March 31, 2003, this credit facility also served to collateralize certain letters of credit aggregating $0.7 million, issued by us in the normal course of business. Available borrowings under this credit agreement are reduced by the principal amount of letters of credit outstanding under the facility.

As of March 31, 2003, we had $293.8 million in cash, cash equivalents and marketable security investments. We believe that these balances, including interest to be earned thereon, and anticipated cash flows from operating activities will be sufficient to fund our working and other capital requirements over the course of the next twelve months and for the foreseeable future. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships

with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, we may raise additional funds from a combination of sources including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all, particularly in light of the current decline in the capital markets. 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.

We are a limited partner in Azure Venture Partners I, L.P., a venture capital investment management fund, and are committed to invest an additional $2.2 million into this fund. The ultimate timing of this additional investment will be dependent on when the fund managers make additional capital calls. The most recent capital call requires us to invest an additional $0.5 million into this fund in May 2003. It is possible that additional capital calls may require us to invest some or all of our remaining commitment during fiscal 2003.

During the quarter ended March 31, 2003, we executed a non-cancelable seven-year lease agreement that commences in August 2003 for a new San Diego, California office facility. The lease also provides for two five-year renewal options. Minimum future commitments under this lease aggregate $28.0 million, payable as follows: $0.6 million from commencement of the lease through the end of fiscal 2003, $3.8 million during each year of fiscal 2004 through 2007, $3.9 million during fiscal 2008 and $8.3 million thereafter.

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 effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. 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, capitalized software development costs, internal-use software, 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

We recognize software license revenue upon delivery, provided all significant obligations have been met, persuasive evidence of an arrangement exists, fees are fixed or determinable, collections are probable, objective evidence of fair value for all undelivered elements has been established, and we are not involved in significant production, customization, or modification of the software or services that are essential to the functionality of the software.

If the arrangement involves (1) development of custom scoring systems or (2) significant production, customization, or modification of software or service essential to the functionality of the software, the revenue is generally recognized under the percentage-of-completion method of contract accounting. Progress toward completion is generally measured by achieving certain standards and objectively verifiable milestones present in each project. In order to apply the percentage of completion of method, 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. As a result, recognized revenues and profits are subject to revisions as the contract progresses to completion.

Revenues from multiple element arrangements are allocated to each element based on the relative fair values of the elements. The determination of fair value is based on objective evidence that is specific to our business. If such evidence of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value for each element does exist or until all elements of the arrangement are delivered. If in a multiple element arrangement, fair value does not exist for one or more of the delivered elements in the arrangement, but fair value does exist for all of the undelivered elements, then the residual method of accounting is applied. 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.

Revenue determined by the percentage-of-completion method in excess of contract billings is recorded in unbilled receivables. Such amounts are generally billable upon reaching certain performance milestones as defined by individual contracts. Billings received in advance of performance under contracts are recorded as deferred revenue.

Revenues recognized from our credit scoring, data processing, data management, internet delivery services and consulting are generally recognized as these services are performed, provided all significant obligations have been met, persuasive evidence of an arrangement exists, fees are fixed or determinable, and collections are probable.

Transactional-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.

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

Revenues from post-contract customer support, such as maintenance, are recognized on a straight-line basis over the term of the contract.

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 closely 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, or if payments from customers are significantly delayed, 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, and in certain cases one-time charges associated with the write-off of in-process research and development, which affect the amount of current and future period charges and amortization expense. The determination of value of these components of a business combination, as well as associated asset useful lives, requires management to make various estimates and assumptions. Estimates using different, but each reasonable, assumptions could 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 goodwill. We adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, on October 1, 2002, and as a result have ceased amortization of goodwill. As required by SFAS No. 142, we have determined that our reporting units are the same as our reportable segments. In addition, we were required to assess whether goodwill within our reporting units was impaired at the date of the adoption of this statement using a two-step transitional impairment test. We completed the first step during the quarter ended March 31, 2003, and determined that goodwill was not impaired on October 1, 2002. Accordingly, we are not required to complete the second step of the impairment test. There are many management assumptions and estimates underlying the determination of an impairment loss, and estimates using different, but each reasonable, assumptions could produce significantly different results. Therefore, the timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions.

Capitalized Software Development Costs

We capitalize certain software development costs after establishment of a product’s technological feasibility. Such costs are then amortized over the estimated life of the related product. Periodically, we compare a product’s unamortized capitalized cost to

the product's estimated net realizable value. To the extent unamortized capitalized costs exceed net realizable value based on the product's estimated future gross revenues, reduced by the estimated future costs of completing and disposing of the product, the excess is written off. This analysis requires us to estimate future gross revenues associated with certain products, and the future costs of completing and disposing of certain products. If these estimates change, write-offs of capitalized software costs could result.

Internal-use Software

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at the lower of cost or fair value. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. We assess potential impairment of capitalized internal-use software whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net cash flows that are expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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. 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. 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. Conversely, if we determine that we would be unable to realize a portion of our recorded deferred tax asset, we would adjust the deferred tax asset to record a charge to income for the period.

Contingencies and Litigation

We are subject to various proceedings, lawsuits and claims relating to product, 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. The amount of loss accrual, if any, is determined after analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies.

New Accounting Pronouncements

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 expands upon existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. We are currently evaluating the impact of FIN No. 46 on our financial statements and related disclosures.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We are currently evaluating the impact that the adoption of EITF Issue No. 00-21 will have on our financial position and results of operations.

RISK FACTORS

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

We expect that revenues from some or all of our Falcon Fraud Manager, Decision Manager for Medical Bill Review, Outsourced Bill Review and account management products and services, and agreements with TransUnion, Equifax and Experian, will 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;
- technological change;
- our inability to obtain or use state fee schedule or claims data in our insurance products;
- saturation of market demand;
- loss of key customers;
- industry consolidation;
- inability to successfully sell our products in new vertical markets; and
- events that reduce the effectiveness of or need for fraud detection capabilities.

Our ability to increase our revenues will depend to some extent upon introducing new products and services, and 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 our Scoring segment and for certain services in our Strategy Machine Solutions segment (specifically, the markets for account management services at credit card processors and credit card fraud detection software). To increase our revenues, we must enhance and improve existing products and continue to introduce new products and new versions of existing products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. We believe much of our future growth prospects will rest on our ability to continue to expand into newer markets for our products and services, such as direct marketing, insurance, small business lending, retail, telecommunications, personal credit management, the design of business strategies using Strategy Science technology and internet services. These 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, our revenues will decrease.

We will continue to depend upon major contracts with credit reporting agencies, and our future revenues and operating income could decline if the terms of these relationships change.

We derive a substantial portion of our revenues and operating income from contracts with the three major credit reporting agencies. These contracts, which normally have a term of five years or less, accounted for approximately 18% and 19% of our revenues in the quarter and six months ended March 31, 2003, respectively. While we have been successful in extending or renewing our agreements with credit reporting agencies in the past, the loss of one or more of such agreements or an adverse change in agreement terms could have a material adverse effect on our revenues and results of operations.

Since our revenues depend, to a great extent, upon conditions in the consumer credit, financial services and insurance industries, and to some extent on general economic conditions, an industry specific or general downturn may harm our results of operations.

During the quarter and six months ended March 31, 2003, approximately 83% and 82%, respectively, of our revenues were derived from sales of products and services to the consumer credit, financial services and insurance industries. A downturn in the consumer credit, the financial services or the insurance industry, including a downturn caused by increases in interest rates or a tightening of credit, among other factors, could harm our results of operations. Since 1990, while the rate of account growth in the U.S. bankcard industry has been slowing and many of our large institutional clients have merged and consolidated, 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 this industry continues to consolidate, we may have fewer opportunities for revenue growth due to changing demand for our products and services that support clients' customer acquisition programs. In addition, industry consolidation could affect the base of recurring revenues derived from contracts in which we are paid on a per-transaction basis if consolidated customers combine their operations under one contract. We cannot assure you that we will be able effectively to promote future revenue growth in our businesses.

In addition, a softening of demand for our decisioning solutions or other products and services caused by a weakening of the economy generally may result in decreased revenues or lower growth rates. Due to the current slowdown in the economy generally, we believe that many of our existing and potential customers are reassessing or reducing their planned technology investments and deferring purchasing decisions. As a result, there is increased uncertainty with respect to our expected revenues. Further delays or reductions in business spending for business analytics could seriously harm our revenues and operating results.

Quarterly revenues and operating results have varied in the past and this variability may occur in the future and could lead to substantial declines in the market price for our common stock.

Our revenues and operating results varied in the past and future fluctuations in our operating results are possible. Consequently, we believe that you should not rely on period-to-period comparisons of financial results as an indication of future performance. Our future operating results may fall below the expectations of market analysts and investors, and in this event the market price of our common stock would likely fall. In addition, most of our operating expenses will not be affected by short-term fluctuations in revenues; thus, short-term fluctuations in revenues may significantly impact operating results. Factors that will affect our revenues and operating results include the following:

- variability in demand from our existing customers;
- the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increase 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 conditions in the consumer credit, financial services and insurance industries;
- fluctuations in domestic and international economic conditions;
- 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.

We may not be able to forecast our revenues accurately because our products have a long and variable sales cycle.

We cannot predict the timing of the recognition of our revenues accurately because the length of our sales cycles makes it difficult for us to predict the quarter in which sales to expected customers will occur. The long sales cycle for our products may cause license revenue and operating results to vary significantly from period to period. The sales cycle to license our products can typically range 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. 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. This has contributed, and we expect it to continue to contribute, to fluctuations in our operating results.

Although we expect that the recently completed merger between Fair Isaac and HNC will benefit us, we may not realize those benefits because of integration and other challenges.

On August 5, 2002, we completed the acquisition of HNC, previously announced on April 29, 2002. Our failure to meet the challenges involved in successfully integrating the operations of Fair Isaac and HNC could seriously harm our results of operations. Realizing the benefits of the recently completed merger will depend in part on the continued integration of products, technologies, operations, and personnel. Although we have made progress since the merger was completed, the continued integration is a complex, time-consuming and expensive process that, even with proper planning and implementation, could significantly disrupt our business. In many recent mergers, especially mergers involving technology companies, merger partners have experienced difficulties integrating the combined businesses, and we have not previously faced an integration challenge as substantial as the one presented by the recently completed merger. The challenges involved in this integration include the following:

- continuing to persuade employees that the business cultures of Fair Isaac and HNC are compatible, maintaining employee morale and retaining key employees;
- managing a workforce over expanded geographic locations;
- demonstrating to our customers that the merger will not lower client service standards, interfere with business focus, adversely affect product quality or alter current product development plans;
- consolidating and rationalizing corporate IT and administrative infrastructures;
- combining product offerings; and
- coordinating and rationalizing research and development activities to enhance introduction of well designed new products and technologies.

We may not be able to sustain the revenue growth rates previously experienced by HNC and Fair Isaac individually.

We cannot assure you that we will experience the same rate of revenue growth following the recently completed merger as HNC and Fair Isaac experienced individually because of the difficulty of maintaining high percentage increases as the base of revenue increases. If our revenue does not increase at or above the rate analysts expect, the trading price for our common stock may decline.

Government regulations that apply to us or to our customers may expose us to liability, or render our products obsolete.

Legislation and governmental regulation inform how our business is conducted. Both our core businesses and our newer consumer initiatives are affected by regulation. Significant regulatory areas include:

- federal and state regulation of consumer report data and consumer reporting agencies, such as the Fair Credit Reporting Act, or FCRA;
- regulation designed to insure that lending practices are fair and non-discriminatory, such as the Equal Credit Opportunity Act;
- privacy law, including but not limited to the provisions of the Financial Services Modernization Act of 1999 and the Health Insurance Portability and Accountability Act of 1996;
- regulations governing the extension of credit to consumers and by Regulation E under the Electronic Fund Transfers Act, as well as non-governmental VISA and MasterCard electronic payment standards;

- Fannie Mae and Freddie Mac regulations, among others, for our mortgage services products;
- insurance regulations related to our insurance products; and
- consumer protection laws, such as federal and state statutes governing the use of the Internet and telemarketing.

In connection with our core activities, these statutes directly govern our operations to some degree. For example, the Financial Services Modernization Act and other privacy laws restrict our use and transmittal of nonpublic personal information, grant consumers opt out rights, require us to make disclosures to consumers about our collection and use of personal information, govern when and how we may deliver credit score explanation services to consumers, and otherwise constrain our business operations. Many foreign jurisdictions relevant to our business also regulate our operations. For example, the European Union's Privacy Directive creates minimum standards for the protection of personal data. In addition, some EU member states have enacted protections which go beyond the requirements of the Privacy Directive. We will be subject to the risk of possible regulatory enforcement actions or other legal action if we fail to comply with any of the statutes governing our operations.

Additionally, existing regulation and legislation is subject to change or more restrictive interpretation by enforcement agencies, and new restrictive legislation might pass. For example, new credit reporting or privacy legislation might restrict the sharing of information by affiliated entities, mandate providing credit scores to consumers, narrow the permitted uses of consumer report data, or otherwise restrict the use of data that is vital to our products. Currently, the permitted uses of consumer report data in connection with customer acquisition efforts are governed primarily by the FCRA, whose federal preemption provisions effectively expire in 2004. Unless extended, this expiration could lead to greater state regulation, increasing the cost of customer acquisition activity. State regulation could cause financial institutions to pursue new strategies, reducing the demand for our products. In addition, in many states, including California, there have been periodic legislative efforts to reform workers' compensation laws in order to reduce workers' compensation insurance costs and to curb abuses of the workers' compensation system. Simplifying state workers' compensation laws, regulations or fee schedules could diminish the need for, and the benefits provided by our Decision Manager for Medical Bill Review products and Outsourced Bill Review services. Any changes to existing regulation or legislation, new regulation or legislation, or more restrictive interpretation of existing regulation could harm our business, results of operations and financial condition. Some of the legislation and regulation germane to our products and services authorizes private rights of action. Lawsuits pursuant to such legislation or regulation, even if baseless, could expose us to unexpected costs and risks.

Finally, governmental regulation influences our current and prospective clients' activities, as well as their expectations and needs in relation to our products and services. We must appropriately design products and services to function in regulated industries or risk liability to our customers for our products' non-compliance.

Our revenue growth could decline if any major customer cancels, reduces or delays a purchase or implementation of our products.

Most of our customers are relatively large enterprises, such as banks, insurance companies, healthcare firms, retailers and telecommunications carriers. Our future success will depend upon the timing and size of future licenses, if any, from these customers and new customers and, in some cases, how quickly our customers implement our products after purchase. 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. The loss of any major customer, or the delay of significant revenue from these customers, could reduce or delay our recognition of revenue.

Defects, failures and delays associated with our introduction of new products could seriously harm our business.

Significant undetected errors or delays in new products or new versions of products, especially in the area of customer relationship management, may affect market acceptance of our products and could harm our business, results of operations or financial position. If we were to experience delays in commercializing and introducing new or enhanced products, if our customers were to experience significant problems with implementing and installing our products, or if our customers were dissatisfied with our products' functionality or performance, our business, results of operations or financial position could be harmed. 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. Errors or defects in our products that are significant, or are perceived to be significant, could result in the rejection of our products, damage to our reputation, lost

revenues, diverted development resources, potential product liability claims and increased service and support costs and warranty claims. In some cases, our products are priced based on the economic benefits our customers obtain. In such cases, the performance of our products and services directly affects our revenues, and failure of these products and services to perform as expected can harm our results.

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, 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:

- internally develop 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.

Any failure to recruit and retain additional qualified personnel, more challenging in light of uncertainty following the recent acquisition, could hinder our ability to successfully manage our business.

Our future success will likely depend in large part on our ability to attract and retain experienced sales, research and development, marketing, technical support and management personnel. Employee retention may be particularly challenging in connection with the recently completed acquisition as a result of employee uncertainty about their future roles, the distractions of integration, and morale challenges posed by workforce reductions that occurred after completion of the acquisition. Moreover, 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 persons is very competitive due to the limited number of people available with the necessary technical skills and understanding. We have experienced difficulty in recruiting qualified personnel, especially technical and sales personnel, and we may need additional staff to support new customers and/or increased customer needs. We may also recruit and employ skilled technical professionals from other countries to work in the United States. Limitations imposed by federal immigration laws and the availability of visas 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.

If requirements relating to accounting treatment for employee stock options are changed, we may be forced to change our business practices.

We currently account for the issuance of stock options under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. If proposals currently under consideration by accounting standards organizations and governmental authorities are adopted, we may be required to change our practice and treat the value of stock options granted to employees as a compensation expense. As a result, we could decide to reduce the number of stock options granted to employees or to grant options to fewer employees. This could affect our ability to retain existing employees and attract qualified candidates, and increase the cash compensation we would have to pay to them. In addition, such a change could have a negative effect on our earnings.

New product introductions and pricing strategies by our competitors 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 competitors vary in size and in the scope of the products and services they offer, and include:

- in-house analytics departments;
- credit reporting agencies;
- computer service providers;
- regional risk management, marketing, systems integration and data warehousing competitors;
- application software companies, including enterprise software vendors;
- management information system departments of our customers and potential customers, including financial institutions, insurance companies and telecommunications carriers;
- third-party professional services and consulting organizations;
- internet companies;
- hardware suppliers that bundle or develop complementary software;
- network and telecommunications switch manufacturers, and service providers that seek to enhance their value-added services;
- neural network tool suppliers; and
- managed care organizations.

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, our Falcon Fraud Manager and Falcon Fraud Manager for Merchants 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. As a result, they 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. 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 of our competitors that directly compete with our products. Price reductions by our competitors could negatively impact our margins and results of operations, and could also harm our ability to obtain new long-term contracts and renewals of existing long-term contracts on favorable terms.

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

Our success will depend, 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. Because the protection of our proprietary technology is limited, 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. We cannot assure you that our means of protecting 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, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could harm our business, operating results and financial condition.

In addition, some of our technologies were developed under research projects conducted under agreements with various United States government agencies or subcontractors. Although we have commercial rights to these technologies, the United States 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 United States 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.

We may be subject to possible infringement claims that could harm our business.

With recent developments in the law that permit patenting of business methods, we expect that products in the industry segments in which we will compete, including software products, will increasingly be subject to claims of patent infringement as the number of products and competitors in our industry segments grow and the functionality of products overlaps. We may need to defend claims that our products infringe patent, copyright or other rights, and as a result 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.

Security is important to our business, and 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. Several of our products are accessed through the Internet, including our new 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 affecting the Internet in general, could significantly harm our business, operating results and financial condition. We cannot be certain that advances in computer capabilities, new discoveries in the field of cryptography, or other developments will not compromise or breach the technology protecting the networks that access our netsourced products, consumer services and proprietary database information.

We may incur risks related to acquisitions or significant investment in businesses.

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. Such risks include:

- the possibility that we will pay more than the acquired companies or assets are worth;
- the difficulty of assimilating the operations and personnel of the acquired businesses;
- the potential product liability associated with the sale of the acquired companies' products;

- the potential disruption of our ongoing business;
- the potential dilution of our existing stockholders and earnings per share;
- unanticipated liabilities, legal risks and costs;
- the distraction of management from our ongoing business; and
- the impairment of relationships with employees and clients as a result of any integration of new management personnel.

These factors could harm our business, results of operations or financial position, particularly in the event of a significant acquisition.

Failure or inability to obtain data from our clients to update and re-develop or to create new models could harm our business.

To develop, install and support our products, including consumer credit, financial services, predictive modeling, decision analysis, intelligence management, credit card fraud control and profitability management, loan underwriting and insurance products, we will require periodic updates of our technologies and models. We must develop or obtain a reliable source of sufficient amounts of current and statistically relevant data to analyze transactions and update our models. In most cases, these data must be periodically updated and refreshed to enable our products to continue to work effectively in a changing environment. We do not own or control much of the data that we require, most of which are collected privately and maintained in proprietary databases. Our customers and key business alliances agree to provide us the data we require to analyze transactions, report results and build new models. If we fail to maintain good relationships with our customers and business alliances, or if they decline to provide such data due to legal privacy concerns or prohibitions or a lack of permission from their own customers, we could lose access to required data and our products might become less effective. In addition, our Decision Manager for Medical Bill Review products use data from state workers' compensation fee schedules adopted by state regulatory agencies. Third parties have previously asserted copyright interests in these data. 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.

Our operations outside the United States subject us to unique risks that may harm our results of operations.

A growing portion of our revenues is derived from international sales. During the quarter and six months ended March 31, 2003, approximately 23% and 20%, respectively, 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. 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:

- the general economic and political conditions in countries where we sell our products and services;
- incongruent tax structures;
- difficulty in staffing our operations in various countries;
- the effects of a variety of foreign laws and regulations;
- import and export licensing requirements;
- longer payment cycles;
- potentially 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.

We cannot assure you 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 financial position, results of operations or cash flows. However, an increase in our foreign revenues could subject us to increased foreign currency transaction risks in the future.

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

Market Risk Disclosures

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We believe that our equity risks are not material. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity

We maintain an investment portfolio consisting mainly of income securities with an average maturity of less than five years. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our fixed rate interest-bearing investment portfolio at March 31, 2003 and September 30, 2002 (in thousands):

	March 31, 2003			September 30, 2002		
	Cost Basis	Carrying Amounts	Average Yield	Cost Basis	Carrying Amounts	Average Yield
Cash and cash equivalents	$ 65,215	$ 65,215	1.26%	$ 76,195	$ 76,189	1.66%
Short-term investments	89,833	90,098	1.72%	184,434	184,377	2.39%
Long-term investments	124,014	124,912	1.84%	135,788	136,971	3.27%
	$279,062	$280,225	1.67%	$396,417	$397,537	2.55%

We are also subject to interest rate risk related to our 5.25% Convertible Subordinated Notes. To the extent that general market interest rates fluctuate, the fair value of the notes may increase or decrease.

Forward Foreign Currency Contracts

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

The following table summarizes our outstanding forward foreign currency contracts, by currency, with contract amounts representing the expected payments to be made under these instruments at March 31, 2003 (in thousands):

		Contract Amount		
		Foreign Currency	US $	Fair Value US $
Sell foreign currency:				
British Pound (GBP)	GBP	2,000	$3,118	$3,160
EURO (EUR)	EUR	600	645	654
Japanese Yen (YEN)	YEN	30,000	252	244
			$4,015	$4,058

ITEM 4. ***Controls and Procedures***

Within 90 days prior to the date of this report, an evaluation was carried out under the supervision and with the participation of Fair Isaac's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Fair Isaac's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Fair Isaac's disclosure controls and procedures are effective to ensure that information required to be disclosed by Fair Isaac in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Subsequent to the date of their evaluation, there were no significant changes in Fair Isaac's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies or material weaknesses.

PART II. OTHER INFORMATION

ITEM 6. ***Exhibits and Reports on Form 8-K***

(a) Exhibits:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Fair Isaac Corporation.
3.2	By-laws of Fair Isaac Corporation (as amended effective March 31, 2003).
10.1	Lease agreement dated as of February 14, 2003, between Kilroy Realty, L.P. and the Company.
99	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

i. On March 31, 2003, we filed a Current Report on Form 8-K with the SEC, reporting the change of our name from Fair, Isaac and Company, Incorporated to Fair Isaac Corporation.

ii. On April 23, 2003, we furnished a Current Report on Form 8-K to the SEC, including the Company's press release announcing financial results for the quarter and six months ended March 31, 2003.

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: April 23, 2003

By /s/ Kenneth J. Saunders

Kenneth J. Saunders
Vice President and Chief Financial Officer
(for Registrant as duly authorized officer and as Principal Financial Officer)

DATE: April 23, 2003

By /s/ Russell C. Clark

Russell C. Clark
Vice President, Finance and Corporate Controller (Principal Accounting Officer)

CERTIFICATIONS

I, Thomas G. Grudnowski, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 23, 2003

/s/ THOMAS G. GRUDNOWSKI

Thomas G. Grudnowski
Chief Executive Officer

I, Kenneth J. Saunders, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 23, 2003

/s/ KENNETH J. SAUNDERS

Kenneth J. Saunders
Chief Financial Officer

EXHIBIT 3.1

RESTATED

CERTIFICATE OF INCORPORATION

OF

FAIR ISAAC CORPORATION

Fair Isaac Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

FIRST: The corporation was originally incorporated under the name Fair, Isaac and Company, Incorporated. The date of filing of its original Certificate of Incorporation with the Secretary of State was May 15, 1987.

SECOND: This Restated Certificate of Incorporation of the corporation was duly adopted by the Board of Directors of the corporation in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware. This Restated Certificate of Incorporation of the corporation only restates and integrates and does not further amend the provisions of the corporation's Restated Certificate of Incorporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.

THIRD: The text of the Restated Certificate of Incorporation as heretofore amended or supplemented is hereby restated to read as herein set forth in full:

1. The name of the corporation is Fair Isaac Corporation.

2. The address of its registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle 19801. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law.

4. (a) The total number of shares of all classes of stock which the corporation shall have authority to issue is one hundred one million (101,000,000), of which one million (1,000,000) shares shall be Preferred Stock of the par value of $.01 per share, and one hundred million (100,000,000) shares shall be Common Stock of the par value of $.01 per share. The number of authorized shares of Common Stock or Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) if the increase or decrease is approved by the holders of a majority of the shares of Common Stock, without the vote of the holders of the shares of Preferred Stock or any series thereof, unless any such Preferred holders are entitled to vote thereon pursuant to the provisions established by the Board of Directors in the resolution or resolutions providing for the issue of such Preferred Stock, and if such holders of such Preferred Stock are so entitled to vote thereon, then, except as may otherwise be set forth in

this Certificate of Incorporation, the only stockholder approval required shall be that of a majority of the combined voting power of the Common and Preferred Stock so entitled to vote.

(b) The Board of Directors is expressly authorized to provide for the issue, in one or more series, of all or any shares of the Preferred Stock and, in the resolution or resolutions providing for such issue, to establish for each such series the number of its shares, which may thereafter (unless forbidden in the resolution or resolutions providing for such issue) be increased or decreased (but not below the number of shares of the series then outstanding) pursuant to a subsequent resolution of the Board of Directors, the voting powers, full or limited, of the shares of such series, or that such shares shall have no voting powers, and the designations, preferences and relative, participating, optional or other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof. In furtherance of the foregoing authority and not in limitation of it, the Board of Directors is expressly authorized, in the resolution or resolutions providing for the issue of a series of Preferred Stock, to make the shares of such series, without the consent of the holders of such shares, convertible into or exchangeable for shares of another class or classes of stock of the corporation or any series thereof, or redeemable for cash, property or rights, including securities, all on such conditions and on such terms as may be stated in such resolution or resolutions, and to make any of the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of the shares of the series dependent upon facts ascertainable outside this Certificate of Incorporation.

The resolution adopted by the Board of Directors setting forth the designation and amount of Series A Participating Preferred Stock and the powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations or restrictions thereof is set forth in Exhibit A hereto and specifically incorporated herein.

(c) Holders of shares of Common Stock shall be entitled to receive such dividends or distributions as are lawfully declared on the Common Stock; to have notice of any authorized meeting of stockholders; to one vote for each share of Common Stock on all matters that are properly submitted to a vote of such stockholders; and, upon dissolution of the corporation, to share ratably in the assets thereof that may be available for distribution after satisfaction of creditors and of the preferences, if any, of any shares of Preferred Stock.

5. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter or repeal the by-laws of the corporation.

6. (a) A director of the corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

(b) Each director or officer of the corporation who was or is made a party or is threatened to be made a party to or is in any way involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including without limitation any action, suit or proceeding brought by or in the right of the corporation to procure a judgment in its favor) (hereinafter a "proceeding"), including any appeal

therefrom, by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or of a subsidiary of the corporation, or is or was serving at the request of the corporation as a director or officer of another entity or enterprise, or was a director or officer of a foreign or domestic corporation which was a predecessor corporation of the corporation or of another entity or enterprise at the request of such predecessor corporation, or by reason of anything done or not done in such capacity, shall be indemnified and held harmless by the corporation, and the corporation shall advance all expenses incurred by any such person in connection with any such proceeding prior to its final determination, to the fullest extent authorized by the Delaware General Corporation Law. In any proceeding against the corporation to enforce these rights, such person shall be presumed to be entitled to indemnification and the corporation shall have the burden of proof to overcome that presumption. The rights to indemnification and advancement of expenses conferred by this Article shall be presumed to have been relied upon by directors and officers of the corporation in serving or continuing to serve the corporation and shall be enforceable as contract rights. Said rights shall not be exclusive of any other rights to which those seeking indemnification may otherwise be entitled. The corporation may, upon written demand presented by a director or officer of the corporation or of a subsidiary of the corporation, or by a person serving at the request of the corporation as a director or officer of another entity or enterprise, enter into contracts to provide such persons with specific rights to indemnification, which contracts may confer rights and protections to the maximum extent permitted by the Delaware General Corporation Law. The corporation may create trust funds, grant security interests, obtain letters of credit, or use other means to ensure payment of such amounts as may be necessary to perform the obligations provided for in this Article 6 or in any such contract.

(c) Any repeal or modification of the foregoing provisions of this Article 6, including without limitation any contractual rights arising under or authorized by it, by the stockholders of the corporation shall not adversely affect any right or protection of a director or officer of the corporation existing at the time of such repeal or modification.

(d) In addition to any vote of the holders of any class or series of the stock of this corporation required by law or by this Certificate of Incorporation, the affirmative vote of the holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of the stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal this Article.

7. At all elections of the directors of the corporation, each stockholder shall be entitled to one vote per share entitled to vote multiplied by the number of directors to be elected, and the stockholder may cast all of such votes for a single candidate or may distribute them among the number of directors to be voted for, or for any two or more of them as the stockholder may see fit; provided, however, that no stockholder shall be entitled so to cumulate votes unless such candidate or candidates' names have been placed in nomination prior to the voting and the stockholder has given notice at the meeting prior to the voting of the stockholder's intention to cumulate votes. If any one stockholder has given such notice, all stockholders may cumulate their votes for candidates in nomination.

IN WITNESS WHEREOF, the corporation has caused this certificate to be executed by its duly authorized officer on this 1st day of April, 2003.

Exhibit A

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

1. Designation and Amount. The shares of such series shall be designated as "Series A Participating Preferred Stock," par value $0.01 per share, and the number of shares constituting such series shall be Two Hundred Thousand (200,000). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Participating Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Participating Preferred Stock with respect to dividends, the holders of shares of Series A Participating Preferred Stock in preference to the holders of shares of Common Stock, par value $0.01 per share (the "Common Stock"), of the Corporation and any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Participating Preferred Stock in an amount per share (rounded to the nearest cent) equal to the greater of (a) $25.00 or, (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Participating Preferred Stock. In the event the Corporation shall at any time after the close of business on August 8, 2001 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the amount to which holders of shares of Series A Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $25.00 per share on the Series A Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Participating Preferred Stock unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

3. Voting Rights. The holders of shares of Series A Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock into a greater number of shares or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the number of votes per share to which holders of shares of Series A Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in the Certificate of Incorporation or by law, the holders of shares of Series A Participating Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series A Participating Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the holders of the Series A Participating Preferred Stock, voting as a separate series from all other series of Preferred Stock and classes of capital stock, shall be entitled to elect two members of the Board of Directors in addition to any Directors elected by any other series, class or classes of securities and the authorized number of Directors will automatically be increased by two. Promptly thereafter, the Board of Directors of this Corporation shall, as soon as may be practicable, call a special meeting of holders of Series A Participating Preferred Stock for the purpose of electing such members of the Board of Directors. Said special meeting shall in any event be held within 45 days of the occurrence of such arrearage.

(ii) During any period when the holders of Series A Participating Preferred Stock, voting as a separate series, shall be entitled and shall have exercised their right to elect two Directors, then and during such time as such right continues (a) the then authorized number of Directors shall remain increased by two, and the holders of Series A Participating Preferred Stock, voting as a separate series, shall remain entitled to elect the additional Directors so provided for, and (b) each such additional Director shall not be a member of any existing class of the Board of Directors, but shall serve until the next annual meeting of stockholders for the election of Directors, or until his or her successor shall be elected and shall qualify, or until his or her right to hold such office terminates pursuant to the provisions of this Section 3(C).

(iii) A Director elected pursuant to the terms hereof may be removed with or without cause by the holders of Series A Participating Preferred Stock entitled to vote in an election of such Director.

(iv) If, during any interval between annual meetings of stockholders for the election of Directors and while the holders of Series A Participating Preferred Stock shall be entitled to elect two Directors, there are fewer than two such Directors in office by reason of resignation, death or removal, then, promptly thereafter, the Board of Directors shall call a special meeting of the holders of Series A Participating Preferred Stock for the purpose of filling such vacancy(ies) and such vacancy(ies) shall be filled at such special meeting. Such special meeting shall in any event be held within 45 days of the occurrence of any such vacancy(ies).

(v) At such time as the arrearage is fully cured, and all dividends accumulated and unpaid on any shares of Series A Participating Preferred Stock outstanding are paid, and, in addition thereto, at least one regular dividend has been paid subsequent to curing such arrearage, the term of office of any Director elected pursuant to this Section 3(C), or his or her successor, shall automatically terminate, and the authorized number of Directors shall automatically decrease by two, and the rights of the holders of the shares of the Series A Participating Preferred Stock to vote as provided in this Section 3(C) shall cease, subject to renewal from time to time upon the same terms and conditions.

(D) Except as set forth herein or as otherwise provided by law, holders of Series A Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock and any other capital stock of the Corporation having general voting rights as set forth herein) for taking any corporate action.

4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Participating Preferred Stock except dividends paid ratably on the Series A Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Participating Preferred Stock provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Participating Preferred Stock or any shares of stock ranking on a parity with the Series A Participating Preferred Stock except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares. Any shares of Series A Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Participating Preferred Stock shall have received per share, the greater of $1,000.00 or 1,000 times the payment made per share of Common Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalization with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Participating Preferred Stock and Common Stock, respectively, holders of Series A Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series A Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, following payment in full of all liquidation preferences of all shares senior to Common Stock (including the Series A Participating Preferred Stock), there are not sufficient assets available to permit payment in full of the Common Adjustment, then the remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash or any other property, then in any such case the shares of Series A Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash or any

other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

8. Redemption. The shares of Series A Participating Preferred Stock shall not be redeemable.

9. Ranking. The Series A Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

10. Amendment. The Certificate of Incorporation and the By-Laws of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least 66-2/3% of the outstanding shares of Series A Participating Preferred Stock voting separately as a class.

11. Fractional Shares. Series A Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Participating Preferred Stock.

EXHIBIT 3.2

B Y - L A W S
OF
FAIR ISAAC CORPORATION

(as of March 31, 2003)

ARTICLE I

Offices

1.1 Registered Office. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

1.2 Additional Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

Stockholders

2.1 Annual Meetings. An annual meeting of stockholders shall be held for the election of directors and scheduled for the first Tuesday of February of each year, at 10:00 A.M. or, should such day fall upon a legal holiday, at the same time on the next business day thereafter that is not a legal holiday, or at such other date and time as may be designated by the Board of Directors from time to time. The annual meeting of stockholders may be held at such place either within or without the State of Delaware, or by means of remote communication, as may be designated by the Board of Directors from time to time; in the absence of any such designation, the annual meeting shall be held at the principal executive offices of the Corporation. At such meeting, the stockholders shall elect directors and transact such other business as may be properly brought before the meeting.

To be properly brought before the annual meeting, business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder of record. In addition to any other applicable requirements, for business to be properly brought before the annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received at the principal executive offices of the Corporation, addressed to the attention of the Secretary of the Corporation, not less than 60 days nor more than 90 days prior to the scheduled date of the meeting (regardless of any

postponements, deferrals or adjournments of that meeting to a later date); provided, however, that in the event that the annual meeting is held at a date other than the first Tuesday of February, or the next business day if such Tuesday is a legal holiday and less than 70 days' notice or prior public disclosure of the date of the scheduled meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the earlier of (a) the close of business on the 10th day following the day on which such notice of the date of the scheduled annual meeting was mailed or such public disclosure was made, whichever first occurs, and (b) two days prior to the date of the scheduled meeting. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class, series and number of shares of the Corporation that are owned beneficially by the stockholder, and (iv) any material interest of the stockholder in such business. Notwithstanding anything in these by-laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 2.1; provided, however, that nothing in this Section 2.1 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting.

The Chairman of the Board of Directors (or such other person presiding at the meeting in accordance with Section 2.7 of these by-laws) shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 2.1, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

2.2 Special Meetings. Special meetings of stockholders may be called at any time only by the Chairman of the Board of Directors, if any, the Vice Chairman of the Board of Directors, if any, the President or the Board of Directors, to be held at such date, time and place (if any) as may be stated in the notice of the meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice of the meeting.

2.3 Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, notice of the meeting shall be given in accordance with Section 2.4 which shall state the place (if any), date and hour of the meeting, the means of remote communication (if any) by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

2.4 Manner Of Giving Notice. Notice of any meeting of stockholders shall be given personally, by mail, by electronic transmission or by other written communication, addressed to the stockholder at the address, number, electronic mail address or other location of that stockholder appearing on the books of the Corporation or given by the stockholder to the Corporation for the purpose of notice. If no such address, number, email address or other location appears on the Corporation's books or is given, notice shall be deemed to have been given if sent to that stockholder by mail or telegraphic or other written communication to the

Corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or, if sent by electronic transmission, as follows: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice, (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice, (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (a) such posting and (b) the giving of such separate notice, and (iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of mailing or of electronic transmission of any notice or report in accordance with the provisions of this Section 2.4, executed by the Secretary, Assistant Secretary or any transfer agent or other agent, shall be prima facie evidence of the giving of the notice.

2.5 Adjournments. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place (if any), and notice need not be given of any such adjourned meeting if the time and place (if any) thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.6 Quorum. At each meeting of stockholders, except where otherwise provided by law or the certificate of incorporation or these by-laws, the holders of a majority of the outstanding shares of each class of stock entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum. For purposes of the foregoing, two or more classes or series of stock shall be considered a single class if the holders thereof are entitled to vote together as a single class at the meeting. In the absence of a quorum the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided by Section 2.5 of these by-laws until a quorum shall attend. Shares of its own capital stock belonging on the record date for the meeting to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication:

(1) participate in a meeting of stockholders; and

(2) be deemed present in person and vote at a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the Corporation shall implement reasonable measures to

verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the Corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

2.7 Organization. Meetings of stockholders shall be presided over by the Chairman of the Board of Directors, if any, or in the absence of the Chairman of the Board of Directors by the President, or in the absence of the President by a Vice President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary by an Assistant Secretary, or in their absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

2.8 Voting; Proxies. Unless otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting, whether in person or by other means provided for in these by-laws or the certificate of incorporation, and voting or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy at such meeting shall so determine. If authorized by the Board of Directors, votes may be submitted by electronic transmission, provided that any such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxyholder. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. With respect to other matters, unless otherwise provided by law or by the certificate of incorporation or these by-laws, the affirmative vote of the holders of a majority of the shares of all classes of stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, provided that (except as otherwise required by law or by the certificate of incorporation) the Board of Directors may require a larger vote upon any such matter. Where a separate vote by class is required, the affirmative vote of the holders of a majority of the shares of each class present in person or represented by proxy at the meeting shall be the act of such class, except as otherwise provided by law or by the certificate of incorporation or these by-laws.

2.9 Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (2) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and (3) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

2.10 List of Stockholders Entitled To Vote. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Nothing contained herein shall require the Corporation to include electronic mail address or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours at the principal place of business of the Corporation. In the event the meeting is to be held at a place, the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

2.11 Consent of Stockholders in Lieu of Meeting. Unless otherwise provided in the certificate of incorporation, any action required by law to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III

Board of Directors

3.1 Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the certificate of incorporation. The number of directors which shall constitute the Board of Directors shall be eight (8). Directors need not be stockholders.

3.2 Election; Term of Office; Resignation; Removal; Vacancies; Nominations. Each director shall hold office until the annual meeting of stockholders next succeeding his or her election and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any director may resign at any time upon notice in writing or electronic transmission to the Board of Directors or to the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. Unless otherwise provided in the certificate of incorporation or these by-laws, vacancies and newly created directorships resulting from any increase in the authorized number of directors or from any other cause may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director.

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors at the annual meeting, by or at the direction of the Board of Directors, may be made by any Nominating Committee or person appointed by the Board of Directors; nominations may also be made by any stockholder of record of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 3.2. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received at the principal executive offices of the Corporation addressed to the attention of the Secretary of the Corporation not less than 60 days nor more than 90 days prior to the scheduled date of the meeting (regardless of any postponements, deferrals or adjournments of that meeting to a later date); provided, however, that, in the case of an annual meeting and in the event that the annual meeting is held at a date other than the first Tuesday of February, or the next business day if such Tuesday is a legal holiday and less than 70 days' notice or prior public disclosure of the date of the scheduled meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the earlier of (a) the close of business on the 10th day following the day on which such notice of the date of the scheduled meeting was mailed or such public disclosure was made, whichever first occurs, or (b) two days prior to the date of the scheduled meeting. Such stockholder's notice to the Secretary shall set forth (a) as to each

person whom the stockholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class, series and number of shares of capital stock of the Corporation that are owned beneficially by the person, (iv) a statement as to the person's citizenship, and (v) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice, (i) the name and record address of the stockholder and (ii) the class, series and number of shares of capital stock of the Corporation that are owned beneficially by the stockholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein.

In connection with any annual meeting, the Chairman of the Board of Directors (or such other person presiding at such meeting in accordance with Section 2.7 of these by-laws) shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

3.3 Regular meetings. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board of Directors may from time to time determine, and if so determined notice thereof need not be given.

3.4 Special Meetings. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by the Chairman of the Board of Directors, if any, by the Vice Chairman of the Board of Directors, if any, by the President or by any two directors. Reasonable notice thereof shall be given by the person or persons calling the meeting.

3.5 Participation in Meetings by Conference Telephone Permitted. Unless otherwise restricted by the certificate of incorporation or these by-laws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this by-law shall constitute presence in person at such meeting.

3.6 Quorum; Vote Required for Action. At all meetings of the Board of Directors one third of the entire Board of Directors, but not less than two shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless the certificate of incorporation or these by-laws shall require a vote of a greater number. In case at any meeting of the Board of Directors a quorum shall not be present, the members of the Board of Directors present may adjourn the meeting from time to time until a quorum shall attend.

3.7 Organization. Meetings of the Board of Directors shall be presided over by the Chairman of the Board of Directors, if any, or in the absence of the Chairman of the Board of Directors by the Vice Chairman of the Board of Directors, if any, or in the absence of the Vice Chairman of the Board of Directors by the President, or in their absence by a chairman chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, shall act as secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary the chairman of the meeting may appoint any person to act as secretary of the meeting.

3.8 Action by Directors Without a Meeting. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing or electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. All such actions by written consent or electronic transmission shall have the same force and effect as a unanimous vote of such directors.

3.9 Compensation of Directors. The Board of Directors shall have the authority to fix the compensation of directors.

ARTICLE IV

Committees

4.1 Executive Committee. The Board of Directors may, by resolution approved by at least a majority of the authorized number of directors, establish and appoint one or more members of the Board of Directors to constitute an Executive Committee (the "Executive Committee"), with such powers as may be expressly delegated to it by resolution of the Board of Directors. The Executive Committee shall act only in the intervals between meetings of the Board of Directors and shall be subject at all times to the control of the Board of Directors.

4.2 Committees. In addition to the Executive Committee, the Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more other committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have power or authority in reference to amending the certificate of incorporation (except that a committee may, to the

extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the General Corporation Law of Delaware fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of dissolution, removing or indemnifying directors or amending these by-laws; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock or adopt a certificate of ownership and merger.

4.3 Committee Rules. Unless the Board of Directors otherwise provides, the committee designated by the Board of Directors may adopt, amend and repeal rules for the conduct of its business. In the absence of a provision by the Board of Directors or a provision in the rules of such committee to the contrary, a majority of the entire authorized number of members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article III of these by-laws.

ARTICLE V

Officers

5.1 Officers; Election. As soon as practicable after the annual meeting of stockholders in each year, the Board of Directors shall elect a President and a Secretary, and it may, if it so determines, elect from among its members a Chairman of the Board of Directors. The Board of Directors may also elect one or more Vice Presidents, one or more Assistant Vice Presidents, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers and such other officers as the Board of Directors may deem desirable or appropriate and may give any of them such further designations or alternate titles as it considers desirable. Any number of offices may be held by the same person; provided, however, that the offices of President and Secretary shall not be held by the same person.

5.2 Term of Office; Resignation; Removal; Vacancies. Except as otherwise provided in the resolution of the Board of Directors electing any officer, each officer shall hold office until the first meeting of the Board of Directors after the annual meeting of stockholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board of Directors or to the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board of Directors

may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

5.3 Powers and Duties. The officers of the Corporation shall have such powers and duties in the management of the Corporation as shall be stated in these by-laws or in a resolution of the Board of Directors which is not inconsistent with these by-laws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board of Directors. The Board of Directors may require any officer, agent or employee to give security for the faithful performance of his or her duties.

5.4 Chairman of the Board of Directors. The Chairman of the Board of Directors, if there shall be such an officer, shall, if present, preside at all meetings of the Board of Directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by the by-laws.

5.5 President. The President shall be the chief executive officer of the Corporation. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board of Directors, if there be such an officer, and subject to the provisions of these by-laws and to the direction of the Board of Directors, the President shall have supervision over and may exercise general executive powers of the business and affairs of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of chief executive or which are delegated to him by the Board of Directors. He shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision and direction of all of the other officers, employees and agents of the Corporation. The President shall be ex officio, a member of all the standing committees, including the Executive Committee. In the absence of the Chairman of the Board of Directors, the President shall preside at all meetings of the Board of Directors.

5.6 Vice President. In the absence of the President or in his inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

5.7 Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or president, under whose supervision he shall be. He shall have custody of the corporate seal of the Corporation and he, or an Assistant Secretary, shall have authority to affix the same to any instrument

requiring it and when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature.

5.8 Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

5.9 Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

5.10 Assistant Treasurer. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

ARTICLE VI

Stock

6.1 Certificates. The shares of stock of the Corporation shall either be represented by certificates or uncertificated, as determined by the Board of Directors; provided, however, that every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman or Vice Chairman of the Board of Directors, if any, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or any Assistant Secretary, of the Corporation, certifying the number of shares owned by such holder in the Corporation. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Upon the face or back of each stock certificate issued to represent any partly paid shares, or upon the books and records of the Corporation in the case of uncertificated partly paid shares, shall be set forth the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

6.2 Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

6.3 Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Transfer of uncertificated shares of stock shall be made on the books of the Corporation upon receipt of proper transfer instructions from the registered owner of the uncertificated shares, an instruction from an approved source duly authorized by such owner or from an attorney lawfully constituted in writing. The Corporation may impose such additional conditions to the transfer of its stock as may be necessary or appropriate for compliance with applicable law or to protect the Corporation, a transfer agent or the registrar from liability with respect to such transfer.

6.4 Fixing Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

6.5 Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII

Miscellaneous

7.1 Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

7.2 Seal. The Corporation may have a corporate seal which shall have the name of the Corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board of Directors. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

7.3 Waiver of Notice of Meetings of Stockholders, Directors and Committees. Whenever notice is required to be given by law or under any provision of the certificate of incorporation or these by-laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice unless so required by the certificate of incorporation or these by-laws.

7.4 Interested Directors; Quorum. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or her or their votes are counted for such purpose, if: (1) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the Corporation as of the time it is authorized,

approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

7.5 Amendment of By-Laws. These by-laws may be amended or repealed, and new by-laws adopted, by the Board of Directors, but the stockholders entitled to vote may adopt additional by-laws and may amend or repeal any by-law whether or not adopted by them.

CERTIFICATE OF SECRETARY

I hereby certify that:

I am the duly elected and acting Assistant Secretary of Fair Isaac Corporation, a Delaware corporation (the "Corporation"); and

Attached hereto is a complete and accurate copy of the by-laws of the Corporation which became effective February 03, 2003, pursuant to a written action duly adopted by the Board of Directors on December 20, 2002, and reflecting the change of the Corporation's name effective March 31, 2003, and said by-laws are presently in effect.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Corporation this __ day of _____, 200_.

EXHIBIT 10.1

OFFICE LEASE

KILROY REALTY

KILROY CENTRE DEL MAR

KILROY REALTY, L.P.,

a Delaware limited partnership,

as Landlord,

and

FAIR, ISAAC AND COMPANY, INCORPORATED,

a Delaware corporation

as Tenant.

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KILROY CENTRE DEL MAR

OFFICE LEASE

This Office Lease (the "LEASE"), dated as of the date set forth in Section 1 of the Summary of Basic Lease Information (the "SUMMARY"), below, is made by and between KILROY REALTY, L.P., a Delaware limited partnership ("LANDLORD"), and FAIR, ISAAC AND COMPANY, INCORPORATED, a Delaware corporation ("TENANT").

SUMMARY OF BASIC LEASE INFORMATION

	TERMS OF LEASE		DESCRIPTION
1.	Date:		February 14, 2003.
2.	Premises:		
	2.1	Building:	That certain five (5)-story building (the "BUILDING" or "BUILDING 3") located at 3661 Valley Centre Drive, San Diego, California 92130, which Building contains 129,752 rentable (123,445 usable) square feet of space, and which Building is commonly referred to as "BUILDING 3" within the "Project."
	2.2	Premises:	All of the Building, as more particularly identified in EXHIBIT A to this Lease.
	2.3	Project:	The Building is part of an office project known as "KILROY CENTRE DEL MAR," as further set forth in Section 1.1.2 of this Lease.
3.	Lease Term (Article 2):		
	3.1	Length of Term:	Seven (7) years.
	3.2	Lease Commencement Date:	August 1, 2003, subject to "Landlord Caused Delays," as that term is set forth in Section 5.1 of the "Tenant Work Letter," attached hereto as EXHIBIT B.

3.3 Lease Expiration Date: The date immediately preceding the seventh (7th) anniversary of the Lease Commencement Date.

3.4 Option Term(s): Two (2) five (5)-year options to renew, as more particularly set forth in Section 2.2 of this Lease.

4. Base Rent (Article 3):*

Period During Lease Term	Annual Base Rent**	Monthly Installment of Base Rent**	Monthly Rental Rate per Rentable Square Foot
Month 1 through Month 60	$3,799,140.00	$316,595.00	$2.44
Month 61 through Month 72	$4,453,089.00	$371,090.75	$2.86
Month 73 through Month 84	$4,593,222.00	$382,768.50	$2.95

* To the extent Tenant elects to increase the amount of the Tenant Improvement Allowance pursuant to Section 2.3 of the Tenant Work Letter, such "TIA Increase," as that term is defined in Section 2.3 of the Tenant Work Letter, shall be amortized over the initial Lease Term using an amortization rate of ten percent (10%) per annum. Accordingly, for each dollar of TIA Increase utilized by Tenant, the Base Rent payable by Tenant during the initial Lease Term shall be increased by an amount equal to $0.0166 per month.

** Annual Base Rent (and Monthly Installment of Base Rent) was calculated by multiplying the Monthly Rental Rate per Rentable Square Foot by the number of rentable square feet of space in the Premises; provided, however, that in each instance, the resulting Monthly Installment of Base Rent was rounded up or down, as applicable, to the nearest twenty-five cents ($0.25), and the Annual Base Rent is, therefore, an amount equal to twelve (12) times such rounded Monthly Installment of Base Rent amount.

5. Base Year (Article 4): 2004; provided, however, Landlord and Tenant acknowledge and agree that electrical utilities exclusively serving the Premises shall be paid directly by Tenant, the same having been excluded from "Operating Expenses," as that term is set forth in Section 4.2.4 of the Lease.

6.	Tenant's Share (Article 4):	
	6.1 Tenant's Project Share:	24.09%.
	6.2 Tenant's Building Share :	100%.
7.	Permitted Use (Article 5):	Provided any such use is legally permissible, Tenant shall use the Premises solely for general office use and uses incidental thereto to the extent the same comply with applicable laws and zoning and are consistent with the character of the Project as a first-class office building Project, specifically including, but not limited to, incidental uses related to Tenant's planned operation of a data center, employee cafeteria and work-out facility.
8.	Security Deposit (Article 21):	$382,768.50; provided, however, the same is subject to the forgiveness provisions and delivery requirements set forth in Article 21 of this Lease.
9.	Parking Pass Ratio (Article 28):	Landlord shall provide Tenant with (i) Five (5) unreserved parking passes for every 1,000 usable square feet of the Premises (rounded to the nearest 200 usable square feet), of which thirty (30) passes shall be for the use of covered reserved parking spaces, and (ii) a total of forty (40) reserved parking spaces located adjacent to the Building's entrance designated "Fair, Isaac and Company Visitor/Vendor," as depicted on EXHIBIT A.
10.	Address of Tenant (Section 29.18):	Fair, Isaac and Company, Inc. 5935 Cornerstone Court West San Diego, California 92121 Attention: Vice President, Operations (Prior to Lease Commencement Date)

	and	Fair, Isaac and Company, Inc. 3661 Valley Centre Drive, San Diego, California 92130 Attention: Vice President, Operations with a copy to: Fair, Isaac and Company, Inc. 4295 Lexington Avenue North, Saint Paul, Minnesota 55126 Attention: General Counsel (After Lease Commencement Date)
11.	Address of Landlord (Section 29.18):	See Section 29.18 of the Lease.
12.	Broker(s) (Section 29.24):	The Staubach Company-West, Inc. 11988 El Camino Real Suite 150 San Diego, California 92130 Attention: Mr. William E. Fleck, and M. E. Norman III. and CB Richard Ellis, Inc. 4365 Executive Drive Suite 900 San Diego, CA 92121-2127 Attention: Mr. Douglas Lozier, and Mr. Bret E. Gossett
13.	Tenant Improvement Allowance (Section 2 of EXHIBIT B):	$2,500,000.00, which amount may be increased to include the "TIA Increase," pursuant to the terms and conditions of the Tenant Work Letter.

14.	FF&E Allowance (Section 2 of EXHIBIT B):	In addition to the Tenant Improvement Allowance, Landlord shall (i) cause, at Landlord's sole cost and expense, the "Existing FF&E," and the "Additional FF&E," as those terms are set forth in Section 29.36 of this Lease, to be purchased, installed and/or otherwise located in the Premises for the benefit of Tenant, and (ii) provide Tenant with the "Telecommunications Allowance," as that term is set forth in Section 29.36 of this Lease, in an amount equal to $150,000.00, all as more particularly set forth in such Section 29.36.

ARTICLE 1

PREMISES, BUILDING, PROJECT, AND COMMON AREAS

1.1 PREMISES, BUILDING, PROJECT AND COMMON AREAS.

1.1.1 THE PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth in Section 2.2 of the Summary (the "PREMISES"). The outline of the Premises is set forth in EXHIBIT A attached hereto and each floor or floors of the Premises has/shall have approximately the number of rentable square feet as set forth in Section 2.2 of the Summary. The parties hereto agree that the lease of the Premises is upon and subject to the terms, covenants and conditions (the "TCCS") herein set forth, and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of such TCCs by it to be kept and performed and that this Lease is made upon the condition of such performance. The parties hereto hereby acknowledge that the purpose of EXHIBIT A is to show the approximate location of the Premises in the "BUILDING," as that term is defined in Section 1.1.2, below, only, and such Exhibit is not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the precise area thereof or the specific location of the "Common Areas," as that term is defined in Section 1.1.3, below, or the elements thereof or of the accessways to the Premises or the "PROJECT," as that term is defined in Section 1.1.2, below. Except as specifically set forth in this Lease and in the Tenant Work Letter attached hereto as EXHIBIT B (the "TENANT WORK LETTER"), Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises. Tenant also acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises, the Building or the Project or with respect to the suitability of any of the foregoing for the conduct of Tenant's business, except as specifically set forth in this Lease and the Tenant Work Letter. Subject to the completion of "Landlord's Work," as that term is set forth in Section 1.2 of the Tenant Work Letter, pursuant to the TCCs of such Tenant Work Letter (including the correction of any deficiencies thereof), the taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Building were at such time in good and sanitary order, condition and repair.

1.1.2 THE BUILDING AND THE PROJECT. The Premises are a part of the building set forth in Section 2.1 of the Summary (the "BUILDING"). The Building is part of an office project known as "KILROY CENTRE DEL MAR." The term "PROJECT," as used in this Lease, shall mean (i) the Building and the Common Areas, (ii) the land (which is improved with landscaping, parking facilities and other improvements) upon which the Building and the Common Areas are located, and (iii) the other office buildings located adjacent to the Building and the land upon which such adjacent office buildings are located.

1.1.3 COMMON AREAS. Tenant shall have the non-exclusive right to use in common with other tenants in the Project, and subject to the rules and regulations referred to in Article 5 of this Lease, those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project (such areas, together with such other portions of the Project designated by Landlord, in its discretion, including certain areas designated for the exclusive use of certain tenants, or to be shared by Landlord and certain

tenants, are collectively referred to herein as the "COMMON AREAS"). The Common Areas shall consist of the "PROJECT COMMON AREAS" and the "BUILDING COMMON AREAS." The term "PROJECT COMMON AREAS," as used in this Lease, shall mean the portion of the Project designated as such by Landlord; provided, however, Project Common Areas shall not include any portion of the Project which is included in the rentable square footage of any building in the Project. The term "BUILDING COMMON AREAS," as used in this Lease, shall mean the portions of the Common Areas located within the Building designated as such by Landlord; provided, however, Landlord and Tenant hereby acknowledge and agree that (i) as the initial Premises configuration consist of the entire Building, initially there are no Building Common Areas, and (ii) unless Landlord recaptures space within the Building pursuant to Section 14.4 of this Lease, Landlord shall not, during the Lease Term, designate space within the Building as Building Common Areas. Landlord shall operate and maintain the Common Areas in a manner that is consistent with the "Comparable Buildings," as that term is set forth in Section 2.2.2, below, and the use thereof shall be subject to such rules, regulations and restrictions as Landlord may make from time to time, provided that such rules, regulations and restrictions do not (a) unreasonably interfere with the rights granted to Tenant under this Lease and the permitted use granted under Section 5.1, below, or (b) materially increase the cost of Tenant's occupancy of the Premises. Landlord reserves the right to close temporarily, make alterations or additions to, or change the location of elements of the Project and the Common Areas; provided that no such changes shall be permitted which materially and adversely diminish Tenant's rights to quiet enjoyment and use of the Premises (except that such restriction shall not apply to alterations and additions required by "Applicable Laws," as that term is set forth in Article 24, below). Except when and where Tenant's right of access is specifically excluded in this Lease, Tenant shall have the right of access to the Premises, the Building, and the Project parking facility twenty-four (24) hours per day, seven (7) days per week during the "Lease Term," as that term is defined in Section 2.1, below.

1.2 STIPULATION OF RENTABLE SQUARE FEET OF PREMISES AND BUILDING. For purposes of this Lease, "rentable square feet" and "usable square feet" of the Premises shall be deemed as set forth in Section 2.2 of the Summary and the rentable square feet of the Building shall be deemed as set forth in Section 2.1 of the Summary.

1.3 EXPANSION OPTION.

1.3.1 EXPANSION RIGHT. Landlord hereby grants to the Tenant originally named in this Lease (the "ORIGINAL TENANT"), and its "Permitted Transferees," as that term is set forth in Section 14.8 of this Lease (but only to the extent such Permitted Transferee has, in Landlord's reasonable determination, financial strength equal to or greater than Original Tenant), the right to expand the Premises to include all or one-half (1/2) of the first floor of "Building 2," as that term is set forth in Section 1.3.2, below (such entire first floor to be known as the "EXPANSION SPACE"), pursuant to the terms and conditions of this Section 1.3.

1.3.2 AVAILABILITY OF BUILDING 2. Peregrine Systems, Inc., ("PEREGRINE") currently occupies all of that certain five (5)-story office building commonly referred to as "Building 2" within the Project, which has a street address of 3611 Valley Centre Drive, San Diego, California 92130 ("BUILDING 2"), pursuant to that certain lease between KR-Carmel Partners, LLC, predecessor-in-interest to Landlord, and Peregrine, dated as of June 9, 1999 (the

"PEREGRINE BUILDING 2 LEASE"). On September 22, 2002 (the "PETITION DATE"), Peregrine filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware, commencing bankruptcy Case Number 02-12740-JKF (the "BANKRUPTCY CASE"). Landlord has been informed that, as part of the Bankruptcy Case, Peregrine intends to reject the Peregrine Building 2 Lease. To the extent that the Peregrine Building 2 Lease is terminated as to all or a portion of the Expansion Space prior to January 1, 2004, whether as a result of such anticipated rejection by Peregrine or otherwise, then Landlord shall promptly provide Tenant with a written notice (the "AVAILABILITY NOTICE") of such termination, which Availability Notice shall set forth the date Landlord anticipates possession of such Expansion Space to be deliverable.

1.3.3 PROCEDURE FOR ELECTION. The rights contained in this Section 1.3 shall be exercised by Tenant, if at all, only in the manner set forth in this Section 1.3.3. Within thirty (30) days following the date Tenant receives the Availability Notice, Tenant shall deliver written notice (the "EXPANSION NOTICE") to Landlord stating that Tenant is exercising its right to expand the Premises to include that portion of the Expansion Space identified by Tenant in such Expansion Notice. The failure of Tenant to deliver such Expansion Notice to Landlord pursuant to the terms of this Section 1.3.3 shall be deemed to be a waiver by Tenant of all rights granted to Tenant in this Section 1.3 and such rights shall immediately be null and void and of no further force or effect.

1.3.4 EXPANSION RENT. The Base Rent applicable to the Expansion Space shall be based on the then-current Monthly Rental Rate per Rentable Square Foot applicable to the Premises, as set forth in Section 4 of the Summary, and shall thereafter be subject to the same scheduled Base Rent increases, such that the Monthly Rental Rate per Rentable Square Foot for the Expansion Premises and the Monthly Rental Rate per Rentable Square Foot for the Premises shall be identical throughout the remainder of the Lease Term.

1.3.5 CONSTRUCTION OF EXPANSION SPACE. Tenant shall accept the Expansion Space in its then existing "as is" condition, subject to the TCCs of Section 1.1 of the Tenant Work Letter. The construction of improvements in the Expansion Space shall follow the same general procedures set forth in the Tenant Work Letter with regard to improvements in the initial Premises; provided, however, the "Tenant Improvement Allowance" provided by Landlord to Tenant in connection with the Expansion Space shall be equal, on a per rentable square foot basis, to the product of (i) the Tenant Improvement Allowance per rentable square foot provided to Tenant in connection with the initial Premises, and (ii) a fraction, the numerator of which shall be the number of full calendar months then remaining during the initial Lease Term, and the denominator of which shall be eighty-four (84).

1.3.6 NEW LEASE. If Tenant timely and properly exercises Tenant's right to lease Expansion Space as set forth herein, Landlord and Tenant shall each use commercially reasonable efforts to execute a new Lease (the "FAIR ISAAC BUILDING 2 LEASE") for such Expansion Space within thirty (30) days following Landlord's receipt of the Expansion Notice. The Fair Isaac Building 2 Lease shall be based upon the same terms and conditions as this Lease; provided, however, commercially reasonable changes shall be implemented therein to account for the fact that Building 2 shall be a multi-tenant building as well as equitable changes in amounts and/or percentages which are based or dependent upon the square footage of the

premises or building. The Fair Isaac Building 2 Lease shall include a provision whereby an economic default by Tenant of this Lease (beyond any applicable notice and cure periods) shall constitute a default thereunder. The lease term of Fair Isaac Building 2 Lease shall (i) commence upon the date immediately following the expiration of a tenant improvement construction period mutually and reasonably agreed upon by Landlord and Tenant, and (ii) shall expire coterminously with this Lease on the Expiration Date.

1.4 BUILDING TWO RIGHT OF FIRST REFUSAL. To the extent that (i) the Peregrine Building 2 Lease is terminated in its entirety, and (ii) Tenant has not previously exercised its expansion rights set forth in Section 1.3, above, then, subject to the TCCs of Section 1.4.3, below, Landlord hereby grants to the Original Tenant and its Permitted Transferees (but only to the extent such Permitted Transferee has, in Landlord's reasonable determination, financial strength equal to or greater than Original Tenant), an ongoing right of first refusal with respect to all or any portion of the bottom two floors (i.e., the ground floor and the second floor) in Building 2 (the "FIRST REFUSAL SPACE").

1.4.1 PROCEDURE FOR LEASE.

1.4.1.1 PROCEDURE FOR OFFER. Landlord shall notify Tenant (the "FIRST REFUSAL NOTICE") from time-to-time when and if Landlord receives a "bona-fide third-party offer" for all or a portion of the First Refusal Space. Pursuant to such First Refusal Notice, Landlord shall offer to lease to Tenant the applicable First Refusal Space. The First Refusal Notice shall describe the First Refusal Space, and the lease term, rent and other fundamental economic terms and conditions, including the method of measurement of rentable and usable square feet, upon which Landlord proposes to lease such First Refusal Space pursuant to the bona-fide third-party offer. For purposes of this Section 1.4, a "BONA-FIDE THIRD-PARTY OFFER" shall mean a counter-offer received by Landlord to lease First Refusal Space from a qualified third party which Landlord would otherwise be willing to accept. For purposes of example only, the following would each constitute a bone-fide third-party offer:

(i) Landlord receives a request for proposal from a qualified third party. Landlord responds to the request for proposal with a lease proposal and subsequently receives a written bona-fide counter proposal from the qualified third party.

(ii) Landlord receives a written offer to lease from a qualified third party. Landlord responds to the offer with a written counter offer and subsequently receives a bona-fide counter to Landlord's counter offer from the qualified third party.

1.4.1.2 PROCEDURE FOR ACCEPTANCE. If Tenant wishes to exercise Tenant's right of first refusal with respect to the First Refusal Space described in the First Refusal Notice, then within five (5) business days of delivery of the First Refusal Notice to Tenant, Tenant shall deliver notice to Landlord of Tenant's exercise of its right of first refusal with respect to all of the First Refusal Space described in the First Refusal Notice at the rent, for the term and upon the other fundamental economic terms and conditions pursuant to Section 1.4.2, below. If Tenant does not so notify Landlord within such five (5) day period of Tenant's exercise of its first refusal

right, then Landlord shall be free to negotiate and enter into a lease for the First Refusal Space to anyone whom it desires on the net-effective economic terms and the fundamental non-economic terms which are no more than five percent (5.0%) more beneficial to such party than those set forth in the First Refusal Notice; provided, however, (i) the "net-effective economic" terms shall be determined by calculating the gross rent payable under the terms of the lease, as determined per rentable square foot on an average annual basis, and adjusting such amount by the value (on a rentable square foot basis) of the monetary concessions (spreading such monetary concessions equally throughout the lease term with interest at the "Interest Rate," as that term is set forth in Article 25 of this Lease), and (ii) to the extent Landlord intends to enter into a lease with a "Direct Competitor," as that term is defined below, then, prior to entering into such lease, Landlord shall so notify Tenant and Tenant shall again have a right of first refusal for the such first Refusal Space pursuant to the provisions of this Section 1.4. For purposes of this Section 1.4, a "DIRECT COMPETITORS" shall be any entity that (a) is not the third-party entity (or any other qualified third-party) initially disclosed in the First Refusal Notice with regard to the bone-fide third-party offer, and (b) is an entity set forth on EXHIBIT C, attached hereto. To the extent that an entity would reasonably be considered to directly compete with Tenant, then Tenant shall have the right to add such direct competitor(s) to the list set forth on EXHIBIT C by written notice to Landlord; provided, however, to the extent that Tenant's notice to add new direct competitor(s) onto such list occurs following the date upon which Landlord delivers any particular First Refusal Notice, then such additional direct competitor(s) shall not be considered a Direct Competitor for purposes of such First Refusal Notice. If Landlord does not execute a lease with a third party for all or any portion of the First Refusal Space within one hundred eighty-five (185) days following the delivery to Tenant of the First Offer Notice, then Tenant shall again have a right of first refusal for the such First Refusal Space pursuant to the provisions of this Section 1.4, which provisions shall again become applicable in their entirety. To the extent Landlord enters into any lease of First Refusal Space with any such third party in accordance with the foregoing ("THIRD PARTY LEASE"), Tenant's rights under this Section 1.4 shall be subordinate to the rights of the tenant under the Third Party Lease with respect to the space leased and encumbered pursuant to the provisions of the Third Party Lease, all extensions and renewals thereof (but only to the extent such extensions and/or renewals are reasonably identified in such First Refusal Notice), all pure expansion options contained therein which are stated as Landlord delivery obligations within a certain time frame for a certain amount of space, and all right of first offer expansions contained therein (but to the extent either expansion options apply to any portion of the First Offer Space, only to the extent the same are reasonably identified in such First Refusal Notice).

1.4.2 AMENDMENT TO LEASE. If Tenant timely exercises Tenant's right of first refusal to lease First Refusal Space as set forth herein, Landlord and Tenant shall within thirty (30) days thereafter execute either (i) to the extent Landlord and Tenant previously enter into the Fair Isaac Building 2 Lease, then an amendment to Fair Isaac Building 2 Lease (the "FIRST REFUSAL SPACE AMENDMENT") for such First Refusal Space pursuant to Section 1.4.2.1 or 1.4.2.2, below, as applicable, or (ii) a separate lease (the "FIRST REFUSAL SPACE LEASE") for such First Refusal Space pursuant to Section 1.4.2.1 or 1.4.2.2, below, as applicable; provided, however, such First Refusal Space Lease shall have similar modifications as those identified in Section 1.3.6, above, with regard to the multi-tenant nature of such Building 2 and the different square footages therein.

1.4.2.1 If the applicable First Refusal Notice is delivered to Tenant prior to the second (2nd) anniversary of the Lease Commencement Date, then notwithstanding the economic and fundamental non-economic terms set forth in the First Refusal Notice, Tenant's lease of such First Refusal Space shall be pursuant to the same TCCs as the initial Premises (on a pro-rata basis, if applicable), including, without limitation, the Monthly Rental Rate per Rentable Square Foot, Base Year, and Expiration Date; provided, however, (i) Landlord shall provide Tenant with an improvement allowance applicable to such First Refusal Space equal to a pro-rata portion (based on the initial Lease Term as compared to the then-remaining Lease Term) of the Tenant Improvement Allowance set forth in this Lease, (ii) Tenant shall not be entitled to any TIA Increase, (iii) Landlord shall not be required to provide Tenant with any existing furniture, fixtures or equipment, or other FF&E, whether pursuant to Section 29.28 of this Lease or otherwise (iv) Tenant shall not be entitled to the Building-top signage rights set forth in this Lease in connection with such First Refusal Space unless (or until) the cumulative First Refusal Space leased by Tenant comprises at least fifty percent (50%) of Building 2, (v) Tenant shall not have the roof rights set forth in Article 22 of this Lease unless (or until) the cumulative First Refusal Space leased by Tenant comprises at least fifty percent (50%) of Building 2; provided, however Tenant shall be granted roof rights reasonably consistent with the roof rights granted by Landlord to other tenants leasing space in a multi-tenanted building within the Project (i.e., up to two (2) eighteen inch (18") to twenty-four inch (24") satellite dishes, subject to Landlord's reasonable requirements), (vi) the First Refusal Space Amendment shall commence upon the date immediately following the expiration of a tenant improvement construction period mutually and reasonably agreed upon by Landlord and Tenant,, and (vii) the reserved parking spaces set forth in Section 9 of the Summary shall not be applicable to the First Refusal space (but the ratio of unreserved parking passes set forth therein, rounded to the nearest 1,000 usable square feet, shall be applicable to such First Refusal Space).

1.4.2.2 If the applicable First Refusal Notice is delivered to Tenant on or following the second (2nd) anniversary of the Lease Commencement Date, then Tenant's lease of such First Refusal Space shall be upon the express terms set forth in the First Refusal Notice, but otherwise upon the TCCs set forth in this Lease and this Section 1.4; provided, however, Landlord shall make a reasonable determination, as set forth in this Section 1.4.2.2, below, as to whether, and if so to what extent, Tenant must provide Landlord with financial security, such as a letter of credit or guaranty, for Tenant's rent obligations incurred in connection with Tenant's lease of such First Refusal Space. The determination as to whether, and if so to what extent, Tenant must provide Landlord with financial security in connection with Tenant's lease of such First Refusal Space, shall be made by reviewing the extent of financial security then generally being imposed in Comparable Deals upon tenants of comparable financial condition and credit history to the then existing financial condition and credit history of Tenant (with appropriate adjustments to account for differences in the then-existing financial condition of Tenant and such other tenants). Landlord and Tenant shall use commercially reasonable efforts to execute the First Refusal Lease within thirty (30) days following Tenant's exercise of its right to lease the First Refusal Space.

1.4.3 TERMINATION OF FIRST REFUSAL RIGHT. The rights contained in this Section 1.4 shall be personal to the Original Tenant and its Permitted Transferee (and not any other assignee, sublessee or other transferee of the Original Tenant's interest in this Lease) if the Original Tenant and/or its Permitted Assignee occupies at least sixty percent (60%) of the usable

square footage of Building 3. The right to lease First Refusal Space as provided in this Section 1.4 may not be exercised if, as of the date of the attempted exercise of the expansion option by Tenant, or as of the scheduled date of delivery of such First Refusal Space to Tenant, Tenant is in default under this Lease (beyond any applicable notice and cure periods) or Tenant has previously been in economic default under this Lease (beyond any applicable notice and cure periods) more than twice during the previous twelve (12) month period.

1.4.4 MAJORITY BUILDING 2 TENANT. Notwithstanding anything in this Section 1.4 to the contrary, if Landlord receives a "bone-fide third-party offer" for more than the top three (3) floors of Building 2 (i.e., an offer which includes all of floors 3, 4 and 5 of Building 2 and additional space located on floors 1 and/or 2 of Building 2) (the "MAJORITY BUILDING 2 SPACE"), then either (i) Tenant shall exercise its right of first refusal with respect to the entire Majority Building 2 Space pursuant to the terms and conditions of this Section 1.4, or (ii) Tenant shall waive its right of first refusal with respect to the entire Majority Building 2 Space (including the portion which would otherwise constitute First Refusal space); provided, however, notwithstanding Landlord's entering into a Third Party Lease for such Majority Building 2 Space, Tenant's right of first refusal with respect to any space located on the ground floor and/or second (2nd) floor of Building 2 which is not included in the Majority Building 2 Space shall nevertheless remain superior to any expansion right(s) contained in such Third Party Lease.

1.5 ADDITIONAL OFFICE SPACE IN BUILDING ONE. To the extent that Tenant's right of first refusal regarding the First Refusal Space is waived pursuant to the terms of Section 1.4.4, above, then throughout the remainder of the Lease Term, Landlord shall inform Tenant whenever Landlord enters into material negotiations for office space in that certain three (3)-story building located at 3579 Valley Centre Drive, San Diego, California, commonly known within the Project as "BUILDING 1," (a "BUILDING 1 NEGOTIATION NOTICE") (but only to the extent such office space is not subject to any other tenant's rights). Following Tenant's receipt of a Building 1 Negotiation Notice, Tenant shall promptly inform Landlord (the "TENANT INTEREST NOTICE") whether or not Tenant desires to lease any office space identified in such Building 1 Negotiation Notice (the "BUILDING 1 SPACE"). If Landlord and Tenant fail to reach material agreement with regard to fundamental terms for a lease of such Building 1 Space within five (5) business days following Landlord's receipt of the Tenant Interest Notice, then Landlord and Tenant hereby expressly agree that (i) Landlord shall not have any duty to lease such Building 1 Space to Tenant, and (ii) Tenant shall not have any duty to lease such Building 1 Space from Landlord. Landlord and Tenant hereby expressly acknowledge and agree that any such agreement with regard to such Building 1 Space may be withheld or granted in the sole and absolute discretion of either party, without any obligation or other duty with regard to good faith and/or fair dealing.

1.6 BUILDING FIVE RIGHT OF FIRST REFUSAL. To the extent that (i) Tenant's right of first refusal regarding the First Refusal Space is waived pursuant to the terms of Section 1.4.4, above, and (ii) Landlord does not then have office space available for lease in Building 1, then Landlord shall grant to Original Tenant and its Permitted Transferees an ongoing right of first refusal with respect to bottom floor (i.e., the ground floor) of that certain five (5)-story office building located at 3721 Valley Centre Drive, San Diego, California, which is commonly known within the Project as "BUILDING 5" (the "BUILDING 5 FIRST REFUSAL SPACE") pursuant to the same terms and

conditions otherwise applicable to the First Refusal Space pursuant to the terms and conditions of Section 1.4, above; provided, however, (i) the terms and conditions of Section 1.4.4 above shall not be applicable to the Building 5 First Refusal Space, and (ii) Tenant's rights granted in this Section 1.6 shall be subordinate to the rights granted to the tenant under that certain lease by and between Landlord and MEMEC, LLC, a Delaware limited liability company, dated September 23, 2002.

ARTICLE 2

INITIAL LEASE TERM; OPTION TERM(S); EARLY TERMINATION

2.1 INITIAL LEASE TERM. The TCCs and provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease (the "LEASE TERM") shall be as set forth in Section 3.1 of the Summary, shall commence on the date set forth in Section 3.2 of the Summary (the "LEASE COMMENCEMENT DATE"), and shall terminate on the date set forth in Section 3.3 of the Summary (the "LEASE EXPIRATION DATE") unless this Lease is sooner terminated as hereinafter provided. For purposes of this Lease, the term "LEASE YEAR" shall mean each consecutive twelve (12) month period during the Lease Term; provided, however, that if the Lease Commencement Date occurs on a date other than the first (1st) day of a calendar month, then the first Lease Year shall commence on the Lease Commencement Date and end on the last day of the eleventh month thereafter and the second and each succeeding Lease Year shall commence on the first day of the next calendar month; and further provided that the last Lease Year shall end on the Lease Expiration Date. At any time during the Lease Term, Landlord may deliver to Tenant a notice in the form as set forth in EXHIBIT D, attached hereto, as a confirmation only of the information set forth therein, which Tenant shall, after confirming the accuracy thereof, execute and return to Landlord within five (5) business days of receipt thereof.

2.2 OPTION TERM(S).

2.2.1 OPTION RIGHT. Landlord hereby grants the Original Tenant and its Permitted Transferees (provided such Permitted Transferee has, in Landlord's reasonable determination, financial strength equal to or greater than Original Tenant), two (2) options to extend the Lease Term for the "Extension Premises," as that term is set forth below, each by a period of five (5) years (each, an "OPTION TERM"). Such option shall be exercisable only by Notice delivered by Tenant to Landlord as provided in Section 2.2.3, below, provided that, as of the date of delivery of such Notice, Tenant is not in material or economic default under this Lease (beyond any applicable notice and cure periods). Upon the proper exercise of such option to extend, and provided that, as of the end of the then applicable Lease term, Tenant is not in material or economic default under this Lease (beyond any applicable notice and cure periods), the Lease Term, as it applies to the Extension Premises, shall be extended for a period of five (5) years. For purposes of this Section 2.2, "EXTENSION PREMISES" shall consist of (i) one hundred percent (100%) of Building 3, and, (ii) to the extent the Premises has expanded to include any Expansion Premises, First Refusal Space or any other space in the Project, any floor-by-floor portion(s) of such additional space as Tenant shall specify in the "Exercise Notice," as that term is set forth in Section 2.2.3, below, such that all expanded space contained on an indicated floor shall be included in such Expansion Premises; provided, however, in no event shall the Extension Premises include any space which is not included within the then-existing Premises.

The rights contained in this Section 2.2 shall only be exercised by the Original Tenant or its Permitted Transferee (and not any other assignee, sublessee or other transferee of the Original Tenant's interest in this Lease).

2.2.2 OPTION RENT. The Rent payable by Tenant during the Option Term (the "OPTION RENT") shall be equal to ninety-five percent (95%) of the Market Rent as set forth below. For purposes of this Lease, the term "MARKET RENT" shall mean rent (including additional rent and considering any "base year" or "expense stop" applicable thereto), including all escalations, at which tenants, as of the commencement of the applicable term are, pursuant to transactions completed within the twenty-four (24) months prior to the first day of the applicable Option Term, leasing non-sublease, non-encumbered, non-synthetic, non-equity, non-renewal space (unless such space was leased pursuant to a definition of "fair market" comparable to the definition of Market Rent) comparable in size, location and quality to the Extension Premises for a "Comparable Term," as that term is defined in this Section 2.2.2 (the "COMPARABLE DEALS"), which comparable space is located in the "Comparable Buildings," as that term is defined in this Section 2.2.2, giving appropriate consideration to the annual rental rates per rentable square foot (adjusting the base rent component of such rate to reflect a net value after accounting for whether or not utility expenses are (i) directly paid by the tenant, or (ii) directly reimbursed to Landlord by the tenant (as opposed to being included in operating expenses)), the standard of measurement by which the rentable square footage is measured, the ratio of rentable square feet to usable square feet, and taking into consideration only, and granting only, the following concessions (provided that the rent payable in Comparable Deals in which the terms of such Comparable Deals are determined by use of a discounted fair market rate formula shall be equitably adjusted in order that such Comparable Deals will not reflect a discounted rate) (collectively, the "RENT CONCESSIONS"): (a) rental abatement concessions or build-out periods, if any, being granted such tenants in connection with such comparable spaces; (b) tenant improvements or allowances provided or to be provided for such comparable space, taking into account the value of the existing improvements in the Extension Premises, such value to be based upon the age, quality and layout of the improvements and the extent to which the same could be utilized by general office users as contrasted with this specific Tenant, (c) Proposition 13 protection, and (d) all other reasonable monetary concessions, if any, being granted such tenants in connection with such comparable space; provided, however, that notwithstanding anything to the contrary herein, no consideration shall be given to the fact that Landlord is or is not required to pay a real estate brokerage commission in connection with the applicable term or the fact that the Comparable Deals do or do not involve the payment of real estate brokerage commissions. The term "COMPARABLE TERM" shall refer to the length of the lease term, without consideration of options to extend such term, for the space in question. In addition, the determination of the Market Rent shall include a determination as to whether, and if so to what extent, Tenant must provide Landlord with financial security, such as a letter of credit or guaranty, for Tenant's rent obligations during any Option Term, and the value of such credit enhancement, or lack thereof, to Landlord in comparison to the credit enhancements granted in Comparable Deals. Such determination shall be made by reviewing the extent of financial security then generally being imposed in Comparable Deals upon tenants of comparable financial condition and credit history to the then existing financial condition and credit history of Tenant (with appropriate adjustments to account for differences in the then-existing financial condition of Tenant and such other tenants). If in determining the Market Rent, Tenant is entitled to a tenant improvement or comparable allowance for the improvement of the Extension Premises (the "OPTION TERM TI

ALLOWANCE"), Landlord may, at Landlord's sole option, elect any or a portion of the following: (A) to grant some or all of the Option Term TI Allowance to Tenant in the form as described above (i.e., as an improvement allowance), and/or (B) to reduce the rental rate component of the Market Rent to be an effective rental rate which takes into consideration (including the application of the appropriate interest rate to any such unfunded Option Term TI Allowance) that Tenant will not receive the total dollar value of such excess Option Term TI Allowance (in which case the Option Term TI Allowance evidenced in the effective rental rate shall not be granted to Tenant). The term "COMPARABLE Buildings" shall mean the Building and other first-class office buildings which are comparable to the Building in terms of age (based upon the date of completion of construction or major renovation as to the building containing the portion of the Extension Premises in question), quality of construction, level of services and amenities, size and appearance, and are located in the University Towne Center (i.e., the area from two (2) blocks to the North of La Jolla Village Drive to two (2) blocks to the South of La Jolla Village Drive between the I-5 and I-805 freeways) and Del Mar geographical areas (the "COMPARABLE AREA").

2.2.3 EXERCISE OF OPTION. The option contained in this Section 2.2 shall be exercised by Tenant, if at all, only in the manner set forth in this Section 2.2.3. Tenant shall deliver notice (the "EXERCISE NOTICE") to Landlord not more than eighteen (18) months nor less than twelve (12) months prior to the expiration of the then Lease Term, stating that Tenant is exercising its option. Landlord shall deliver notice (the "LANDLORD RESPONSE NOTICE") to Tenant on or before the date which is thirty (30) days after Landlord's receipt of the Exercise Notice, which Landlord Response Notice shall set forth Landlord's calculation of the Option Rent (the "LANDLORD'S OPTION RENT CALCULATION"). Within thirty (30) business days of its receipt of the Landlord Response Notice, Tenant shall deliver written notice to Landlord stating that Tenant is (A) accepting the Option Rent contained in the Landlord's Option Rent Calculation, or (B) rejecting the Option Rent contained in the Landlord's Option Rent Calculation and setting forth Tenant's calculation of the Option Rent (the "TENANT'S OPTION RENT CALCULATION"). If Tenant does not affirmatively accept or Tenant rejects the Market Rent specified in the Landlord's Option Rent Calculation, the parties shall follow the procedure, and the Market Rent shall be determined as set forth in Section 2.2.4.

2.2.4 DETERMINATION OF MARKET RENT. In the event Tenant objects or is deemed to have objected to Landlord's Option Rent Calculation, Landlord and Tenant shall attempt to agree upon the Option Rent using reasonable good-faith efforts. If Landlord and Tenant fail to reach agreement within sixty (60) days following Tenant's objection or deemed objection to the Landlord's Option Rent Calculation (the "OUTSIDE AGREEMENT DATE"), then (i) in connection with the Option Rent, Landlord's Option Rent Calculation and Tenant's Option Rent Calculation, each as previously delivered to the other party, shall be submitted to the arbitrators pursuant to the TCCs of this Section 2.2.4, and (ii) in connection with any other contested calculation of Market Rent, the parties shall each make a separate determination of the Market Rent and shall submit the same to the arbitrators pursuant to the TCCs of this Section 2.2.4. The submittals shall be made concurrently with the selection of the arbitrators pursuant to this Section 2.2.4 and shall be submitted to arbitration in accordance with Section 2.2.4.1 through 2.2.4.7.

2.2.4.1 Landlord and Tenant shall each appoint one arbitrator who shall by profession be a licensed real estate broker, MAI appraiser or attorney who shall have been active

over the five (5) year period ending on the date of such appointment in the leasing (or appraisal, as the case may be) of first-class office properties in the Comparable Area. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Option Rent, is the closest to ninety-five percent (95%) of the actual Market Rent as determined by the arbitrators, taking into account the requirements of Section 2.2.2 of this Lease. Each such arbitrator shall be appointed within fifteen (15) days after the applicable Outside Agreement Date. Landlord and Tenant may consult with their selected arbitrators prior to appointment and may select an arbitrator who is favorable to their respective positions. The arbitrators so selected by Landlord and Tenant shall be deemed (the "ADVOCATE ARBITRATORS").

2.2.4.2 The two Advocate Arbitrators so appointed shall be specifically required pursuant to an engagement letter within ten (10) days of the date of the appointment of the last appointed Advocate Arbitrator agree upon and appoint a third arbitrator ("NEUTRAL ARBITRATOR") who shall be qualified under the same criteria set forth hereinabove for qualification of the two Advocate Arbitrators except that neither the Landlord or Tenant or either party's Advocate Arbitrator may, directly or indirectly, consult with the Neutral Arbitrator prior to subsequent to his or her appearance. The Neutral Arbitrator shall be retained via an engagement letter jointly prepared by Landlord's counsel and Tenant's counsel.

2.2.4.3 The three arbitrators shall within thirty (30) days of the appointment of the Neutral Arbitrator reach a decision as to Market Rent and determine whether the Landlord's or Tenant's determination of Option Rent as submitted pursuant to Section 2.2.4.1 and Section 2.2.3 of this Lease is closest to ninety-five percent (95%) of the Market Rent as determined by the arbitrators and simultaneously publish a ruling ("AWARD") indicating whether Landlord's or Tenant's submitted Option Rent is closest to the Option Rent as determined by the arbitrators. Following notification of the Award, the Landlord's or Tenant's submitted Option Rent determination, whichever is selected by the arbitrators as being closest to Option Rent shall become the then applicable Market Rent.

2.2.4.4 The Award issued by the majority of the three arbitrators shall be binding upon Landlord and Tenant.

2.2.4.5 If either Landlord or Tenant fail to appoint an Advocate Arbitrator within fifteen (15) days after the applicable Outside Agreement Date, either party may petition the presiding judge of the Superior Court of San Diego County to appoint such Advocate Arbitrator subject to the criteria in Section 2.2.4.1 of this Lease, or if he or she refuses to act, either party may petition any judge having jurisdiction over the parties to appoint such Advocate Arbitrator.

2.2.4.6 If the two Advocate Arbitrators fail to agree upon and appoint the Neutral Arbitrator, then either party may petition the presiding judge of the Superior Court of San Diego County to appoint the Neutral Arbitrator, subject to criteria in Section 2.2.4.1 of this Lease, or if he or she refuses to act, either party may petition any judge having jurisdiction over the parties to appoint such arbitrator.

2.2.4.7 The cost of arbitration shall be paid by the party whose Option Rent was not selected by the majority of the arbitrators as being the closest to ninety-five percent

(95%) of the actual Market Rent. Any costs or expenses (including, without limitation, attorneys fees and costs) incurred by Landlord pursuant to this Section 2.2.4 shall not be included in Operating Expenses.

2.3 EARLY TERMINATION. On or about September 23, 2002, Peregrine filed a Motion for Order Under Section 365(a) of the Bankruptcy Code Authorizing the Debtors to Reject Certain Executory Contracts and Unexpired Leases of Nonresidential Real Property (the "REJECTION MOTION"). The Rejection Motion seeks Court approval of Tenant's rejection of that certain lease between KR-Carmel Partners, LLC, predecessor-in-interest to Landlord, and Peregrine dated as of June 9, 1999 (as amended, the "PEREGRINE BUILDING 3 LEASE"). The terms and conditions of this Lease, and the obligations of the parties hereunder, are subject to and conditioned upon the issuance of an order by the bankruptcy court under the Bankruptcy Case approving Peregrine's rejection of the Peregrine Building 3 Lease ("COURT APPROVAL"). In the event that Court Approval has not been obtained on or before April 15, 2003 (the "OUTSIDE APPROVAL DATE"), Tenant shall have a one-time right to deliver a notice to Landlord (a "TERMINATION NOTICE") electing to terminate this Lease effective upon the date occurring five (5) business days following receipt by Landlord of the Termination Notice (the "EFFECTIVE DATE"). The Termination Notice must be delivered by Tenant to Landlord, if at all, not earlier than the Outside Date nor later than fifteen (15) business days after the Outside Date. Upon any termination pursuant to this Section 2.3, Landlord and Tenant shall be relieved from any and all liability to each other resulting hereunder except (i) Landlord shall return to Tenant any portion of the "Over-Allowance Amount", as that term is defined in Section 4.2 of the Tenant Work Letter, which has not been expended by Landlord in connection with the construction of the Tenant Improvements, and (ii) Landlord shall reimburse Tenant, within thirty (30) days of Landlord's receipt of an invoice therefor (with reasonable supporting documentation), the third-party legal fees reasonably incurred by Tenant in connection with the negotiation of this Lease, and the actual, out-of-pocket costs and expense reasonably incurred by Tenant in connection with the preparation of construction plans and drawings for the Premises; provided, however, in no event shall Landlord be required to reimburse Tenant pursuant to this subsection (ii) in an aggregate amount that exceeds Two Hundred Fifty Thousand and No/100 Dollars ($250,000.00). Tenant's rights to terminate this Lease, as set forth in this Section 2.3, shall be Tenant's sole and exclusive remedy at law or in equity for the failure of the bankruptcy court to approve Peregrine's rejection of the Peregrine Building 3 Lease.

ARTICLE 3

BASE RENT; ABATEMENT OF RENT

3.1 BASE RENT. Tenant shall pay, without prior notice or demand, to Landlord or Landlord's agent at the management office of the Project, or, at Landlord's option, at such other place as Landlord may from time to time designate in writing, by a check for currency which, at the time of payment, is legal tender for private or public debts in the United States of America, base rent ("BASE RENT") as set forth in Section 4 of the Summary, payable in equal monthly installments as set forth in Section 4 of the Summary in advance on or before the first day of each and every calendar month during the Lease Term, without any setoff or deduction whatsoever. The Base Rent for the first full month of the Lease Term which occurs after the expiration of any free rent period shall be paid at the time of Tenant's execution of this Lease. If

any Rent payment date (including the Lease Commencement Date) falls on a day of the month other than the first day of such month or if any payment of Rent is for a period which is shorter than one month, the Rent for any fractional month shall accrue on a daily basis for the period from the date such payment is due to the end of such calendar month or to the end of the Lease Term at a rate per day which is equal to 1/365 of the applicable annual Rent. All other payments or adjustments required to be made under the TCCs of this Lease that require proration on a time basis shall be prorated on the same basis.

3.2 ABATEMENT OF RENT; REPLACEMENT SERVICES. In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, as a result of (i) any repair, maintenance or alteration performed by Landlord, or which Landlord failed to perform, after the Lease Commencement Date and required by this Lease, which substantially interferes with Tenant's use of or ingress to or egress from the Building, Project (including the Project Common Areas and the Project parking areas (to the extent reasonable replacement spaces are not provided)), or Premises; or (ii) any failure by Landlord to provide necessary services, utilities or ingress to and egress from the Building, Project (including the Project Common Areas and the Project parking areas (to the extent reasonable replacement spaces are not provided)), or Premises as required pursuant to the TCCs of this Lease; or (iii) the presence of Hazardous Materials not brought on the Premises by "Tenant Parties," as that term is set forth in Section 10.1 of this Lease to the extent such presence substantially interferes with Tenant's use of or ingress to or egress from the Building, Project (including the Project Common Areas), or Premises (including the Project parking areas to the extent reasonable replacement spaces are not provided) (any such set of circumstances as set forth in items (i) through (iii), above, to be known as an "ABATEMENT EVENT"), then Tenant shall give Landlord Notice of such Abatement Event, and if such Abatement Event continues for five (5) consecutive business days after Landlord's receipt of any such Notice (the "ELIGIBILITY PERIOD"), then, Tenant may deliver an additional notice to Landlord (the "ADDITIONAL NOTICE"), specifying such Abatement Event and Tenant's intention to abate the payment of Rent under this Lease. If Landlord does not cure such Abatement Event within three (3) business days of receipt of the Additional Notice, then as Tenant's sole remedy vis-a-vis such Abatement Event, Tenant may elect to either (a) obtain replacement services, utilities or parking spaces (and related reasonable accommodations associated therewith) (collectively, the "REPLACEMENT SERVICE") to the extent reasonably required to continue Tenant's business operations in the Premises, or (b) abate or reduce, as the case may be, the Base Rent and Tenant's Share of Direct Expenses after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises, or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use ("UNUSABLE AREA"), bears to the total rentable area of the Premises. If Tenant elects to obtain Replacement Services pursuant to clause (a) of the preceding sentence, then Landlord shall reimburse Tenant, within thirty (30) days following Landlord's receipt of Tenant's reasonably detailed itemized invoice, for the out-of-pocket costs reasonably and actually incurred by Tenant in obtaining such Replacement Services; provided, however, in no event shall Landlord be required to reimburse Tenant in an aggregate amount which exceeds the sum of (X) an amount equal to the aggregate abatement or reduction of Base Rent and Tenant's Share of Direct Expenses that Tenant would have received if Tenant had so elected pursuant to clause (b) of the preceding sentence, and (Y) the reasonable deductible amount (but in no event greater than $50,000.00) under Tenant's business interruption insurance policy. Landlord and Tenant hereby acknowledge that, in

addition to the abatement rights set forth in this Section 3.2, Tenant's abatement rights following an event of damage and destruction or condemnation is provided pursuant to the TCCs of Articles 11 and 13 of this Lease.

ARTICLE 4

ADDITIONAL RENT

4.1 GENERAL TERMS. In addition to paying the Base Rent specified in Article 3 of this Lease, Tenant shall pay "TENANT'S SHARE" of the annual "DIRECT EXPENSES," as those terms are defined in Sections 4.2.6 and 4.2.2, respectively, of this Lease, which are in excess of the amount of Direct Expenses applicable to the "Base Year," as that term is defined in Section 4.2.1, below; provided, however, that in no event shall any decrease in Direct Expenses for any Expense Year below Direct Expenses for the Base Year entitle Tenant to any decrease in Base Rent or any credit against sums due under this Lease. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the TCCs of this Lease, are hereinafter collectively referred to as the "ADDITIONAL RENT," and the Base Rent and the Additional Rent are herein collectively referred to as "RENT." All amounts due under this Article 4 as Additional Rent shall be payable for the same periods and in the same manner as the Base Rent. Without limitation on other obligations of Tenant which survive the expiration of the Lease Term, the obligations of Tenant to pay the Additional Rent provided for in this Article 4 shall survive the expiration of the Lease Term, provided that Landlord bills Tenant for such Additional Rent within one (1) year following the calendar year in which the Lease Term expires, except where the failure to timely furnish such bill as to any particular item includable as Additional Rent is beyond Landlord's reasonable control (e.g., tax assessments that are late in arriving from the assessor), in which case such one (1) year limit shall not be applicable.

4.2 DEFINITIONS OF KEY TERMS RELATING TO ADDITIONAL RENT. As used in this Article 4, the following termsshall have the meanings hereinafter set forth:

4.2.1 "BASE YEAR" shall mean the period set forth in Section 5 of the Summary.

4.2.2 "DIRECT EXPENSES" shall mean "Operating Expenses" and "Tax Expenses."

4.2.3 "EXPENSE YEAR" shall mean each calendar year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Share of Direct Expenses shall be equitably adjusted for any Expense Year involved in any such change.

4.2.4 "OPERATING EXPENSES" shall be calculated in accordance with sound real estate accounting principles (consistently applied from year to year) and shall mean all expenses, costs and amounts of every kind and nature which, in accordance with sound real estate management principles (consistently applied), Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Project, or any portion thereof; provided,

however, the foregoing shall be subject to the TCCs of Section 4.3, below, with regard to allocations. Without limiting the generality of the foregoing, Operating Expenses shall specifically include any and all of the following: (i) the cost of supplying all utilities, the cost of operating, repairing, maintaining, and renovating the utility, telephone, mechanical, sanitary, storm drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections and the cost of contesting any governmental enactments which may affect Operating Expenses, and the costs incurred in connection with a governmentally mandated transportation system management program or similar program; (iii) the cost of all insurance carried by Landlord in connection with the Project; provided, however, that if Landlord does not carry earthquake/flood insurance for the Project and/or the Building during any part of the Base Year but subsequently obtains earthquake/flood insurance for the Project and/or the Building during the Lease Term, then from and after the date upon which Landlord obtains such earthquake/flood insurance and continuing throughout the period during which Landlord maintains such insurance, Operating Expenses for the Base Year shall be deemed to be increased by the amount of the premium Landlord reasonably estimates it would have incurred had Landlord maintained such insurance for the same period of time during the Base Year as such insurance was maintained by Landlord during such subsequent Expense Year; provided further, however, any such earthquake/flood insurance shall be subject to Tenant's reasonable approval (Tenant acknowledging and agreeing, however, that it shall be deemed unreasonable for Tenant to withhold such consent to the extent (A) such earthquake/flood insurance is mandated by applicable governmental entities or Landlord's lender, or (B) landlords of Comparable Buildings are requiring such earthquake/flood insurance policies be maintained and Landlord's earthquake/flood insurance policy is commercially reasonably vis-a-vis such third party policies); (iv) the cost of landscaping, relamping, and all supplies, tools, equipment and materials used in the operation, repair and maintenance of the Building and/or Common Areas, or any portion thereof; (v) costs incurred in connection with the parking areas servicing the Project; (vi) fees and other costs, including management fees, consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Project (which fees shall be commercially reasonable vis-a-vis the competitive fees being charged for similar services at Comparable Buildings in the Comparable Area); (vii) payments under any equipment rental agreements and the fair rental value of any management office space; (viii) wages, salaries and other compensation and benefits, including taxes levied thereon, of all persons (other than persons generally considered to be higher in rank than the position of Project manager) engaged in the operation, maintenance and security of the Project; (ix) costs under any instrument pertaining to the sharing of costs by the Project; (x) operation, maintenance, and (to the extent necessitated by normal wear and tear or Tenant's failure to perform Tenant's obligations under the "BS/BS Exception," as that term is set forth in Article 7, below) repair and replacement of all Building Systems and components thereof (provided that any capital costs associated therewith shall be amortized in accordance with clause (xiii) below); (xi) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in the Common Areas, maintenance and replacement of curbs and walkways, repair to the Building's roof and re-roofing of the Building (provided that any re-roofing costs shall be amortized over the useful life of the replacement roof in accordance with clause (xiii) below); (xii) amortization (including interest on the unamortized cost) of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof, to the extent of cost

savings reasonably anticipated by Landlord at the time of such expenditure to be incurred in connection therewith; (xiii) the cost of capital improvements or other costs incurred in connection with the Project (A) which are reasonably intended to effect economies in the operation or maintenance of the Project, or any portion thereof, (B) that are required to comply with present (or which are reasonably anticipated to be effective for a material portion of the Lease Term) conservation programs, (C) which are replacements or modifications of nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition (but only to the extent necessitated by normal wear and tear during the Lease Term), (D) that relate to Building Systems, or (E) that relate to Building Structure and are required under any governmental law or regulation by a federal, state or local governmental agency, except for capital repairs, replacements or other improvements to remedy a condition existing prior to the Lease Commencement Date which an applicable governmental authority, if it had knowledge of such condition prior to the Lease Commencement Date, would have then required to be remedied pursuant to then-current governmental laws or regulations in their form existing as of the Lease Commencement Date and pursuant to the then-current interpretation of such governmental laws or regulations by the applicable governmental authority as of the Lease Commencement Date; provided, however, that any capital expenditure shall be amortized with interest over its useful life in accordance with sound real estate management and accounting principles and Operating Expenses shall include only the amortized portion of such capital expenditure which accrues between the completion of the work associated therewith and the expiration or earlier termination of this Lease; (xiv) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute "Tax Expenses" as that term is defined in Section 4.2.5, below; and (xv) payments under any easement, license, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs by the Building. Notwithstanding the foregoing, for purposes of this Lease, Operating Expenses shall not, however, include:

(a) costs, including marketing costs, legal fees, space planners' fees, advertising and promotional expenses, and brokerage fees incurred in connection with the original construction or development, or original or future leasing of the Project, and costs, including permit, license, construction and inspection costs, incurred with respect to the installation of tenant improvements made for tenants or occupants occupying space in the Project or incurred in renovating or otherwise improving, decorating, painting or redecorating space for tenants or other occupants of the Project (excluding, however, such costs relating to any Common Areas of the Project or parking facilities);

(b) except as set forth in items (xii), (xiii), and (xiv) above, depreciation, interest and principal payments on mortgages and other debt costs, if any, penalties and interest, costs of capital repairs and alterations, and costs of capital improvements, replacements and equipment;

(c) costs for which the Landlord is entitled to reimbursement by any tenant or occupant of the Project or by insurance by its carrier or any tenant's carrier or by anyone else, and electric power or other utility costs for which any tenant (including Tenant) directly contracts with the local public service company, and the cost of correcting any defects in

the construction of any portion of the Project to the extent actually covered by any warranty rights of Landlord;

(d) any bad debt loss, rent loss, or reserves for bad debts or rent loss;

(e) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee or ground lessor (except as the actions of the Tenant may be in issue), costs and fees incurred in the selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs and fees incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants, occupants or brokers, and Landlord's general corporate overhead and general and administrative expenses;

(f) the wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-a-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall Operating Expenses for purposes of this Lease include wages and/or benefits attributable to personnel above the level of Project manager;

(g) amount paid as ground rental for the Project (or any portion thereof) by the Landlord, and attorneys' fees', transfer taxes and any other transactional costs or expenses associated with any ground lease of the Project (or any portion thereof);

(h) overhead and profit increment paid to the Landlord or to subsidiaries or affiliates of the Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, first-class unaffiliated third parties providing similar services in the Comparable Area on a competitive basis;

(i) any compensation paid to clerks, attendants or other persons in commercial concessions operated by the Landlord;

(j) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project (to the extent such emergency condition was not caused by the gross negligence or willful misconduct of Landlord or its agents, employees, vendors or contractors);

(k) all items and services for which Tenant or any other tenant in the Project reimburses Landlord or which Landlord provides selectively to one or more tenants (other than Tenant), or to one or more buildings (other than the Building) without reimbursement;

(l) costs, other than those incurred in ordinary maintenance and repair, for sculpture, paintings, fountains or other objects of art;

(m) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(n) rent for any office space occupied by Project management personnel to the extent the size or rental rate of such office space exceeds the size or fair market rental value of office space occupied by management personnel of the Comparable Buildings in the Comparable Area, with adjustment where appropriate for the size of the applicable project;

(o) costs associated with Landlord's Work, costs associated with the acquisition and development of any "Other Improvements," as that term is set forth in Section 29.34, below, and payments made to any "Provider," as that term is set forth in Section 29.35, below, for services provided to the Building unless Tenant elects, in its sole and absolute discretion, to use such Provider's services;

(p) costs arising from Landlord's charitable or political contributions;

(q) costs arising from the gross negligence or willful misconduct of Landlord or its agents, employees, vendors, contractors, or providers of materials or services, and any interest and tax penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments or file returns when due;

(r) costs to the extent attributable to Landlord's failure to promptly remediate any natural hazard condition (including, but not limited to, microbial induced corrosion and mold) in the Building or Common Areas after Landlord becomes aware of such condition, but only to the extent not caused by Tenant or its agents, employees, vendors, contractors, or providers of materials or services or attributable to Tenant's Alterations;

(s) operating reserves or contingency amounts in excess of the amount allocated thereto in the Base Year; and

(t) costs incurred to comply with laws relating to the removal of hazardous material (as defined under applicable law) which was in existence in the Building or on the Project prior to the Lease Commencement Date, and was of such a nature that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions that it then existed in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto; and costs incurred to remove, remedy, contain, or treat hazardous material, which hazardous material is brought into the Building or onto the Project after the date hereof by Landlord or any of its agents, employees, vendors, contractors or providers or materials or services, or by any other tenant of the Project, and is of such a nature, at that time, that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such hazardous material, in the state, and under the conditions, that it then exists in the Building or on the Project, would have then required the removal of such hazardous material or other remedial or containment action with respect thereto.

If Landlord is not furnishing any particular work or service (the cost of which, if performed by Landlord, would be included in Operating Expenses) to a tenant who has undertaken to perform such work or service in lieu of the performance thereof by Landlord, Operating Expenses shall be deemed to be increased by an amount equal to the additional Operating Expenses which would reasonably have been incurred during such period by Landlord if it had at its own expense furnished such work or service to such tenant. If the Project is not at least one hundred percent (100%) occupied during all or a portion of the Base Year or any Expense Year, Landlord shall elect to make an appropriate adjustment to the components of Operating Expenses for such year to determine the amount of Operating Expenses that would have been incurred had the Project been one hundred percent (100%) occupied; and the amount so determined shall be deemed to have been the amount of Operating Expenses for such year. Operating Expenses for the Base Year shall not include (i) market-wide cost increases due to extraordinary circumstances, including, but not limited to, Force Majeure, boycotts, strikes, conservation surcharges, embargoes or shortages, or amortized costs relating to capital improvements, and (ii) utility rate increases due to extraordinary circumstances including, but not limited to, conservation surcharges, boycotts, embargoes or other shortages, or amortized costs relating to capital improvements; provided, however, that Landlord shall, within 120 days after the last calendar day of the Base Year, submit to Tenant a written itemized accounting of Operating Expenses attributable to the Base Year, and shall indicate, and set forth Landlord's basis for so determining, those Operating Expenses for the Base Year which Landlord reasonably believes to be inflated during the Base Year pursuant to clauses (i) and (ii) of this sentence. Landlord shall not (i) make a profit by charging items to Operating Expenses that are otherwise also charged separately to others and (ii) subject to Landlord's right to adjust the components of Operating Expenses described above in this paragraph, collect Operating Expenses from Tenant and all other tenants in the Building in an amount in excess of what Landlord incurs for the items included in Operating Expenses. If Landlord, in any Expense Year following the Base Year, begins providing any new category of services (the "NEW SERVICES"), then for such period of time in which such New Services apply, Operating Expenses for the Base Year shall be increased by the amount that Landlord reasonably determines it would have incurred had Landlord provided such New Services during the same period of time during the Base Year as such New Services were provided during such subsequent Expense Year. Notwithstanding the foregoing, no adjustment to the Operating Expenses for the Base Year shall occur to the extent such New Services (1) are attributable to Tenant's use of the Premises (as opposed to office use generally), in which case Landlord may elect (Y) to include the cost of such New Services in Operating Expenses, or (Z) to invoice Tenant directly for such costs, depending upon the nature of the New Services and the extent to which the need for such New Services is directly attributable to Tenant's use, as determined in Landlord's reasonable discretion, (2) is being offered by landlords in the majority of Comparable Buildings, or (3) is required by "Applicable Laws," as that Term is set forth in Article 24. If Landlord, in any Expense Year after the Base Year, discontinues any type or category of service then for such period of time in which such services are discontinued, Operating Expenses for the Base Year shall be decreased by the amount that Landlord reasonably determines it incurred for such type or category of service throughout the Base Year.

4.2.5 TAXES.

4.2.5.1 "TAX EXPENSES" shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature,

whether general, special, ordinary or extraordinary, (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof), excluding fines, default interest and penalties (unless due to Tenant's failure to pay Additional Rent when due), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof. All assessments shall be paid by Landlord in the maximum number of installments permitted by law and shall not be included as Tax Expenses except in the year in which the assessment installment is actually paid.

4.2.5.2 Tax Expenses shall include, without limitation: (i) Any tax on the rent; (ii) Any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, it being acknowledged by Tenant and Landlord that Proposition 13 was adopted by the voters of the State of California in the June 1978 election ("PROPOSITION 13") and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants, and, in further recognition of the decrease in the level and quality of governmental services and amenities as a result of Proposition 13, Tax Expenses shall also include any governmental or private assessments or the Project's contribution towards a governmental or private cost-sharing agreement for the purpose of augmenting or improving the quality of services and amenities normally provided by governmental agencies; (iii) Any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder; and (iv) Any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises (provided that Tax Expenses shall not include any documentary transfer taxes associated with the conveyance of Landlord's interest in any portion of the Project).

4.2.5.3 Any costs and expenses (including, without limitation, reasonable attorneys' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year such expenses are paid. Except as set forth in Section 4.2.5.4, below, refunds of Tax Expenses shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable, provided that in no event shall the amount to be refunded to Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year. If Tax Expenses for any period during the Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses included by Landlord as Building Tax Expenses pursuant to the TCCs of this Lease. Notwithstanding anything to the contrary contained in this Section 4.2.8 (except as set forth in Section 4.2.8.1, above), there shall be excluded from Tax Expenses (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and

other taxes to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, and (iii) any items paid by Tenant under Section 4.5 of this Lease.

4.2.5.4 Notwithstanding anything to the contrary set forth in this Lease, the amount of Tax Expenses for the Base Year and any Expense Year shall be calculated without taking into account any decreases in real estate taxes obtained in connection with Proposition 8, and, therefore, the Tax Expenses in the Base Year and/or an Expense Year may be greater than those actually incurred by Landlord, but shall, nonetheless, be the Tax Expenses due under this Lease; provided that (i) any costs and expenses incurred by Landlord in securing any Proposition 8 reduction shall not be included in Direct Expenses for purposes of this Lease, and (ii) tax refunds under Proposition 8 shall not be deducted from Tax Expenses, but rather shall be the sole property of Landlord. Landlord and Tenant acknowledge that this Section 4.2.5.4 is not intended to in any way affect (A) the inclusion in Tax Expenses of the statutory two percent (2.0%) annual increase in Tax Expenses (as such statutory increase may be modified by subsequent legislation), or (B) the inclusion or exclusion of Tax Expenses pursuant to the terms of Proposition 13, which shall be governed pursuant to the terms of Sections 4.2.5.1 through 4.2.5.3, above and Section 4.6, below. Notwithstanding the foregoing, upon a "REASSESSMENT," as that term is defined in Section 4.6 below, occurring after the Base Year, the component of Tax Expenses for the Base Year which is attributable to the assessed value of the Project under Proposition 13 prior to the Reassessment (without taking into account any Proposition 8 reductions) shall be reduced, if at all, for the purposes of comparison to all subsequent Expense Years (commencing with the Expense Year in which the Reassessment takes place and continuing for as long as such Reassessment remains effective) to an amount equal to the real estate taxes based upon such Reassessment.

4.2.5.5 Landlord shall not voluntarily issue any assessments or bonds for the Project which would increase Tenant's payment of Tax Expenses without Tenant's prior written consent, which shall not be unreasonably withheld, conditioned or delayed.

4.2.6 "TENANT'S SHARE" shall mean the percentages set forth in Section 6 of the Summary. To the extent the rentable square footage of the Premises is increased or decreased, or the aggregate rentable square footage of all the buildings in the Project is increased or decreased, then Tenant's Share of the Building shall be calculated by dividing the rentable square footage of the then-existing Premises by the rentable square footage of the Building, and Tenant's Share of the Project shall be calculated by dividing the rentable square footage of the then-existing Premises by the rentable square footage of all office buildings in the Project.

4.3 ALLOCATION OF DIRECT EXPENSES.

4.3.1 METHOD OF ALLOCATION. The parties acknowledge that the Building is a part of a multi-building project and that the costs and expenses incurred in connection with the Project (i.e. the Direct Expenses) should be shared, in an equitable manner, between the tenants of the Building and the tenants of the other buildings in the Project. Accordingly, a portion of the Direct Expenses shall be allocated to Tenant (as opposed to any other tenants of any building in the Project). Such portion of Direct Expenses allocated to Tenant shall include (i) Tenant's Building Share of all Direct Expenses attributable solely to the Building, and (ii) Tenant's Project

Share of all Direct Expenses attributable to the Project Common Areas (as opposed to Direct Expenses which are solely and directly attributable to any other building in the Project).

4.4 CALCULATION AND PAYMENT OF ADDITIONAL RENT. Landlord shall separately establish (i) the amount of Direct Expenses attributable to the Building during the Base Year, and (ii) the amount of Direct Expenses attributable to the Project Common Areas during the Base Year. If for any Expense Year ending or commencing within the Lease Term, Tenant's Share of Direct Expenses for the Building and Project Common Areas, as applicable, for such Expense Year exceeds Tenant's Share of Direct Expenses applicable to the Base Year for the Building and the Project Common Areas, respectively, then Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, below, and as Additional Rent, an amount equal to the respective excess (each, an "EXCESS"); provided, however, Landlord hereby agrees that, for any Lease Year following the Base Year, the components of Operating Expenses that are within Landlord's reasonable control (i.e., all Operating Expenses other than those incurred with regard to insurance, Common Area utilities, and labor costs attributable to janitorial and/or security services) (the "CONTROLLABLE EXPENSES") shall never be increased to an amount in excess of the amount that such Controllable Expenses would currently be had they increased, from the initial amount for such Controllable Expenses set forth in the Base Year, at a cumulative rate of five percent (5%) per Expense Year.

4.4.1 STATEMENT OF ACTUAL BUILDING DIRECT EXPENSES AND PAYMENT BY TENANT. Landlord shall give to Tenant following the end of each Expense Year, a statement (the "STATEMENT") which shall state in general major categories the Direct Expenses incurred or accrued for such preceding Expense Year, and which shall indicate the amount of the Excess. Landlord shall use commercially reasonable efforts to deliver such Statement to Tenant on or before May 1 following the end of the Expense Year to which such Statement relates. Upon receipt of the Statement for each Expense Year commencing or ending during the Lease Term, if an Excess is present, Tenant shall pay, with its next monthly installment of Base Rent, the full amount of the Excess for such Expense Year, less the amounts, if any, paid during such Expense Year as "Estimated Excess," as that term is defined in Section 4.4.2, below, and if Tenant paid more as Estimated Excess than the actual Excess, Tenant shall receive a credit in the amount of Tenant's overpayment against Rent next due under this Lease. The failure of Landlord to timely furnish the Statement for any Expense Year shall not prejudice Landlord or Tenant from enforcing its rights under this Article 4 for a period of one (1) year after the expiration of the Expense Year for which the Statement applies, except where the failure to timely furnish the Statement as to any particular item includable in the Statement is beyond Landlord's reasonable control (e.g. tax assessments that are late in arriving from the assessor), in which case such one (1) year limit shall not be applicable. Notwithstanding anything contained in this Section 4.4.1, except for estimated payments by Tenant pursuant to Section 4.4.2 below, Tenant shall not be obligated to pay the Excess unless and until Tenant is furnished with the Statement. Even though the Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Direct Expenses for the Expense Year in which this Lease terminates, if an Excess is present, Tenant shall, within thirty (30) days after receipt of the Statement, pay to Landlord such amount, and if Tenant paid more as Estimated Excess than the actual Excess, Landlord shall, within thirty (30) days, deliver a check payable to Tenant in the amount of the overpayment. The provisions of this Section 4.4.1 shall survive the expiration or earlier termination of the Lease Term.

4.4.2 STATEMENT OF ESTIMATED BUILDING DIRECT EXPENSES. In addition, Landlord shall give Tenant a yearly expense estimate statement (the "ESTIMATE STATEMENT") which shall set forth in general major categories Landlord's reasonable estimate (the "ESTIMATE") of what the total amount of Direct Expenses for the then-current Expense Year shall be and the estimated Excess (the "ESTIMATED EXCESS") as calculated by comparing the Direct Expenses for such Expense Year, which shall be based upon the Estimate, to the amount of Direct Expenses for the Base Year. Landlord shall use commercially reasonable efforts to deliver such Estimate Statement to Tenant on or before January 31 following the end of the Expense Year to which such Estimate Statement relates. The failure of Landlord to timely furnish the Estimate Statement for any Expense Year shall not preclude Landlord from enforcing its rights to collect any Additional Rent under this Article 4, nor shall Landlord be prohibited from revising any Estimate Statement or Estimated Excess theretofore delivered to the extent necessary. Thereafter, Tenant shall pay, within thirty (30) days after receipt of the Estimate Statement, a fraction of the Estimated Excess for the then-current Expense Year (reduced by any amounts paid pursuant to the second to last sentence of this Section 4.4.2). Such fraction shall have as its numerator the number of months which have elapsed in such current Expense Year, including the month of such payment, and twelve (12) as its denominator. Until a new Estimate Statement is furnished (which Landlord shall have the right to deliver to Tenant at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Excess set forth in the previous Estimate Statement delivered by Landlord to Tenant. Throughout the Lease Term Landlord shall maintain books and records with respect to Direct Expenses in accordance with generally accepted real estate accounting and management practices, consistently applied.

4.5 TAXES AND OTHER CHARGES FOR WHICH TENANT IS DIRECTLY RESPONSIBLE.

4.5.1 Tenant shall be liable for and shall pay ten (10) days before delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

4.5.2 If the tenant improvements in the Premises, whether installed and/or paid for by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed for real property tax purposes at a valuation higher than the valuation at which tenant improvements conforming to Landlord's "building standard" in other space in the Building are assessed, then the Tax Expenses levied against Landlord or the property by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property of Tenant and shall be governed by the provisions of Section 4.5.1, above; provided, however, Landlord's "building standard" shall be reasonably established vis-a-vis the customary level of tenant improvements for Comparable Buildings in the Comparable Area.

4.5.3 Notwithstanding any contrary provision herein, Tenant shall pay prior to delinquency any (i) rent tax or sales tax, service tax, transfer tax or value added tax, or any other applicable tax on the rent or services herein or otherwise respecting this Lease, (ii) taxes assessed upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion of the Project, including the Project parking facility; or (iii) taxes assessed upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

4.6 TENANT'S PAYMENT OF CERTAIN TAX EXPENSES. Notwithstanding anything to the contrary contained in this Lease, in the event that, at any time during the initial Lease Term only (as opposed to any Option Term), any sale, refinancing, or change in ownership of the Building or Project is consummated (specifically excluding, however, a change in ownership to a lender resulting from a foreclosure or a deed-in-lieu of foreclosure), and as a result thereof, and to the extent that in connection therewith, the Building or Project is reassessed (the "REASSESSMENT") for real estate tax purposes by the appropriate governmental authority pursuant to the terms of Proposition 13, then the TCCs of this Section 4.6 shall apply to such Reassessment of the Building or Project.

4.6.1 THE TAX INCREASE. For purposes of this Article 4, the term "TAX INCREASE" shall mean that portion of the Tax Expenses, as calculated immediately following the Reassessment, which is attributable solely to the Reassessment. Accordingly, the term Tax Increase shall not include any portion of the Tax Expenses, as calculated immediately following the Reassessment, which (i) is attributable to the initial assessment of the value of the Project, the base, shell and core of the Building or the tenant improvements located in the Building; (ii) is attributable to assessments which were pending immediately prior to the Reassessment which assessments were conducted during, and included in, such Reassessment, or which assessments were otherwise rendered unnecessary following the Reassessment; or (iii) is attributable to the annual inflationary increase of real estate taxes, but not in excess of two percent (2.0%) per annum.

4.6.2 PROTECTION.

4.6.2.1 During the first two (2) years of the initial Lease Term, Tenant shall not be obligated to pay any portion of the Tax Increase relating to any Reassessment of the Building or Project.

4.6.2.2 During the third (3rd) and fourth (4th) years of the initial Lease Term, Tenant shall only be obligated to pay twenty percent (20%) of the Tax Increase relating to any Reassessment of the Building or Project.

4.6.2.3 During the fifth (5th) year of the initial Lease Term, Tenant shall only be obligated to pay forty percent (40%) of the Tax Increase relating to any Reassessment of the Building or Project.

4.6.2.4 During the sixth (6th) year of the initial Lease Term, Tenant shall only be obligated to pay sixty percent (60%) of the Tax Increase relating to any Reassessment of the Building or Project.

4.6.2.5 During the seventh (7th) year of the initial Lease Term, Tenant shall only be obligated to pay eighty percent (80%) of the Tax Increase relating to any Reassessment of the Building or Project.

4.6.3 LANDLORD'S RIGHT TO PURCHASE THE PROPOSITION 13 PROTECTION AMOUNT ATTRIBUTABLE TO A PARTICULAR REASSESSMENT. The amount of Tax Expenses which Tenant is not obligated to pay or will not be obligated to pay during the Lease Term in connection with a particular Reassessment pursuant to the TCCs of Section 4.6, shall be sometimes referred to hereafter as a "PROPOSITION 13 PROTECTION AMOUNT." If the occurrence of a Reassessment is reasonably foreseeable by Landlord and the Proposition 13 Protection Amount attributable to such Reassessment can be reasonably quantified or estimated for each Lease Year commencing with the Lease Year in which the Reassessment will occur, the TCCs of this Section 4.6.3 shall apply to each such Reassessment. Upon Notice to Tenant, Landlord shall have the right to purchase the Proposition 13 Protection Amount relating to the applicable Reassessment (the "APPLICABLE REASSESSMENT"), at any time during the Lease Term, by paying to Tenant an amount equal to the "Proposition 13 Purchase Price," as that term is defined in this Section 4.6.3. As used herein, "PROPOSITION 13 PURCHASE PRICE" shall mean the present value of the Proposition 13 Protection Amount remaining during the Lease Term, as of the date of payment of the Proposition 13 Purchase Price by Landlord. Such present value shall be calculated (i) by using the portion of the Proposition 13 Protection Amount attributable to each remaining Lease Year (as though the portion of such Proposition 13 Protection Amount benefited Tenant at the end of each Lease Year), as the amounts to be discounted, and (ii) by using discount rates for each amount to be discounted equal to (A) the average rates of yield for United States Treasury Obligations with maturity dates as close as reasonably possible to the end of each Lease Year during which the portions of the Proposition 13 Protection Amount would have benefited Tenant, which rates shall be those in effect as of Landlord's exercise of its right to purchase, as set forth in this Section 4.6.3, plus (B) two percent (2%) per annum. Upon such payment of the Proposition 13 Purchase Price, the provisions of Section 4.6.2 of this Lease shall not apply to any Tax Increase attributable to the Applicable Reassessment. Since Landlord is estimating the Proposition 13 Purchase Price because a Reassessment has not yet occurred, then when such Reassessment occurs, if Landlord has underestimated the Proposition 13 Purchase Price, then upon Notice by Landlord to Tenant, Landlord shall promptly pay to Tenant the amount of such underestimation, and if Landlord overestimates the Proposition 13 Purchase Price, then upon Notice by Landlord to Tenant, Tenant shall promptly refund to Landlord the amount of such overestimation within thirty (30) days of a statement therefore.

4.7 LANDLORD'S BOOKS AND RECORDS. Within ninety (90) days after receipt of a Statement by Tenant (the "REVIEW PERIOD"), if Tenant disputes the amount set forth in the Statement, Tenant's employees or an independent certified public accountant (which accountant is a member of a regionally recognized accounting firm), designated by Tenant, may, after reasonable notice to Landlord and at reasonable times, inspect Landlord's records at Landlord's offices, provided that Tenant is not then in default after expiration of all applicable cure periods of any obligation under this Lease (including, but not limited to, the payment of the amount in dispute) and provided further that Tenant and such accountant or representative shall, and each of them shall use their commercially reasonable efforts to cause their respective agents and employees to, maintain all information contained in Landlord's records in strict confidence. Notwithstanding the foregoing, Tenant shall only have the right to review Landlord's records

one (1) time during any twelve (12) month period. Tenant's failure to dispute the amounts set forth in any Statement within the Review Period shall be deemed to be Tenant's approval of such Statement and Tenant, thereafter, waives the right or ability to dispute the amounts set forth in such Statement. If after such inspection, but within thirty (30) days after the Review Period, Tenant notifies Landlord in writing that Tenant still disputes such amounts, a certification as to the proper amount shall be made, at Tenant's expense, by an independent certified public accountant selected by Landlord and who is a member of a nationally or regionally recognized accounting firm, which certification shall be binding upon Landlord and Tenant. Landlord shall cooperate in good faith with Tenant and the accountant to show Tenant and the accountant the information upon which the certification is to be based. However, if such certification by the accountant proves that the Direct Expenses set forth in the Statement were (i) overstated by more than five percent (5%), then the cost of the accountant and the cost of such certification shall be paid for by Landlord, or (ii) overstated by more than three percent (3%) but less than five percent (5%), then the cost of the accountant and the cost of such certification shall be shared equally (i.e., each party shall pay for one-half of such costs) by Landlord and Tenant. Promptly following the parties receipt of such certification, the parties shall make such appropriate payments or reimbursements, as the case may be, to each other, as are determined to be owing pursuant to such certification, together with interest at the Interest Rate (as defined in Article 25 below). Tenant agrees that this section shall be the sole method to be used by Tenant to dispute the amount of any Direct Expenses payable by Tenant pursuant to the terms of this Lease, and Tenant hereby waives any other rights at law or in equity relating thereto.

ARTICLE 5

USE OF PREMISES

5.1 PERMITTED USE. Tenant shall use the Premises solely for the Permitted Use set forth in Section 7 of the Summary and Tenant shall not use or permit the Premises or the Project to be used for any other purpose or purposes whatsoever without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion.

5.2 PROHIBITED USES. The uses prohibited under this Lease shall include, without limitation, use of the Premises or a portion thereof for (i) offices of any agency or bureau of the United States or any state or political subdivision thereof; (ii) offices or agencies of any foreign governmental or political subdivision thereof; (iii) offices of any health care professionals or service organization; (iv) schools or other training facilities which are not ancillary to corporate, executive or professional office use; (v) retail or restaurant uses; or (vi) communications firms such as radio and/or television stations. Tenant further covenants and agrees that Tenant shall not use, or suffer or permit any person or persons to use, the Premises or any part thereof for any use or purpose contrary to the provisions of the Rules and Regulations set forth in EXHIBIT E, attached hereto, or in violation of the laws of the United States of America, the State of California, or the ordinances, regulations or requirements of the local municipal or county governing body or other lawful authorities having jurisdiction over the Project) including, without limitation, any such laws, ordinances, regulations or requirements relating to hazardous materials or substances, as those terms are defined by applicable laws now or hereafter in effect; provided, however, Landlord shall not enforce, change or modify the Rules and Regulations in a discriminatory manner and Landlord agrees that the Rules and Regulations shall not be

unreasonably modified or enforced in a manner which will unreasonably interfere with the normal and customary conduct of Tenant's business. Tenant shall not do or permit anything to be done in or about the Premises which will in any way damage the reputation of the Project or obstruct or interfere with the rights of other tenants or occupants of the Building, or injure or unreasonably annoy them or use or allow the Premises to be used for any unlawful or reasonably objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises.

5.3 CC&Rs. Tenant shall comply with all recorded covenants, conditions, and restrictions currently affecting the Project. Additionally, Tenant acknowledges that the Project may be subject to any future covenants, conditions, and restrictions (the "CC&Rs") which Landlord, in Landlord's discretion, deems reasonably necessary or desirable, and Tenant agrees that this Lease shall be subject and subordinate to such CC&Rs; provided, however, such future CC&R's shall not materially adversely affect Tenant's use or occupancy of the Premises nor any of its rights hereunder. Landlord shall have the right to require Tenant to execute and acknowledge, within fifteen (15) business days of a request by Landlord, a "Recognition of Covenants, Conditions, and Restriction," in a form substantially similar to that attached hereto as EXHIBIT H, agreeing to and acknowledging the CC&Rs. Landlord represents and warrants that use of the Premises for general office use conforms with currently recorded CC&R's.

ARTICLE 6

SERVICES AND UTILITIES

6.1 STANDARD TENANT SERVICES. Landlord shall provide the following services on all days (unless otherwise stated below) during the Lease Term.

6.1.1 Subject to limitations imposed by all governmental rules, regulations and guidelines applicable thereto, Landlord shall provide heating and air conditioning ("HVAC") when necessary for normal comfort for normal office use in the Premises from 7:00 A.M. to 6:00 P.M. Monday through Friday, and on Saturdays from 9:00 A.M. to 1:00 P.M. (collectively, the "BUILDING HOURS"), except for the date of observation of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day and, at Landlord's discretion, other locally or nationally recognized holidays (collectively, the "HOLIDAYS"); provided, however, in no event shall Martin Luther King Day, Columbus Day, or Veterans Day be included as Holidays.

6.1.2 Landlord shall provide adequate electrical wiring and facilities for connection to Tenant's lighting fixtures and incidental use equipment, provided that (i) the connected electrical load of the incidental use equipment does not exceed an average of five (5) watts per usable square foot of the Premises during each of the Building Hours on a monthly basis (i.e., the total number of watts per usable square foot allocable to such incidental use equipment during a given month divided by the number of Building Hours that occur during such given month shall not exceed five (5) watts per usable square foot), and the electricity so furnished for incidental use equipment will be at a nominal one hundred twenty (120) volts and no electrical circuit for the supply of such incidental use equipment will require a current capacity exceeding twenty (20) amperes, and (ii) the connected electrical load of Tenant's

lighting fixtures does not exceed an average of one and one-half (1 1/2) watts per usable square foot of the Premises during the Building Hours on a monthly basis, and the electricity so furnished for Tenant's lighting will be at a nominal two hundred seventy-seven (277) volts, which electrical usage shall be subject to applicable laws and regulations, including Title 24. Tenant will design Tenant's electrical system serving any equipment producing nonlinear electrical loads to accommodate such nonlinear electrical loads, including, but not limited to, oversizing neutral conductors, derating transformers and/or providing power-line filters. Engineering plans shall include a calculation of Tenant's fully connected electrical design load with and without demand factors and shall indicate the number of watts of unmetered and submetered loads. Tenant shall bear the cost of replacement of lamps, starters and ballasts for lighting fixtures within the Premises to the extent such lighting fixtures constitute "Above Standard Tenant Improvements," as that term is defined in Section 2.5 of the Tenant Work Letter.

6.1.3 Landlord shall provide city water for the fire/sprinkler system, and from the regular Building outlets for drinking, lavatory and toilet purposes in the Building Common Areas.

6.1.4 Landlord shall provide janitorial services to the Premises five days per week (Monday through Friday), except the date of observation of the Holidays, in and about the Premises and window washing services in a manner consistent with the Comparable Buildings.

6.1.5 Landlord shall provide twenty-four (24) hour per day, nonexclusive, non-attended, automatic passenger elevator service.

6.1.6 Landlord shall provide on-site and/or remote monitoring of the Project Common Areas; provided, however, Tenant hereby acknowledges and agrees that neither Landlord nor the "Landlord Parties," as that term is defined in Section 10.1 of this Lease, shall be liable for, and Landlord and the Landlord Parties are hereby released from any responsibility for, any damage either to persons or property sustained by Tenant incurred in connection with or arising from any acts or omissions of such monitoring of the Project Common Areas.

Tenant shall cooperate fully with Landlord at all times and abide by all regulations and requirements that Landlord may reasonably prescribe for the proper functioning and protection of the HVAC, electrical, mechanical and plumbing systems.

6.2 ABOVE STANDARD TENANT SERVICES. Notwithstanding anything to the contrary set forth in Section 4.2.4 or this Article 6, Tenant shall directly pay to Landlord one hundred percent (100%) of the cost of all services required by Tenant to be provided by Landlord which are in excess of the services set forth in Section 6.1, above, including, but not limited to, (i) twenty-four (24) hour security services, to the extent provided separately and exclusively to Tenant , and (ii) twenty-four (24) hour porter service, to the extent provided separately and exclusively to Tenant.

6.3 DIRECT PAYMENT OF PREMISES ELECTRICITY COSTS. Notwithstanding anything to the contrary set forth in Section 4.2.4 or this Article 6, Tenant shall pay one hundred percent (100%) of the cost of all electricity attributable to its use of the entire Premises. All such electrical

payments shall be excluded from Operating Expenses and shall be paid directly by Tenant prior to the date on which the same are due to the applicable utility provider. Landlord and Tenant hereby acknowledge and agree that the Premises has been separately metered.

6.4 OVERSTANDARD TENANT USE.

6.4.1 GENERALLY. Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, or equipment or lighting other than Building standard lights in the Premises, which may materially affect the temperature otherwise maintained by the air conditioning system furnished for the Premises by Landlord pursuant to the terms of Section 6.1 of this Lease; provided, however, Landlord shall not withhold its consent to the extent Tenant installs (either as part of the "Tenant Improvements," as that term is set forth in Section 2.1 of the Tenant Work Letter, or as an "Alteration," as that term is set forth in Section 8.1, below) adequate supplementary air conditioning units to support such additional heat load. If such consent is given, despite Tenant not itself installing adequate supplementary air conditioning units to support such additional heat load, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including supplementary or additional metering devices, and the cost thereof, including the cost of installation, operation and maintenance, increased wear and tear on existing equipment and other similar charges, shall be paid by Tenant to Landlord upon billing by Landlord. If Tenant uses water, electricity, heat or air conditioning in excess of that supplied by Landlord pursuant to Section 6.1 of this Lease, Tenant shall pay to Landlord, upon billing, the cost of the installation, operation, and maintenance of equipment which is installed in order to supply such excess consumption. Tenant's use of electricity shall never exceed the capacity of the feeders to the Project or the risers or wiring installation, as the same may be upgraded from time-to-time in accordance with the TCCs of Article 8, below.

6.4.2 HVAC. Tenant shall be provided access to the HVAC controls for each floor of the Building within the Premises. If Tenant uses HVAC in excess or two hundred fifty-five (255) cumulative hours (per floor of the Building) during any calendar month of the Lease Term, such excess-hours of HVAC shall be provided to Tenant subject to Tenant's payment to Landlord of an amount reasonably determined by Landlord to be directly attributable to increased wear and tear on existing Building Systems caused by such excess use; provided, however, promptly following Tenant's request therefore, Landlord shall provide reasonable backup documentation in support of Landlord's determination of such excess-hours charge; provided further, however, Tenant's use of HVAC on any floor of the Building (for hours other than the normal and customary business hours maintained by Tenant) shall be for a minimum of two (2) consecutive hours per such use. As of the execution of this Lease, the excess-hours charge is anticipated to total approximately $7.35 per floor per hour. Amounts payable by Tenant to Landlord for such excess-hours use shall be deemed Additional Rent and shall be paid within thirty (30) days after Tenant's receipt of an invoice therefor.

6.5 INTERRUPTION OF USE. Except as otherwise provided in Section 3.2 of this Lease, above, Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service (including telephone and telecommunication services), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs,

replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Building or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or other parties, or by any other cause beyond Landlord's reasonable control; and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease, except as otherwise provided in this Lease. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this Article 6.

ARTICLE 7

REPAIRS

Landlord shall maintain in first-class condition and operating order and keep in good repair and condition the structural portions of the Building, including the foundation, floor/ceiling slabs, roof structure (as opposed to roof membrane), curtain walls, exterior glass and mullions, columns, beams, shafts (including elevator shafts), fire stairs, parking areas, landscaping, exterior Project signage, stairwells, elevator cab, men's and women's washrooms, Building mechanical, electrical and telephone closets, and all common and public areas (collectively, "BUILDING STRUCTURE") and the Base Building mechanical, electrical, life safety, plumbing, sprinkler systems and HVAC systems which were not constructed by Tenant Parties (collectively, the "BUILDING SYSTEMS") and the Project Common Areas. Notwithstanding anything in this Lease to the contrary, Tenant shall be required to repair the Building Structure and/or the Building Systems to the extent caused due to Tenant's use of the Premises for other than normal and customary business office operations, unless and to the extent such damage is covered by insurance carries or required to be carried by Landlord pursuant to Article 10 and to which the waiver of subrogation is applicable (such obligation to the extent applicable to Tenant as qualified and conditioned will hereinafter be defined as the "BS/BS EXCEPTION"). Tenant shall, at Tenant's own expense, keep the Premises, including all improvements, fixtures and furnishings therein, and the floor or floors of the Building on which the Premises are located, in good order, repair and condition at all times during the Lease Term, but such obligation shall not extend to the Building Structure and the Building Systems except pursuant to the BS/BS Exception. In addition, Tenant shall, at Tenant's own expense, but under the supervision and subject to the prior approval of Landlord, and within any reasonable period of time specified by Landlord, promptly and adequately repair all damage to the Premises and replace or repair all damaged, broken, or worn fixtures and appurtenances, but such obligation shall not extend to the Building Structure and the Building Systems except pursuant to the BS/BS Exception, except for damage caused by ordinary wear and tear or beyond the reasonable control of Tenant; provided however, that, at Landlord's option, or if Tenant fails to make such repairs, Landlord may, after written notice to Tenant and Tenant's failure to repair within five (5) days thereafter, but need not, make such repairs and replacements, and Tenant shall pay Landlord the cost thereof, including a percentage of the cost thereof (to be uniformly established for the Building and/or the Project and which shall be consistent with the percentages paid for such services in Comparable Buildings) sufficient to reimburse Landlord (without profit) for all overhead, general conditions,

fees and other costs or expenses paid to third-parties arising from Landlord's involvement with such repairs and replacements forthwith upon being billed for same. Notwithstanding the foregoing, Landlord shall be responsible for repairs to the exterior walls, foundation and roof of the Building, the structural portions of the floors of the Building, and the systems and equipment of the Building, except to the extent that such repairs are required due to the negligence or willful misconduct of Tenant; provided, however, that if such repairs are due to the negligence or willful misconduct of Tenant, Landlord shall nevertheless make such repairs at Tenant's expense, or, if covered by Landlord's insurance, Tenant shall only be obligated to pay any deductible in connection therewith. Landlord may, but shall not be required to, enter the Premises at all reasonable times to make such repairs, alterations, improvements or additions to the Premises or to the Project or to any equipment located in the Project as Landlord shall desire or deem necessary or as Landlord may be required to do by governmental or quasi-governmental authority or court order or decree; provided, however, except for (i) emergencies, (ii) repairs, alterations, improvements or additions required by governmental or quasi-governmental authorities or court order or decree, or (iii) repairs which are the obligation of Tenant hereunder, any such entry into the Premises by Landlord shall be performed in a manner so as not to materially interfere with Tenant's use of, or access to, the Premises; provided that, with respect to items (ii) and (iii) above, Landlord shall use commercially reasonable efforts to not materially interfere with Tenant's use of, or access to, the Premises. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect.

ARTICLE 8

ADDITIONS AND ALTERATIONS

8.1 LANDLORD'S CONSENT TO ALTERATIONS. Tenant may not make any improvements, alterations, additions or changes to the Premises or any mechanical, plumbing or HVAC facilities or systems pertaining to the Premises (collectively, the "ALTERATIONS") without first procuring the prior written consent of Landlord to such Alterations, which consent shall be requested by Tenant not less than ten (10) business days prior to the commencement thereof, and which consent shall not be unreasonably withheld by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which adversely affects the structural portions or the systems or equipment of the Building or is visible from the exterior of the Building. Notwithstanding the foregoing, Tenant shall be permitted to make Alterations following ten (10) business days notice to Landlord, but without Landlord's prior consent, to the extent that such Alterations (i) do not, in the aggregate, exceed a cost of $50,000.00 per Alteration, and (ii) do not adversely affect the Building systems, Building Structure or the exterior appearance of the Building (the "COSMETIC ALTERATIONS"). For purposes of determining the cost of an Alteration, work done in phases or stages shall be considered part of the same Alteration, and any Alteration shall be deemed to include all trades and materials involved in accomplishing a particular result. The construction of the initial improvements to the Premises shall be governed by the terms of the Tenant Work Letter and not the terms of this Article 8. Notwithstanding anything to the contrary in this Article 8, Landlord's consent shall not be required (but Tenant shall provide Landlord with at least ten (10) days prior notice for any such installation costing, in the aggregate, more than $25,000.00) for the installation or modification of trade fixtures, furniture and trade equipment which (A) do not require a permit, and (B) may

be removed from the Premises without injury thereto (including, without limitation, demountable partitions, refrigerators and other kitchen appliances, computer racking and similar demountable fixtures) (collectively, "TRADE FIXTURES").

8.2 MANNER OF CONSTRUCTION. Landlord may impose, as a condition of its consent to any and all Alterations or repairs of the Premises or about the Premises, such requirements as Landlord in its reasonable discretion may deem desirable, including, but not limited to, the requirement that Tenant utilize for such purposes only contractors reasonably approved by Landlord, and the requirement that upon Landlord's timely request (which request must be made, if at all, at the time of Landlord's consent to such Alteration), Tenant shall, at Tenant's expense, remove such Alterations upon the expiration or any early termination of the Lease Term and return the affected portion of the Premises to a building standard tenant improved condition as determined by Landlord. Tenant shall construct such Alterations and perform such repairs in a good and workmanlike manner, in conformance with any and all applicable federal, state, county or municipal laws, rules and regulations and pursuant to a valid building permit, issued by the City of San Diego, California, all in conformance with Landlord's construction rules and regulations; provided, however, that prior to commencing to construct any Alteration (except with regard to Cosmetic Alterations), Tenant shall meet with Landlord to discuss Landlord's design parameters and code compliance issues. In the event Tenant performs any Alterations in the Premises which require or give rise to governmentally required changes to the "Base Building," as that term is defined below, then Landlord shall, at Tenant's expense, make such changes to the Base Building. The "BASE BUILDING" shall include the Building Structure, and the public restrooms, elevators, fire stairwells and the systems and equipment (including the electrical, life safety, plumbing, sprinkler systems and HVAC systems) located in the internal core of the Building on the floor or floors on which the Premises are located. In performing the work of any such Alterations, Tenant shall have the work performed in such manner so as not to obstruct access to the Project or any portion thereof, by any other tenant of the Project, and so as not to obstruct the business of Landlord or other tenants in the Project. Tenant shall not use (and upon notice from Landlord shall cease using) contractors, services, workmen, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with the workforce or trades engaged in performing other work, labor or services in or about the Building or the Common Areas. In addition to Tenant's obligations under Article 9 of this Lease, upon completion of any Alterations, Tenant agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the County of San Diego, California, in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and Tenant shall deliver to the Project construction manager a reproducible copy of the "as built" drawings of the Alterations as well as all permits, approvals and other documents issued by any governmental agency in connection with the Alterations, if such Alterations are of a type for which as-built plans are reasonably available.

8.3 PAYMENT FOR IMPROVEMENTS. If payment is made directly to contractors, Tenant shall (i) comply with Landlord's requirements for final lien releases and waivers in connection with Tenant's payment for work to contractors, and (ii) sign Landlord's standard contractor's rules and regulations. If Tenant orders any work directly from Landlord, Tenant shall pay to Landlord an amount equal to three percent (3%) of the cost of such work to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's involvement with such work. If Tenant does not order any work directly from

Landlord, Tenant shall reimburse Landlord for Landlord's reasonable, actual, out-of-pocket costs and expenses actually incurred in connection with Landlord's review of such work.

8.4 CONSTRUCTION INSURANCE. In addition to the requirements of Article 10 of this Lease, in the event that Tenant makes any Alterations, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant or Tenant's contractor carries "Builder's All Risk" insurance in an amount reasonably approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may reasonably require, it being understood and agreed that all of such Alterations shall be insured by Tenant pursuant to Article 10 of this Lease immediately upon completion thereof; provided, however, to the extent such insurance is not available on a commercially reasonable basis, then Tenant shall not be required to carry such insurance. In addition, if the cost of any Alteration exceeds One Hundred Thousand Dollars ($100,000.00), Landlord may, in its reasonable discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of such Alterations and naming Landlord as a co-obligee.

8.5 LANDLORD'S PROPERTY. All Alterations, improvements, fixtures, equipment and/or appurtenances which may be installed or placed in or about the Premises, from time to time, shall be at the sole cost of Tenant and shall be and become the property of Landlord, except that Tenant may remove any Alterations, improvements, fixtures and/or equipment which Tenant can substantiate to Landlord have not been paid for with any Tenant improvement allowance funds provided to Tenant by Landlord, provided Tenant repairs any damage to the Premises and Building caused by such removal and returns the affected portion of the Premises to a building standard tenant improved condition as determined by Landlord. Furthermore, Landlord may, by written notice to Tenant (x) given pursuant to the terms of Section 8.2, above, or (y) in the case of Cosmetic Alterations and Trade Fixtures, given at least sixty (60) days prior to the end of the Lease Term (or given promptly following any earlier termination of this Lease), or, (z) in the case of an Above Standard Tenant Improvements, given pursuant to the terms of Section 2.5 of the Tenant Work Letter, require Tenant, at Tenant's expense, to (i) remove any Alterations or improvements in the Premises, and/or (ii) remove any Above Building Standard Tenant Improvements, located within the Premises and replace the same with then existing "Building Standard Tenant Improvements," as that term is defined in Section 2.4 of the Tenant Work Letter, and to repair any damage to the Premises and Building caused by such removal and return the affected portion of the Premises to a building standard tenant improved condition as reasonably determined by Landlord; provided, however, if, in connection with its notice to Landlord with respect to Cosmetic Alterations or Trade Fixtures, (1) Tenant requests Landlord's decision with regard to the removal of such Cosmetic Alterations and/or Trade Fixtures, and (2) Landlord thereafter agrees in writing to waive the removal requirement with regard to such Cosmetic Alterations and/or Trade Fixtures, then Tenant shall not be required to so remove such Cosmetic Alterations or Trade Fixtures; provided further, however, that if Tenant requests such a determination from Landlord and Landlord, within 5 business days following Landlord's receipt of such request from Tenant with respect to Cosmetic Alterations and/or Trade Fixtures, fails to address the removal requirement with regard to such Cosmetic Alterations and/or Trade Fixtures, Landlord shall be deemed to have agreed to waive the removal requirement with regard to such Cosmetic Alterations and/or Trade Fixtures. If Tenant fails to complete any required removal and/or to repair any damage caused by the required removal of any Alterations or improvements

in the Premises, and returns the affected portion of the Premises to a building standard tenant improved condition as reasonably determined by Landlord, then at Landlord's option, either (A) Tenant shall be deemed to be holding over in the Premises and Rent shall continue to accrue in accordance with the terms of Article 16, below, until such work shall be completed, or (B) Landlord may do so and may charge the cost thereof to Tenant. Tenant hereby protects, defends, indemnifies and holds Landlord harmless from any liability, cost, obligation, expense or claim of lien in any manner relating to the installation, placement, removal or financing of any such Alterations, improvements, fixtures and/or equipment in, on or about the Premises, which obligations of Tenant shall survive the expiration or earlier termination of this Lease; provided, however, if (aa) Landlord requires the surrender of any such Alterations or Above Standard Tenant Improvements in accordance with the TCCs of this Lease, and (bb) Tenant maintained such Alterations or Above Standard Tenant Improvements throughout the Lease Term in accordance with the TCCs of this Lease and applicable manufacturers' maintenance specifications, then Landlord agrees to accept such Alterations or Above Standard Tenant Improvements in their then existing "as is" condition, with all flaws, and Tenant shall be released from all liability therefor effective as of the date of such surrender.

ARTICLE 9

COVENANT AGAINST LIENS

Tenant shall keep the Project and Premises free from any liens or encumbrances arising out of the work performed, materials furnished or obligations incurred by or on behalf of Tenant, and shall protect, defend, indemnify and hold Landlord harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of same or in connection therewith. Tenant shall give Landlord notice at least twenty (20) days prior to the commencement of any such work on the Premises (or such additional time as may be necessary under applicable laws) to afford Landlord the opportunity of posting and recording appropriate notices of non-responsibility. Tenant shall remove any such lien or encumbrance by bond or otherwise within ten (10) business days after notice by Landlord, and if Tenant shall fail to do so, Landlord may pay the amount necessary to remove such lien or encumbrance, without being responsible for investigating the validity thereof. The amount so paid shall be deemed Additional Rent under this Lease payable upon demand, without limitation as to other remedies available to Landlord under this Lease. Nothing contained in this Lease shall authorize Tenant to do any act which shall subject Landlord's title to the Building or Premises to any liens or encumbrances whether claimed by operation of law or express or implied contract. Any claim to a lien or encumbrance upon the Building or Premises arising in connection with any such work or respecting the Premises not performed by or at the request of Landlord shall be null and void, or at Landlord's option shall attach only against Tenant's interest in the Premises and shall in all respects be subordinate to Landlord's title to the Project, Building and Premises. Landlord hereby acknowledges and agrees that any and all of Tenant's movable furniture, furnishings, trade fixtures and equipment at the Premises ("TENANT'S PROPERTY") may be financed by a third-party lender or lessor (an "EQUIPMENT LIENOR"), and to the extent so financed Landlord hereby (a) agrees to waive any rights to Tenant's Property, and (b) agrees to recognize the rights of any such Equipment Lienor, subject to and in accordance with a commercially reasonable waiver agreement to be entered into by and between Landlord and the Equipment Lienor following request by Tenant.

ARTICLE 10

INSURANCE

10.1 INDEMNIFICATION AND WAIVER. To the extent not prohibited by law and except as otherwise expressly provided herein, Tenant hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises from any cause whatsoever and agrees that Landlord, its partners, subpartners and their respective officers, agents, servants, employees, and independent contractors (collectively, "LANDLORD PARTIES") shall not be liable for, and are hereby released from any responsibility for, any damage either to person or property or resulting from the loss of use thereof, which damage is sustained by Tenant or by other persons claiming through Tenant. Tenant shall indemnify, defend, protect, and hold harmless the Landlord Parties from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred in connection with or arising from any cause in, on or about the Premises, any acts, omissions or negligence of Tenant or of any person claiming by, through or under Tenant, or of the contractors, agents, servants, employees, invitees, guests or licensees of Tenant or any such person, in, on or about the Project or any breach of the TCCs of this Lease, either prior to, during, or after the expiration of the Lease Term. However, notwithstanding the foregoing, Tenant shall not be required to indemnify and/or hold Landlord harmless from any loss, cost, liability, damage or expense, including, but not limited to, penalties, fines, attorneys' fees or costs (collectively, "CLAIMS"), to any person, property or entity to the extent resulting from the negligence or willful misconduct of Landlord or its agents, contractors, or employees (except for damage to the Tenant Improvements and Tenant's personal property, fixtures, furniture and equipment in the Premises in which case Tenant shall be responsible to the extent Tenant is required to obtain the requisite insurance coverage pursuant to this Lease); provided, however, Tenant hereby indemnifies and holds Landlord harmless from any Claims to the extent such Claim is covered by Tenant's insurance, even if such Claim is resulting from the negligent acts, omissions, or willful misconduct of Landlord or those of its agents, contractors, or employees. Subject to Section 10.5 below, Landlord hereby indemnifies Tenant and holds Tenant harmless from any Claims to the extent resulting from the negligence or willful misconduct of Landlord or its agents, contractors or employees and not covered by insurance required to be carried under this Lease by Tenant or actually carried by Tenant; provided, however, that (i) Landlord hereby indemnifies and holds Tenant harmless from any Claims to any property outside of the Premises to the extent such Claim is covered by such insurance, even if resulting from the negligent acts, omissions, or willful misconduct of Tenant or those of its agents, contractors, or employees, and (ii) because Tenant must carry insurance pursuant to Section 10.3.2 to cover its personal property within the Premises and the Improvements, Tenant hereby indemnifies and holds Landlord harmless from any Claim to any property within the Premises, to the extent such Claim is covered by such insurance, even if resulting from the negligent acts, omissions or willful misconduct of Landlord or those of its agents, contractors, or employees. The provisions of this Section 10.1 shall survive the expiration or sooner termination of this Lease with respect to any claims or liability arising in connection with any event occurring prior to such expiration or termination. Notwithstanding anything to the contrary contained in this Lease, nothing in this Lease shall impose any obligations on Tenant or Landlord to be responsible or liable for, and each hereby releases the other from all liability for, consequential damages other than those consequential damages incurred by Landlord in connection with a holdover of the Premises by Tenant after the

expiration or earlier termination of this Lease or incurred by Landlord in connection with any repair, physical construction or improvement work performed by or on behalf of Tenant in the Project, but Tenant shall not be responsible for any direct or consequential damages resulting from Landlord's or contractor's acts in connection with the completion by Landlord of the tenant improvements in the Premises pursuant to the Tenant Work Letter, or Landlord's ownership or removal of any Alterations that are not required to be removed by Tenant pursuant to the TCCs of Article 8, above.

10.2 LANDLORD'S FIRE, CASUALTY AND LIABILITY INSURANCE. Landlord shall carry Commercial General Liability Insurance with respect to the Building during the Lease Term covering claims for bodily injury, personal injury and property damage in the Project Common Areas, and with respect to Landlord's activities in the Premises, and shall further insure the Building during the Lease Term with a policy of Physical Damage Insurance including building ordinance coverage, written on a standard Causes of Loss--Special Form basis against loss or damage due to fire and other casualties covered within the classification of fire and extended coverage, vandalism coverage and malicious mischief, sprinkler leakage, water damage and special extended coverage, covering the full replacement cost of the Premises, without deduction for depreciation. Such coverage shall contain commercially - reasonable deductible amounts, from such companies, and on such other terms and conditions, as Landlord may from time to time reasonably determine. Additionally, at the option of Landlord, such insurance coverage may include the risks of earthquakes and/or flood damage and additional hazards, a rental loss endorsement and one or more loss payee endorsements in favor of the holders of any mortgages or deeds of trust encumbering the interest of Landlord in the Building or the ground or underlying lessors of the Building, or any portion thereof. Notwithstanding the foregoing provisions of this Section 10.2, the coverage and amounts of insurance carried by Landlord in connection with the Building shall, at a minimum, be comparable to the coverage and amounts of insurance which are carried by reasonably prudent landlords of Comparable Buildings, and Worker's Compensation and Employer's Liability coverage as required by applicable law. Tenant shall, at Tenant's expense, comply with all insurance company requirements pertaining to the use of the Premises. If Tenant's conduct or use of the Premises causes any increase in the premium for such insurance policies then Tenant shall reimburse Landlord for any such increase. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body.

10.3 TENANT'S INSURANCE. Tenant shall maintain the following coverages in the following amounts.

10.3.1 Commercial General Liability Insurance covering the insured against claims of bodily injury, personal injury and property damage (including loss of use thereof) arising out of Tenant's operations, and contractual liabilities (covering the performance by Tenant of its indemnity agreements) including a Broad Form endorsement covering the insuring provisions of this Lease and the performance by Tenant of the indemnity agreements set forth in Section 10.1 of this Lease, for limits of liability not less than:

Bodily Injury and	$5,000,000 each occurrence
Property Damage Liability	$5,000,000 annual aggregate

Personal Injury Liability	$5,000,000 each occurrence $5,000,000 annual aggregate 0% Insured's participation

These limits may be satisfied by a general liability and an umbrella policy so long as all other requirements under this Section 10.3 are met. Notwithstanding the insurance provisions of this Lease to the contrary, Original Tenant and its Permitted Transferee (and not any other assignee, sublessee, or other transferee of Original Tenant's interest in this Lease) shall have the right to self-insure with respect to any of the insurance required to be carried by Tenant under this Section 10.3.1, provided that (i) Original Tenant or Permitted Transferee maintains a minimum net worth of at least One Hundred Fifty Million Dollars ($150,000,000.00) according to its most recent audited financial statements; (ii) Original Tenant or Permitted Transferee governs and manages (either internally or through a third-party administrator) its self-insurance program, and maintains sufficient reserves on its balance sheet committed to its self-insurance program liabilities, in a manner consistent with comparable programs managed by prudent businesses whose stock is publicly traded on nationally recognized exchanges; and (iii) applicable law(s) do not prohibit or render unenforceable Tenant's indemnification obligations under this Lease. Upon request, Tenant shall supply to Landlord from time to time with evidence reasonably satisfactory to Landlord of Tenant's net worth and the satisfaction of the conditions set forth above. If Original Tenant or Permitted Transferee elects to self-insure (and without limiting Tenant's responsibility or liability), Tenant shall itself be responsible for losses or liabilities which would have been assumed by insurance companies which would have issued the insurance required by Tenant under this Lease in conformance with Landlord's insurance requirements set forth in this Section 10.3.1 and Tenant shall accept Landlord's tender of defense for any claims within the scope of Tenant's indemnity obligations as if Landlord, Landlord's lender and any other party reasonably identified by Landlord (to the extent such third party has a vested economic interest in the Project), if any, were named as additional insureds on any liability policy maintained by Tenant meeting such requirements. Original Tenant or Permitted Transferee will notify Landlord in advance of any period for which Tenant intends to self-insure and shall provide Landlord with satisfactory evidence that it complies with the requirements set forth herein in order to give Landlord an opportunity to confirm the satisfaction of the conditions set forth herein. For so long as Original Tenant or Permitted Transferee self-insures, Tenant, for applicable periods, shall indemnify, defend and hold harmless Landlord, its partners, agents, employees and representatives from and against all costs, damages, or expenses (including reasonable attorneys' fees) incurred or paid by Landlord as a result of any claim which would have been covered by the insurance which would otherwise be required to be carried by Tenant pursuant to this Section 10.3.1 above. Notwithstanding the foregoing, if any of Landlord's lenders objects to Original Tenant's or Permitted Transferee's self-insurance rights under this Section 10.3.1, then during such portion of the Lease Term that such lender's loan is secured by the Premises and Tenant meets all of the conditions for maintaining a program of self-insurance provided above, then in lieu of the policy of Commercial General Liability Insurance required to be maintained by Tenant under this Section 10.3.1, Tenant shall be required to obtain and maintain a policy of Premises Liability Insurance with similar limits for the Building (excluding Products-Completed Operations Coverage), and any liabilities which are not covered by such insurance, and which would otherwise be covered by the Commercial General Liability Insurance required to be maintained by Tenant under Section 10.3.1 of this Lease shall be

considered to be self-insured by Tenant in accordance with this Section 10.3.1. Furthermore, throughout the period that Original Tenant or Permitted Transferee self-insures any of the insurance required to be carried by Tenant under this Section 10.3.1, Landlord shall have the right, at Landlord's sole cost and expense, to obtain forced-place insurance of all or any portion of such coverage and Tenant agrees to cooperate with Landlord's efforts to obtain any such coverage, at Landlord's sole cost and expense.

10.3.2 Physical Damage Insurance covering (i) all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Premises installed by, for, or at the expense of Tenant, (ii) the "Tenant Improvements," as that term is defined in Section 2.1 of the Tenant Work Letter, and any other improvements which exist in the Premises as of the Lease Commencement Date (excluding the Base Building) (collectively, the "ORIGINAL IMPROVEMENTS"), and (iii) all other improvements, alterations and additions to the Premises, including, without limitation, the FF&E. Such insurance shall be written on an "all risks" of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year. Notwithstanding anything to the contrary contained herein, the Original Tenant (and not any Permitted Transferee, assignee, subtenant or other transferee) may, subject to the provisions of this Section 10.3.2, fulfill its insurance obligations under Section 10.3.2(i) above by self-insurance. Any self-insurance so maintained by Original Tenant shall be deemed to contain all of the terms and conditions applicable to such insurance as required in this Article 10, including, without limitation, a deemed waiver of subrogation; consequently, Landlord shall be treated, for all purposes, as if Tenant had actually purchased such insurance from a third party. If Original Tenant elects to so self-insure, then with respect to any claims which may result from incidents occurring during the Lease Term, such self-insurance obligation shall survive the expiration or earlier termination of this Lease to the same extent as the insurance required hereunder would survive.

10.3.3 Worker's Compensation or other similar insurance pursuant to all applicable state and local statutes and regulations, and Employer's Liability or other similar insurance pursuant to all applicable state and local statutes and regulations, with limits not less than One Millions and No/100 Dollars ($1,000,000.00).

10.3.4 Comprehensive Automobile Liability Insurance covering all owned, hired, or non-owned vehicles with the following limits of liability: One Million Dollars ($1,000,000.00) combined single limit for bodily injury and property damage.

10.4 FORM OF POLICIES. The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. Such insurance shall (i) name Landlord, Landlord's lender and any other party reasonably identified by Landlord (to the extent such third party has a vested economic interest in the Project), as an additional insured; (ii) specifically cover the liability assumed by Tenant under this Lease,

including, but not limited to, Tenant's obligations under Section 10.1 of this Lease; (iii) be issued by an insurance company having a rating of not less than A-X in Best's Insurance Guide or which is otherwise acceptable to Landlord and licensed to do business in the State of California; (iv) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and is non-contributing with any insurance requirement of Tenant; (v) be in form and content reasonably acceptable to Landlord; and (vi) provide that said insurance shall not be canceled or coverage changed unless thirty (30) days' prior written notice shall have been given to Landlord and any mortgagee of Landlord, the identity of whom has been provided to Tenant in writing. Tenant shall deliver said policy or policies or certificates thereof to Landlord on or before the Lease Commencement Date and at least thirty (30) days before the expiration dates thereof. In the event Tenant shall fail to procure such insurance, or to deliver such policies or certificate, Landlord may, at its option, after written notice to Tenant and Tenant's failure to obtain such insurance within fifteen (15) days thereafter, procure such policies for the account of Tenant, and the cost thereof shall be paid to Landlord within thirty (30) days after delivery to Tenant of bills therefor.

10.5 SUBROGATION. Landlord and Tenant intend that their respective property loss risks shall be borne by reasonable insurance carriers to the extent above provided, and Landlord and Tenant hereby agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a property loss to the extent that such coverage is agreed to be provided hereunder. The parties each hereby waive all rights and claims against each other for such losses, and waive all rights of subrogation of their respective insurers, provided such waiver of subrogation shall not affect the right to the insured to recover thereunder. The parties agree that their respective insurance policies are now, or shall be, endorsed such that the waiver of subrogation shall not affect the right of the insured to recover thereunder, so long as no material additional premium is charged therefor.

10.6 ADDITIONAL INSURANCE OBLIGATIONS. Tenant shall carry and maintain during the entire Lease Term, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 10 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord, but in no event in excess of the amounts and types of insurance then being required by landlords of other Comparable Buildings.

ARTICLE 11

DAMAGE AND DESTRUCTION

11.1 REPAIR OF DAMAGE TO PREMISES BY LANDLORD. Tenant shall promptly notify Landlord of any damage to the Premises resulting from fire or any other casualty. If the Premises or any Common Areas serving or providing access to the Premises shall be damaged by fire or other casualty, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this Article 11, restore the Base Building and such Common Areas. Such restoration shall be to substantially the same condition of the Base Building and the Common Areas prior to the casualty, except for modifications required by zoning and building codes and other laws or by the holder of a mortgage on the Building or Project or any other modifications

to the Common Areas deemed desirable by Landlord, which are consistent with the character of the Project, provided that access to the Premises and any common restrooms serving the Premises shall not be materially impaired. Upon the occurrence of any damage to the Premises, upon notice (the "LANDLORD REPAIR NOTICE") to Tenant from Landlord, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.3.2(ii) and (iii) of this Lease, and Landlord shall repair any injury or damage to the Original Improvements installed in the Premises and shall return such Original Improvements to their original condition; provided that if the cost of such repair by Landlord exceeds the amount of insurance proceeds received by Landlord from Tenant's insurance carrier, as assigned by Tenant, the cost of such repairs shall be paid by Tenant to Landlord prior to Landlord's commencement of repair of the damage. In the event that Landlord does not deliver the Landlord Repair Notice within sixty (60) days following the date the casualty becomes known to Landlord, Tenant shall, at its sole cost and expense, repair any injury or damage to the Original Improvements installed in the Premises and shall return such Original Improvements to their original condition. Whether or not Landlord delivers a Landlord Repair Notice, prior to the commencement of construction, Tenant shall submit to Landlord, for Landlord's review and approval, all plans, specifications and working drawings relating thereto, and Landlord shall select the contractors to perform such improvement work. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof; provided however, that Landlord shall use commercially reasonable effort to minimize any such inconvenience or annoyance; provided further, however, that if such fire or other casualty shall have damaged the Premises or Common Areas necessary to Tenant's occupancy, and the Premises are not occupied by Tenant as a result thereof, then during the time and to the extent the Premises are unfit for occupancy, the Rent shall be abated in proportion to the ratio that the amount of rentable square feet of the Premises which is unfit for occupancy for the purposes permitted under this Lease bears to the total rentable square feet of the Premises. In the event that Landlord shall not deliver the Landlord Repair Notice, Tenant's right to rent abatement pursuant to the preceding sentence shall terminate as of the date which is reasonably determined by Landlord to be the date Tenant should have completed repairs to the Premises assuming Tenant used reasonable due diligence in connection therewith.

11.2 LANDLORD'S OPTION TO REPAIR. Notwithstanding the terms of Section 11.1 of this Lease, Landlord may elect not to rebuild and/or restore the Premises, Building and/or Project, and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after the date of discovery of the damage, such notice to include a termination date giving Tenant ninety (90) days to vacate the Premises, but Landlord may so elect only if the Building or Project shall be damaged by fire or other casualty or cause, whether or not the Premises are affected, and one or more of the following conditions is present: (i) in Landlord's reasonable judgment, repairs cannot reasonably be completed within two hundred seventy (270) days after the date of discovery of the damage (when such repairs are made without the payment of overtime or other premiums); (ii) the holder of any mortgage on the Building or Project or ground lessor with respect to the Building or Project shall require that the insurance proceeds or any portion thereof be used to retire the mortgage debt, or shall terminate the ground lease, as the case may be; (iii) the damage is not fully covered by Landlord's insurance policies (unless Tenant agrees to itself pay such excess repair cost (i.e., the portion of such repair costs that exceeds the amount covered by Landlord's insurance policies) in which event such excess repair

costs shall be amortized over the then-remaining Lease Term (following the completion of such repairs) using an amortization rate equal to the Interest Rate, and the Base Rent payable by Tenant throughout the remaining Lease Term shall be increased accordingly); (iv) Landlord decides to rebuild the Building or Common Areas so that they will be substantially different structurally or architecturally; or (v) the damage occurs during the last twelve (12) months of the Lease Term. Notwithstanding the foregoing, Tenant may negate Landlord's termination right (elected vis-a-vis condition (i) above) by paying any overtime costs or other premiums required in order to cause the repairs to be completed within the two hundred seventy (270) day period set forth above. If Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above, and (1) the required repairs cannot, in the reasonable opinion of Landlord, be completed within two hundred seventy (270) days after being commenced, or (2) the damage occurs during the last twelve (12) months of the Lease Term and the required repairs cannot, in the reasonable opinion of Landlord, be completed within sixty (60) days after being commenced, then Tenant may elect, not later than thirty (30) days after Tenant's receipt of Landlord's reasonable estimate, in writing, of the time required to effectuate such repairs, to terminate this Lease by written notice to Landlord effective as of the date specified in the notice, which date shall not be less than thirty (30) days nor more than sixty (60) days after the date such notice is given by Tenant. Furthermore, if neither Landlord nor Tenant has terminated this Lease, and the repairs are not actually completed within such 270-day period (or, if applicable, such 60-day period), then Tenant shall have the right to terminate this Lease during the first five (5) business days of each calendar month following the end of such period until such time as the repairs are complete, by notice to Landlord (the "DAMAGE TERMINATION NOTICE"), effective as of a date set forth in the Damage Termination Notice (the "DAMAGE TERMINATION DATE"), which Damage Termination Date shall not be less than ten (10) business days following the end of each such month. Notwithstanding the foregoing, if Tenant delivers a Damage Termination Notice to Landlord, then Landlord shall have the right to suspend the occurrence of the Damage Termination Date for a period ending thirty (30) days after the Damage Termination Date set forth in the Damage Termination Notice by delivering to Tenant, within five (5) business days of Landlord's receipt of the Damage Termination Notice, a certificate of Landlord's contractor responsible for the repair of the damage certifying that it is such contractor's good faith judgment that the repairs shall be substantially completed within thirty (30) days after the Damage Termination Date. If repairs shall be substantially completed prior to the expiration of such thirty-day period, then the Damage Termination Notice shall be of no force or effect, but if the repairs shall not be substantially completed within such thirty-day period, then this Lease shall terminate upon the expiration of such thirty-day period. At any time, from time to time, after the date occurring sixty (60) days after the date of the damage, Tenant may request that Landlord inform Tenant of Landlord's reasonable opinion of the date of completion of the repairs and Landlord shall respond to such request within five (5) business days. Notwithstanding the provisions of this Section 11.2, Tenant shall have the right to terminate this Lease under this Section 11.2 only if each of the following conditions is satisfied: (a) the damage to the Project by fire or other casualty was not caused by the gross negligence or intentional act of Tenant or its partners or subpartners and their respective officers, agents, servants, employees, and independent contractors; (b) Tenant is not then in default under this Lease; (c) as a result of the damage, Tenant cannot reasonably conduct business from the Premises; and, (d) as a result of the damage to the Project, Tenant does not occupy or use the Premises at all. In the event this Lease is terminated in accordance with the terms of this

Section 11.2, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.3.2 of this Lease; provided, however, Tenant shall be entitled to retain all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.3.2 of this Lease that are in excess of the then-current unamortized (with such amortization based on interest at the Interest Rate over the initial Lease Term) amount of the "Tenant Improvement Allowance," as that term is set forth in Section 2.1 of the Tenant Work Letter (including, if applicable, the amount of any "TIA Increase").

11.3 WAIVER OF STATUTORY PROVISIONS. The provisions of this Lease, including this Article 11, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, the Building or the Project, and any statute or regulation of the State of California, including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Building or the Project.

ARTICLE 12

NONWAIVER

No provision of this Lease shall be deemed waived by either party hereto unless expressly waived in a writing signed thereby. The waiver by either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance of a lesser amount than the Rent herein stipulated shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. No receipt of monies by Landlord from Tenant after the termination of this Lease shall in any way alter the length of the Lease Term or of Tenant's right of possession hereunder, or after the giving of any notice shall reinstate, continue or extend the Lease Term or affect any notice given Tenant prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit, or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of said Rent shall not waive or affect said notice, suit or judgment.

ARTICLE 13

CONDEMNATION

If the whole or any part of the Premises, Building or Project shall be taken by power of eminent domain or condemned by any competent authority for any public or quasi-public use or purpose, or if any adjacent property or street shall be so taken or condemned, or reconfigured or vacated by such authority in such manner as to require the use, reconstruction or remodeling of any part of the Premises, Building or Project, or if Landlord shall grant a deed or other instrument in lieu of such taking by eminent domain or condemnation, Landlord shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. If more than twenty percent (20%) of the rentable square feet of the Premises is taken or more than twenty percent (20%) of Tenant's parking spaces are taken (and Landlord does not provide Tenant with substitute parking spaces within thirty (30) days after such taking sufficient to cause the total number of parking spaces available to Tenant to be at least eighty percent (80%) of Tenant's total allocated parking spaces), or if access to the Premises is substantially impaired, in each case for a period in excess of one hundred eighty (180) days, Tenant shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. Tenant shall not because of such taking assert any claim against Landlord or the authority for any compensation because of such taking and Landlord shall be entitled to the entire award or payment in connection therewith, except that Tenant shall have the right to file any separate claim available to Tenant for any taking of Tenant's personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the Lease Term pursuant to the terms of this Lease, and for moving expenses, so long as such claims do not diminish the award available to Landlord, its ground lessor with respect to the Building or Project or its mortgagee, and such claim is payable separately to Tenant. All Rent shall be apportioned as of the date of such termination. If any part of the Premises shall be taken, and this Lease shall not be so terminated, the Rent shall be proportionately abated. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure. Notwithstanding anything to the contrary contained in this Article 13, in the event of a temporary taking of all or any portion of the Premises for a period of one hundred and eighty (180) days or less, then this Lease shall not terminate but the Base Rent and the Additional Rent shall be abated for the period of such taking in proportion to the ratio that the amount of rentable square feet of the Premises taken bears to the total rentable square feet of the Premises. Landlord shall be entitled to receive the entire award made in connection with any such temporary taking.

ARTICLE 14

ASSIGNMENT AND SUBLETTING

14.1 TRANSFERS. Tenant shall not, without the prior written consent of Landlord, assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, permit any assignment, or other transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or enter into any license or concession agreements or otherwise permit the occupancy or use of the Premises or any part thereof by any persons other than Tenant and its employees and contractors

(all of the foregoing are hereinafter sometimes referred to collectively as "TRANSFERS" and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a "TRANSFEREE"). If Tenant desires Landlord's consent to any Transfer, Tenant shall notify Landlord in writing, which notice (the "TRANSFER NOTICE") shall include (i) the proposed effective date of the Transfer, which shall not be less than fifteen (15) days nor more than one hundred eighty (180) days after the date of delivery of the Transfer Notice, (ii) a description of the portion of the Premises to be transferred (the "SUBJECT SPACE"), (iii) all of the terms of the proposed Transfer and the consideration therefor, including calculation of the "TRANSFER PREMIUM", as that term is defined in Section 14.3 below, in connection with such Transfer, the name and address of the proposed Transferee, and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, including all existing operative documents to be executed to evidence such Transfer or the agreements incidental or related to such Transfer, provided that Landlord shall have the right to require Tenant to utilize Landlord's standard Transfer documents in connection with the documentation of such Transfer, (iv) current financial statements of the proposed Transferee certified by an officer, partner or owner thereof, business credit and personal references and history of the proposed Transferee and any other information reasonably required by Landlord which will enable Landlord to determine the financial responsibility, character, and reputation of the proposed Transferee, nature of such Transferee's business and proposed use of the Subject Space and (v) an executed estoppel certificate from Tenant in the form attached hereto as EXHIBIT F. Any Transfer made without Landlord's prior written consent shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a default by Tenant under this Lease. Whether or not Landlord consents to any proposed Transfer, Tenant shall pay Landlord's reasonable review and processing fees, as well as any reasonable professional fees (including, without limitation, attorneys', accountants', architects', engineers' and consultants' fees) incurred by Landlord, not to exceed One Thousand Dollars ($1,000.00) per proposed Transfer, within thirty (30) days after written request by Landlord.

14.2 LANDLORD'S CONSENT. Landlord shall not unreasonably withhold its consent to any proposed Transfer of the Subject Space to the Transferee on the terms specified in the Transfer Notice. Without limitation as to other reasonable grounds for withholding consent, the parties hereby agree that it shall be reasonable under this Lease and under any applicable law for Landlord to withhold consent to any proposed Transfer where one or more of the following apply:

14.2.1 The Transferee is of a character or reputation or engaged in a business which is not consistent with the quality of the Building or the Project, or would be a significantly less prestigious occupant of the Building than Tenant;

14.2.2 The Transferee intends to use the Subject Space for purposes which are not permitted under this Lease;

14.2.3 The Transferee is either a governmental agency or instrumentality thereof which is inconsistent with the character of the Project as a first-class office project;

14.2.4 The proposed Transfer is for more than 12,000 rentable square feet and the Transferee is not a party of reasonable financial worth and/or financial stability in light of the responsibilities to be undertaken in connection with the Transfer on the date consent is requested;

14.2.5 The proposed Transfer would cause a violation of another lease for space in the Project, or would give an occupant of the Project a right to cancel its lease;

14.2.6 The terms of the proposed Transfer will allow the Transferee to exercise a right of renewal, right of expansion, right of first offer, or other similar right held by Tenant (or will allow the Transferee to occupy space leased by Tenant pursuant to any such right); or

14.2.7 Either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee, (i) occupies space in the Project at the time of the request for consent, or (ii) is negotiating with Landlord to lease space in the Project at such time, or (iii) has negotiated with Landlord during the six (6)-month period immediately preceding the Transfer Notice, but with regard to each of conditions (i), (ii) and (iii) above, only to the extent Landlord has comparable space in the Project for such proposed Transferee; provided, however, if Landlord withholds its consent to a transfer pursuant to this Section 14.2.7, then Landlord shall be required to recapture the Subject Space pursuant to the terms and conditions of Section 14.4, below, or

14.2.8 The Transferee does not intend to occupy at least sixty percent (60%) of the usable Subject Space and conduct its business therefrom for a substantial portion of the term of the Transfer.

If Landlord consents to any Transfer pursuant to the terms of this Section 14.2 (and does not exercise any recapture rights Landlord may have under Section 14.4 of this Lease), Tenant may within six (6) months after Landlord's consent, but not later than the expiration of said six-month period, enter into such Transfer of the Premises or portion thereof, upon substantially the same terms and conditions as are set forth in the Transfer Notice furnished by Tenant to Landlord pursuant to Section 14.1 of this Lease, provided that if there are any changes in the terms and conditions from those specified in the Transfer Notice (i) such that Landlord would initially have been entitled to refuse its consent to such Transfer under this Section 14.2, or (ii) which would cause the proposed Transfer to be more favorable to the Transferee than the terms set forth in Tenant's original Transfer Notice, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article 14 (including Landlord's right of recapture, if any, under Section 14.4 of this Lease). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under Section 14.2 or otherwise has breached or acted unreasonably under this Article 14, their sole remedies shall be a suit for contract damages (other than damages for injury to, or interference with, Tenant's business including, without limitation, loss of profits, however occurring) or a declaratory judgment and an injunction for the relief sought, and Tenant hereby waives the provisions of Section 1995.310 of the California Civil Code, or any successor statute, and all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee. Tenant shall indemnify, defend and hold harmless Landlord from any and all liability, losses, claims, damages, costs, expenses, causes of action and proceedings involving

any third party or parties (including without limitation Tenant's proposed subtenant or assignee) who claim they were damaged by Landlord's wrongful withholding or conditioning of Landlord's consent.

14.3 TRANSFER PREMIUM. If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any "Transfer Premium," as that term is defined in this Section 14.3, received by Tenant from such Transferee. "TRANSFER PREMIUM" shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred, after first deducting the reasonable expenses incurred by Tenant for (i) any changes, alterations and improvements to the Premises in connection with the Transfer, (ii) any free base rent and other economic concessions reasonably provided to the Transferee, and (iii) any brokerage commissions and reasonable legal fees and costs in connection with the Transfer (collectively, the "TRANSFER CONCESSIONS"). "Transfer Premium" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with such Transfer. In the calculations of the rent (as it relates to the Transfer Premium calculated under this Section 14.3), the rent paid during each annual period for the Subject Space shall be computed after adjusting such rent to the net effective rent to be paid, after first deducting any and all Transfer Concessions. For purposes of calculating any such effective rent all such concessions shall be amortized on a straight-line basis over the relevant term.

14.4 LANDLORD'S OPTION AS TO SUBJECT SPACE. In the event that a proposed Transfer, if consented to, would cause sixty percent (60%) or more of the Premises to be subleased or licensed to a party (or parties) other than Original Tenant and/or its Permitted Transferee, then notwithstanding anything to the contrary contained in this Article 14, Landlord shall have the option, by giving written notice to Tenant (the "RECAPTURE NOTICE") within ten (10) business days after receipt of any Transfer Notice, to recapture the Subject Space. Such Recapture Notice shall cancel and terminate this Lease with respect to the Subject Space as of the date stated in the Transfer Notice as the effective date of the proposed Transfer until the last day of the term of the Transfer as set forth in the Transfer Notice (or at Landlord's option, shall cause the Transfer to be made to Landlord or its agent, in which case the parties shall execute the Transfer documentation promptly thereafter). However, if Landlord delivers a Recapture Notice to Tenant, Tenant may, within ten (10) days after Tenant's receipt of the Recapture Notice, deliver written notice to Landlord indicating that Tenant is rescinding its request for consent to the proposed Transfer, in which case such Transfer shall not be consummated and this Lease shall remain in full force and effect as to the portion of the Premises that was the subject of the Transfer. Tenant's failure to so notify Landlord in writing within said ten (10) day period shall be deemed to constitute Tenant's election to allow the Recapture Notice to be effective. In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Rent reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of the same. If Landlord declines, or fails to elect

within ten (10) business days to recapture the Subject Space under this Section 14.4, then, provided Landlord has consented to the proposed Transfer, Tenant shall be entitled to proceed to transfer the Subject Space to the proposed Transferee, subject to provisions of this Article 14.

14.5 EFFECT OF TRANSFER. If Landlord consents to a Transfer, (i) the TCCs of this Lease shall in no way be deemed to have been waived or modified, (ii) such consent shall not be deemed consent to any further Transfer by either Tenant or a Transferee, (iii) Tenant shall deliver to Landlord, promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, (iv) Tenant shall furnish upon Landlord's request a complete statement, certified by an independent certified public accountant, or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer, and (v) no Transfer relating to this Lease or agreement entered into with respect thereto, whether with or without Landlord's consent, shall relieve Tenant or any guarantor of the Lease from any liability under this Lease, including, without limitation, in connection with the Subject Space. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated, Tenant shall, within thirty (30) days after demand, pay the deficiency, and if understated by more than five percent (5%), Tenant shall pay Landlord's costs of such audit.

14.6 ADDITIONAL TRANSFERS. For purposes of this Lease, the term "TRANSFER" shall also include (i) if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, or transfer of fifty percent (50%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof, and (ii) if Tenant is a closely held corporation (i.e., whose stock is not publicly held and not traded through an exchange or over the counter), (A) the dissolution, merger, consolidation or other reorganization of Tenant or (B) the sale or other transfer of an aggregate of fifty percent (50%) or more of the voting shares of Tenant (other than to immediate family members by reason of gift or death), within a twelve (12)-month period, or (C) the sale, mortgage, hypothecation or pledge of an aggregate of fifty percent (50%) or more of the value of the unencumbered assets of Tenant within a twelve (12)-month period.

14.7 OCCURRENCE OF DEFAULT. Any Transfer hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any Transfer, Landlord shall have the right to: (i) treat such Transfer as canceled and repossess the Subject Space by any lawful means, or (ii) require that such Transferee attorn to and recognize Landlord as its landlord under any such Transfer. If Tenant shall be in default under this Lease, Landlord is hereby irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord (which Landlord shall apply towards Tenant's obligations under this Lease) until such default is cured. Such Transferee shall rely on any representation by Landlord that Tenant is in default hereunder, without any need for confirmation thereof by Tenant. Upon any assignment, the assignee shall assume in writing all obligations and covenants of Tenant thereafter to be performed or observed under this Lease. No collection or acceptance of rent by Landlord from any Transferee shall be deemed a waiver of any provision of this Article 14 or the approval of

any Transferee or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing. In no event shall Landlord's enforcement of any provision of this Lease against any Transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person. If Tenant's obligations hereunder have been guaranteed, Landlord's consent to any Transfer shall not be effective unless the guarantor also consents to such Transfer.

14.8 NON-TRANSFERS. Notwithstanding anything to the contrary contained in this Article 14, (i) an assignment or subletting of all or a portion of the Premises to an affiliate of Tenant (an entity which is controlled by, controls, or is under common control with, Tenant), (ii) an assignment of the Premises to an entity which acquires all or substantially all of the assets or interests (partnership, stock or other) of Tenant, or (iii) an assignment of the Premises to an entity which is the surviving/resulting entity of a merger or consolidation of Tenant, shall not be deemed a Transfer under this Article 14, provided that (A) Tenant notifies Landlord of any such assignment or sublease and promptly supplies Landlord with any documents or information requested by Landlord regarding such assignment or sublease or such affiliate, (B) such transferee has, in Landlord's reasonable determination, financial strength equal to or greater than Original Tenant, and (c) such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease. The transferee under a transfer specified in items (i), (ii) or (iii) above shall be referred to in this Lease as a "PERMITTED TRANSFEREE." "CONTROL," as used in this Section 14.8, shall mean the ownership, directly or indirectly, of more than fifty percent (50%) of the voting securities of, or the power to direct or cause the direction of its affairs, whether through ownership or voting securities, or by contract or otherwise, any person or entity.

14.9 ADDITIONAL OCCUPANTS. Notwithstanding any contrary provision of this Lease, Tenant may, upon written notice to Landlord, permit (a) the space located within the Building designed as the cafeteria, and (b) up to a total of twenty percent (20%) of the remaining Premises, to be occupied by (i) licensees and vendors providing "out-sourced" services to Tenant's business operation in the Premises, and (ii) persons performing services pursuant to a joint venture or other business alliance with Tenant (each, a "PERMITTED OCCUPANT" and collectively, the "PERMITTED OCCUPANTS"); provided, however, (A) such Permitted Occupant shall not occupy a separately demised portion of the Premises; (B) all Permitted Occupants shall be of a character and reputation consistent with the first-class quality of the Building and the Project; and (C) such occupancy shall not be a subterfuge by Tenant to avoid its obligations under this Lease, or the restrictions on Transfers pursuant to Article 14 of this Lease. Tenant shall promptly supply Landlord with any documents or information reasonably requested by Landlord regarding any such Permitted Occupant. Any Permitted Occupant permitted under this Section 14 shall not be deemed a Transfer under Article 14 of this Lease. Notwithstanding the foregoing, no such occupancy by a Permitted Occupant shall relieve Tenant from any liability under this Lease, and Tenant hereby agrees to indemnify, defend, protect and hold harmless the Landlord Parties from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred in connection with any Permitted Occupant.

14.10 CO-LOCATION OF EQUIPMENT. To the extent that such installation (i) constitutes a Trade Fixture and/or a Cosmetic Alteration pursuant to the terms of Section 8.1, above, (ii) relates to Tenant's business operations in the Premises, and (iii) is not a subterfuge by Tenant

to avoid its obligations under this Lease (or the restrictions on Transfers pursuant to the terms of Article 14 of this Lease), then Tenant shall not be required to obtain Landlord's consent (but Tenant shall provide Landlord with ten (10) days prior written notice thereof) for the installation of equipment (the "CO-LOCATION EQUIPMENT") in the Premises by any of Tenant's customers pursuant to a written co-location agreement between Tenant and such customer; provided, however, the installation and operation of any such Co-Location Equipment shall be subject to the terms and conditions of Section 6.1 of this Lease, above; provided further, however, the removal of such Co-Location Equipment shall be subject to the TCCs of Section 8.5 and Articles 15 and 16. Notwithstanding anything to the contrary in this Lease, and subject to Landlord's reasonable release and indemnity requirements relating to such entry, for a period of fifteen (15) days following any early termination of the Lease (i.e., a termination which occurs prior to the Lease Expiration Date), Landlord shall provide the representative of any applicable customer of Tenant the ability to enter upon the Premises during normal business hours and to remove from the Premises that equipment which is clearly marked as the property of such customer. Tenant hereby agrees to indemnify, defend, protect and hold harmless the Landlord Parties from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred by Landlord in connection with, or arising from, any Co-Location Equipment.

ARTICLE 15

SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES

15.1 SURRENDER OF PREMISES. No act or thing done by Landlord or any agent or employee of Landlord during the Lease Term shall be deemed to constitute an acceptance by Landlord of a surrender of the Premises unless such intent is specifically acknowledged in writing by Landlord. The delivery of keys to the Premises to Landlord or any agent or employee of Landlord shall not constitute a surrender of the Premises or effect a termination of this Lease, whether or not the keys are thereafter retained by Landlord, and notwithstanding such delivery Tenant shall be entitled to the return of such keys at any reasonable time upon request until this Lease shall have been properly terminated. The voluntary or other surrender of this Lease by Tenant, whether accepted by Landlord or not, or a mutual termination hereof, shall not work a merger, and at the option of Landlord shall operate as an assignment to Landlord of all subleases or subtenancies affecting the Premises or terminate any or all such sublessees or subtenancies.

15.2 REMOVAL OF TENANT PROPERTY BY TENANT. Upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, subject to the provisions of this Article 15, quit and surrender possession of the Premises to Landlord in as good order and condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, reasonable wear and tear and repairs which are specifically made the responsibility of Landlord hereunder excepted. Upon such expiration or termination, Tenant shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, and such items of furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitions and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and such similar articles of any other persons claiming

under Tenant, as Landlord may, in its sole discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises and Building resulting from such removal.

ARTICLE 16

HOLDING OVER

If Tenant holds over after the expiration of the Lease Term or earlier termination thereof, with or without the express or implied consent of Landlord, such tenancy shall be from month-to-month only, and shall not constitute a renewal hereof or an extension for any further term, and in such case Base Rent shall be payable at a monthly rate (the "HOLD OVER BASE RENT") equal to one hundred fifty percent (150%) of the Base Rent applicable during the last rental period of the Lease Term under this Lease; provided, however, for the first thirty (30) days only following the expiration or earlier termination of the Lease Term, Tenant shall not be required to pay Hold Over Base Rent applicable to any full floor of the Building completely vacated and surrendered to Landlord pursuant to the terms and conditions of Article 15, above; provided, further, however, following the expiration of such 30-day period, if Tenant continues its hold over in any portion of the Premises, then Tenant shall be required to pay Hold Over Base Rent applicable to the entire Premises. Such month-to-month tenancy shall be subject to every other applicable term, covenant and agreement contained herein. Notwithstanding the foregoing, Original Tenant and any Permitted Transferee (but only to the extent such Permitted Transferee has, in Landlord's reasonable determination, financial strength equal to or greater than Original Tenant) shall have the one-time right, upon notice (the "HOLDOVER NOTICE") to Landlord not less than twelve (12) months prior to the expiration of the then Lease Term, to extend the Lease Term for a period of up to six (6) months (the "PERMITTED HOLDOVER TERM"), in which case the Rent payable by Tenant during such Permitted Holdover Term shall equal the product of (A) the Rent applicable during the last monthly rental period of the Lease Term under this Lease, and (B) a percentage equal to one hundred percent (100%) during the first three (3) months immediately following the expiration or earlier termination of the Lease Term, and one hundred fifty percent (150%) thereafter. The right of Tenant to extend the Lease Term as provided in this Article 16 may not be exercised if, as of the date Tenant delivers the Holdover Notice to Landlord, or as of the commencement of such Permitted Holdover Term, Tenant is in material or economic default under this Lease (beyond any applicable notice and cure periods) or if Tenant has previously been in material or economic default under this Lease (beyond any applicable notice and cure periods) more than twice during the previous twelve (12) month period. Except with respect to the Permitted Holdover Term, nothing contained in this Article 16 shall be construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. The provisions of this Article 16 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. Except as otherwise specifically provided for in this Article 16 with regard to a Permitted Holdover Term, if Tenant fails to surrender the Premises upon the termination or expiration of this Lease (or upon the expiration of the Permitted Holdover Term, if any), in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the

foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Landlord resulting therefrom.

ARTICLE 17

ESTOPPEL CERTIFICATES

Within ten (10) business days following a request in writing by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an estoppel certificate, which, as submitted by Landlord, shall be substantially in the form of EXHIBIT F, attached hereto (or such other form as may be required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time, and shall also contain any other factual information reasonably requested by Landlord or Landlord's mortgagee or prospective mortgagee. Any such certificate may be relied upon by any prospective mortgagee or purchaser of all or any portion of the Project. At any time during the Lease Term, Landlord may require Tenant to provide Landlord with a current financial statement and financial statements of the two (2) years prior to the current financial statement year. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. Failure of Tenant to timely execute, acknowledge and deliver such estoppel certificate or other instruments shall constitute an acceptance of the Premises and an acknowledgment by Tenant that statements included in the estoppel certificate are true and correct, without exception.

ARTICLE 18

SUBORDINATION

This Lease shall be subject and subordinate to all present and future ground or underlying leases of the Building or Project and to the lien of any mortgage, trust deed or other encumbrances now or hereafter in force against the Building or Project or any part thereof, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds, unless the holders of such mortgages, trust deeds or other encumbrances, or the lessors under such ground lease or underlying leases, require in writing that this Lease be superior thereto. Landlord's delivery to Tenant of commercially reasonable non-disturbance agreement(s) (the "NONDISTURBANCE AGREEMENT") in favor of Tenant from any ground lessor, mortgage holders or lien holders of Landlord who later come into existence at any time prior to the expiration of the Lease Term shall be in consideration of, and a condition precedent to, Tenant's agreement to be bound by the TCCs of this Article 18. Subject to Tenant's receipt of such a Nondisturbance Agreement, Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage or deed in lieu thereof (or if any ground lease is terminated), to attorn, without any deductions or set-offs whatsoever, to the lienholder or purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof (or to the ground lessor), if so requested to do so by such purchaser or lienholder or ground lessor, and to recognize such purchaser or lienholder or ground lessor as the lessor under this Lease, provided such lienholder or purchaser or ground lessor shall agree to accept this Lease and not disturb

Tenant's occupancy, so long as Tenant timely pays the rent and observes and performs the TCCs of this Lease to be observed and performed by Tenant. Landlord's interest herein may be assigned as security at any time to any lienholder. Tenant shall, within five (5) business days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary (consistent with customary requirements of commercial lenders in California) to evidence or confirm the subordination or superiority of this Lease to any such mortgages, trust deeds, ground leases or underlying leases. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale.

ARTICLE 19

DEFAULTS; REMEDIES

19.1 EVENTS OF DEFAULT. The occurrence of any of the following shall constitute a default of this Lease by Tenant:

19.1.1 Any failure by Tenant to pay any Rent or any other charge required to be paid under this Lease, or any part thereof, when due unless such failure is cured within five (5) business days after notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's performance in this Lease, in which event the failure to perform by Tenant within such time period shall be a default by Tenant under this Section 19.1.2, any failure by Tenant to observe or perform any other provision, covenant or condition of this Lease to be observed or performed by Tenant where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant; provided that if the nature of such default is such that the same cannot reasonably be cured within a thirty (30) day period, Tenant shall not be deemed to be in default if it diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure such default, but in no event exceeding a period of time in excess of ninety (90) days after written notice thereof from Landlord to Tenant; or

19.1.3 To the extent permitted by law, a general assignment by Tenant or any guarantor of this Lease for the benefit of creditors, or the taking of any corporate action in furtherance of bankruptcy or dissolution whether or not there exists any proceeding under an insolvency or bankruptcy law, or the filing by or against Tenant or any guarantor of any proceeding under an insolvency or bankruptcy law, unless in the case of a proceeding filed against Tenant or any guarantor the same is dismissed within sixty (60) days, or the appointment of a trustee or receiver to take possession of all or substantially all of the assets of Tenant or any guarantor, unless possession is restored to Tenant or such guarantor within thirty (30) days, or any execution or other judicially authorized seizure of all or substantially all of Tenant's assets located upon the Premises or of Tenant's interest in this Lease, unless such seizure is discharged within thirty (30) days; or

19.1.4 The failure by Tenant to observe or perform according to the provisions of Articles 5, 14, 17 or 18 of this Lease where such failure continues for more than five (5) business days after notice from Landlord; or

19.1.5 Any economic default by Tenant (beyond any applicable notice and cure period set forth therein) under the Fair Isaac Building 2 Lease, if any.

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by law.

19.2 REMEDIES UPON DEFAULT. Upon the occurrence of any event of default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all of which remedies shall be distinct, separate and cumulative), the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

19.2.1 Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(a) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and

(e) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "RENT" as used in this Section 19.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 19.2.1(a) and (b), above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in Article 25 of this Lease, but

in no case greater than the maximum amount of such interest permitted by law. As used in Section 19.2.1(c), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

19.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, above, or any law or other provision of this Lease), without prior demand or notice except as required by applicable law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 SUBLEASES OF TENANT. Whether or not Landlord elects to terminate this Lease on account of any default by Tenant, as set forth in this Article 19, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

19.4 FORM OF PAYMENT AFTER DEFAULT. Following the occurrence of three (3) monetary defaults by Tenant within any eighteen (18) consecutive month time period, Landlord shall have the right to require that any or all subsequent amounts paid by Tenant to Landlord hereunder, whether to cure the default in question or otherwise, be paid in the form of cash, money order, cashier's or certified check drawn on an institution acceptable to Landlord, or by other means approved by Landlord, notwithstanding any prior practice of accepting payments in any different form.

19.5 EFFORTS TO RELET. No re-entry or repossession, repairs, maintenance, changes, alterations and additions, reletting, appointment of a receiver to protect Landlord's interests hereunder, or any other action or omission by Landlord shall be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, nor shall same operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, unless express written notice of such intention is sent by Landlord to Tenant. Tenant hereby irrevocably waives any right otherwise available under any law to redeem or reinstate this Lease.

19.6 LANDLORD DEFAULT. Notwithstanding anything to the contrary set forth in this Lease, Landlord shall be in default in the performance of any obligation required to be performed by Landlord pursuant to this Lease if Landlord fails to perform such obligation within thirty (30) days after the receipt of notice from Tenant specifying in detail Landlord's failure to perform; provided, however, if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be in default under this Lease if it shall commence such performance within such thirty (30) day period and thereafter diligently pursues the same to completion. Upon any such default by Landlord under this Lease, Tenant may, except as otherwise specifically provided in this Lease to the contrary, exercise any of its rights provided at law or in equity. Any award from a court or arbitrator in favor of Tenant requiring payment by Landlord which is not paid by Landlord within the time period directed by such award, may be offset by Tenant from Rent next due and payable under this Lease; provided, however, Tenant may not deduct the amount of the award against more than fifty percent (50%) of Base Rent next due and owing (until such time as the entire amount of such judgment is deducted) to the extent following a foreclosure or a deed-in-lieu of foreclosure; provided further, however, any amount which cannot be fully deducted by Tenant from Base Rent in the initial one (1)-month period following such award shall bear interest at the Interest Rate.

ARTICLE 20

COVENANT OF QUIET ENJOYMENT

Landlord covenants that Tenant, so long as Tenant is not in default of this Lease (beyond any applicable notice and cure period), shall, during the Lease Term, peaceably and quietly have, hold and enjoy the Premises subject to the TCCs, provisions and agreements hereof without interference by any persons lawfully claiming by or through Landlord. The foregoing covenant is in lieu of any other covenant express or implied.

ARTICLE 21

SECURITY DEPOSIT

Concurrent with Tenant's execution of this Lease, Tenant shall deposit with Landlord a security deposit (the "SECURITY DEPOSIT") in the amount set forth in Section 8 of the Summary, as security for the faithful performance by Tenant of all of its obligations under this Lease; provided, however, Tenant shall not be required to deliver such Security Deposit so long as Tenant is not in default (beyond any applicable notice and cure period) of any of Tenant's financial covenants under Tenant's then-current master credit facility, if any, to the extent the same has a term of at least twenty-four (24) months, is for an amount of at least Seventy-Five Million Dollars ($75,000,000.00), and as the same may be amended or replaced by a materially equivalent credit facility (the "MASTER CREDIT FACILITY"); provided further, however, in the event the issuer/grantor of such Master Credit Facility waives any such financial covenant, then such financial covenant shall be deemed waived for purposes of this Article 21. To the extent Tenant is required to provide Landlord with the Security Deposit pursuant to the foregoing sentence, Tenant shall deliver such Security Deposit to Landlord within five (5) business days following demand therefor. If Tenant defaults with respect to any provisions of this Lease, including, but not limited to, the provisions relating to the payment of Rent, the removal of property and the

repair of resultant damage, Landlord may, without notice to Tenant, but shall not be required to apply all or any part of the Security Deposit for the payment of any Rent or any other sum in default and Tenant shall, upon demand therefor, restore the Security Deposit to its original amount. Any unapplied portion of the Security Deposit shall be returned to Tenant, or, at Landlord's option, to the last assignee of Tenant's entire interest hereunder, within sixty (60) days following the expiration of the Lease Term. Tenant shall not be entitled to any interest on the Security Deposit; provided, however, to the extent any unapplied portion of the Security Deposit is not returned to Tenant (or its applicable assignee) within sixty (60) days following the expiration of the Lease Term pursuant to the immediately preceding sentence, then Tenant shall be entitled to interest, at the Interest Rate, allocable to such unapplied portion of the Security Deposit commencing on the day immediately following such sixty (60) day period and ending upon the day such unapplied portion of the Security Deposit is returned to Tenant (or its applicable assignee). Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, or any successor statute.

ARTICLE 22

TELECOMMUNICATIONS EQUIPMENT

At any time during the Lease Term, subject to the TCCs of this Article 22 and Article 8 of this Lease, Tenant shall have the exclusive right to install, at Tenant's sole cost and expense, but without the payment of any Rent or a license or similar fee or charge, satellite dish(s), antenna(s), microwave antenna(s), and/or other equipment servicing the business conducted by Tenant from within the Premises (all such equipment, including non-telecommunication equipment is, for the sake of convenience, defined collectively as the "TELECOMMUNICATIONS EQUIPMENT") upon up to eighty percent (80%) of the usable space on the roof of the Building ("TENANT'S ROOFTOP SPACE") in a configuration to be mutually and reasonably determined by Landlord and Tenant. The physical appearance and the size of the Telecommunications Equipment shall be subject to Landlord's reasonable approval, the particular location of any such installation of the Telecommunications Equipment shall be designated by Tenant subject to Landlord's reasonable approval and Landlord may require Tenant to install screening around such Telecommunications Equipment, at Tenant's sole cost and expense, as reasonably designated by Landlord. Tenant shall maintain such Telecommunications Equipment, at Tenant's sole cost and expense. In the event Tenant elects to exercise its right to install the Telecommunication Equipment, then Tenant shall give Landlord prior notice thereof. Tenant shall reimburse to Landlord the actual costs reasonably incurred by Landlord in approving such Telecommunications Equipment, provided, however, such reimbursement shall not exceed Five Hundred and No/100 Dollars ($500.00) per approval. Tenant shall remove such Telecommunications Equipment upon the expiration or earlier termination of this Lease and shall return the affected portion of the rooftop and the Building to the condition the rooftop and the Building would have been in had no such Telecommunications Equipment been installed (reasonable wear and tear accepted). Such Telecommunications Equipment shall be installed pursuant to plans and specifications approved by Landlord, which approval will not be unreasonably withheld, conditioned, or delayed. Such Telecommunications Equipment shall, in all instances, comply with applicable governmental laws, codes, rules and regulations, and CC&Rs. Tenant shall not be entitled to license its Communication Equipment to any unrelated third party (other than a Permitted Transferee in connection with a Transfer), nor shall Tenant be

permitted to receive any revenues, fees or any other consideration (except pursuant to charges for Tenant's business services which are provided via such Telecommunications Equipment) for the use of such Telecommunication Equipment by an unrelated third party. Tenant's right to install such Telecommunication Equipment shall be exclusive with regard to Tenant's Rooftop Space; provided, however, Tenant hereby expressly acknowledges Landlord's continued right to itself utilize the remaining rooftop space; provided, however, such Landlord use shall not materially interfere with (or preclude the installation of) Tenant's Telecommunications Equipment.

ARTICLE 23

SIGNS

23.1 FULL FLOORS. Subject to Landlord's prior written approval, in its reasonable discretion, and provided all signs are in keeping with the quality, design and style of the Building and Project, Tenant, if the Premises comprise an entire floor of the Building, at its sole cost and expense, may install identification signage anywhere in the Premises including in the elevator lobby of the Premises, provided that such signs must not be visible from the exterior of the Building.

23.2 MULTI-TENANT FLOORS. If other tenants occupy space on the floor on which all or a portion of the Premises is located, Tenant's identifying signage for such multi-tenant floor shall be provided by Landlord, at Tenant's cost, and such signage shall be comparable to that used by Landlord for other similar floors in the Building and shall comply with Landlord's Building standard signage program.

23.3 PROHIBITED SIGNAGE AND OTHER ITEMS. Any signs, notices, logos, pictures, names or advertisements which are installed and that have not been separately approved by Landlord may be removed without notice by Landlord at the sole expense of Tenant. Except as expressly set forth in Section 23.4, below, Tenant may not install any signs on the exterior or roof of the Project or the Common Areas. Any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Building), or other items visible from the exterior of the Premises or Building, shall be subject to the prior approval of Landlord, in its sole discretion.

23.4 TENANT'S SIGNAGE. Tenant shall be entitled to install the following signage in connection with Tenant's lease of the Premises (collectively, the "TENANT'S SIGNAGE"):

(i) Exclusive Building-top signage consisting of either (A) one (1) building-top sign not to exceed 150 square feet, or (B) two (2) building-top signs, neither of which shall exceed 100 square feet, which building-top sign(s) shall identify Tenant's name or logo and be located at the top of the Building, together with two (2) eyebrow signs, each of which shall be located over the primary entrances into the Building, all as more particularly identified on EXHIBIT A-1 attached hereto; and

(ii) One (1) exclusive monument sign adjacent to the Building at a particular location to be mutually and reasonably agreed to between the parties (the "BUILDING TOMBSTONE SIGN"), as more particularly identified on EXHIBIT A-1 attached hereto; provided, however, Landlord and Tenant hereby acknowledge and agree that the upper portion of such Building Tombstone Sign shall have Project-standard Project identification signage (i.e. "Kilroy Centre Del Mar); provided further, however, Landlord shall be able to locate its standard identification signage on the Building Tombstone Sign (below, and with a relative size equal to no greater than twenty-five percent (25%) of, Tenant's signage thereon); and

(iii) Exclusive corporate flags consisting of up to three (3) flag poles at a location to be mutually and reasonably agreed to between the parties.

23.4.1 SPECIFICATIONS AND PERMITS. Tenant's Signage shall set forth Tenant's name and logo as determined by Tenant in its sole discretion; provided, however, in no event shall Tenant's Signage include an "Objectionable Name," as that term is defined in Section 23.4.2, of this Lease. The graphics, materials, color, design, lettering, lighting, size, illumination, specifications and exact location of Tenant's Signage (collectively, the "SIGN SPECIFICATIONS") shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed, and shall be consistent and compatible with the quality and nature of the Project and the "Building Standard Signage Specifications," attached hereto as EXHIBIT G. For purposes of this Section 23.4.1, the reference to "name" shall mean name and/or logo. In addition, Tenant's Signage shall be subject to Tenant's receipt of all required governmental permits and approvals and shall be subject to all Applicable Law and to any CC&Rs. Landlord shall use commercially reasonable efforts to assist Tenant in obtaining all necessary governmental permits and approvals for Tenant's Signage. Tenant hereby acknowledges that, notwithstanding Landlord's approval of Tenant's Signage, Landlord has made no representation or warranty to Tenant with respect to the probability of obtaining all necessary governmental approvals and permits for Tenant's Signage. In the event Tenant does not receive the necessary governmental approvals and permits for Tenant's Signage, Tenant's and Landlord's rights and obligations under the remaining TCCs of this Lease shall be unaffected.

23.4.2 OBJECTIONABLE NAME. To the extent Original Tenant or its Permitted Transferees desires to change the name and/or logo set forth on Tenant's Signage, such name and/or logo shall not have a name which relates to an entity which is of a character or reputation, or is associated with a political faction or orientation, which is inconsistent with the quality of the Project, or which would otherwise reasonably offend a landlord of the Comparable Buildings (an "OBJECTIONABLE NAME"). The parties hereby agree that the name "Fair, Isaac and Company, Incorporated" or any reasonable derivation thereof, shall not be deemed an Objectionable Name.

23.4.3 TERMINATION OF RIGHT TO TENANT'S SIGNAGE. The rights contained in this Section 23.4 shall be personal to the Original Tenant and any Permitted Transferee, and may only be exercised by the Original Tenant and/or its Permitted Transferee (and not any other

assignee, sublessee or other transferee of the Original Tenant's interest in this Lease) if the then existing Premises equals at least sixty percent (60%) of the Building.

23.4.4 COST AND MAINTENANCE. The costs of the actual signs comprising Tenant's Signage and the installation, design, construction, and any and all other costs associated with Tenant's Signage, including, without limitation, utility charges and hook-up fees, permits, required Building structural upgrades, and maintenance and repairs, shall be the sole responsibility of Tenant; provided that the costs and fees associated with the initial installation, design, and construction of such Tenant's Signage may, at Tenant's option, be deemed a "Tenant Improvement Allowance Item," as that term is set forth in Section 2.2 of the Tenant Work Letter. Should Tenant's Signage require repairs and/or maintenance, as determined in Landlord's reasonable judgment, Landlord shall have the right to provide notice thereof to Tenant and Tenant (except as set forth above) shall cause such repairs and/or maintenance to be performed within thirty (30) days after receipt of such notice from Landlord, at Tenant's sole cost and expense; provided, however, if such repairs and/or maintenance are reasonably expected to require longer than thirty (30) days to perform, Tenant shall commence such repairs and/or maintenance within such thirty (30) day period and shall diligently prosecute such repairs and maintenance to completion. Should Tenant fail to perform such repairs and/or maintenance within the periods described in the immediately preceding sentence, Landlord shall, upon the delivery of an additional five (5) business days' prior written notice, have the right to cause such work to be performed and to charge Tenant as Additional Rent for the cost of such work. Upon the expiration or earlier termination of this Lease, Tenant shall, at Tenant's sole cost and expense, cause Tenant's Signage to be removed and shall cause the areas in which such Tenant's Signage was located to be restored to the condition existing immediately prior to the placement of such Tenant's Signage (excepting normal wear and tear caused by the sun, rain and other elements to which such Tenant's Signage is exposed). If Tenant fails to timely remove such Tenant's Signage or to restore the areas in which such Tenant's Signage was located, as provided in the immediately preceding sentence, then Landlord may perform such work, and all costs incurred by Landlord in so performing shall be reimbursed by Tenant to Landlord within thirty (30) days after Tenant's receipt of an invoice therefor. The TCCs of this Section 23.4.4 shall survive the expiration or earlier termination of this Lease.

23.4.5 ASSIGNMENT OF SIGNAGE RIGHTS. Notwithstanding any provision in this Lease to the contrary, Tenant may assign (i) the right to one of the Building-top signs identified in Section 23.4(i), above, to any Transferee approved by Landlord pursuant to the terms and conditions of Article 14 of this Lease, provided such Transferee subleases at least one full floor of the Building, and such Transferee or its corporate affiliate (to the extent such corporate affiliate guarantees Transferee's obligations under the applicable Transfer (collectively, the "IDENTIFIED ENTITY") has (A) a minimum net worth of at least twenty-five percent (25%) of Tenant's then-current net worth, according to each of Tenant's and such Identified Entity's most recent audited financial statements, (B) net income for the immediately preceding 12 months of at least twenty-five percent (25%) of Tenant's net income for the preceding 12 months, and (C) not filed (or been filed against) any proceeding under an insolvency or bankruptcy law during the prior thirty-six (36) month period, and (ii) the right to a pro-rata portion of the signage (based on rentable square feet) on the Building Tombstone Sign to any Transferee approved by Landlord pursuant to the terms and conditions of Article 14 of this Lease, provided such Transferee occupies at least one full floor of the Building.

ARTICLE 24

COMPLIANCE WITH LAW

Tenant shall not do anything or suffer anything to be done in or about the Premises or the Project which will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated (collectively, "APPLICABLE LAWS"). At its sole cost and expense, Tenant shall promptly comply with all such Applicable Laws which relate to (i) Tenant's use of the Premises for non-general office use, (ii) the Alterations or Tenant Improvements in the Premises, or (iii) the Base Building, but, as to the Base Building, only to the extent such obligations are triggered by Tenant's Alterations, the Tenant Improvements, or use of the Premises for non-general office use. Should any standard or regulation now or hereafter be imposed on Landlord or Tenant by a state, federal or local governmental body charged with the establishment, regulation and enforcement of occupational, health or safety standards for employers, employees, landlords or tenants, then Tenant agrees, at its sole cost and expense, to comply promptly with such standards or regulations. The judgment of any court of competent jurisdiction or the admission of Tenant in any judicial action, regardless of whether Landlord is a party thereto, that Tenant has violated any of said governmental measures, shall be conclusive of that fact as between Landlord and Tenant. Landlord shall comply with all Applicable Laws relating to the Base Building and the Project Common Areas, provided that compliance with such Applicable Laws is not the responsibility of Tenant under this Lease, and provided further that Landlord's failure to comply therewith would prohibit Tenant from obtaining or maintaining a certificate of occupancy for the Premises, or would unreasonably and materially affect the safety of Tenant's employees, subtenants or invitees, or create a significant health hazard for Tenant's employees. Landlord shall be permitted to include in Operating Expenses any costs or expenses incurred by Landlord under this Article 24 to the extent consistent with the terms of Section 4.2.4, above.

ARTICLE 25

LATE CHARGES

If any installment of Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within five (5) business days after Tenant's receipt of notice that said amount was not paid when due, then Tenant shall pay to Landlord a late charge equal to two and one-half percent (2 1/2%) of the overdue amount plus reasonable attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the late charge described above, any Rent or other amounts owing hereunder which are not paid within ten (10) days after the date they are due shall bear interest from the date when due until paid at a rate per annum (the "INTEREST RATE") equal to the lesser of (i) the annual "BANK PRIME LOAN" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord and Tenant shall reasonably agree upon if such rate ceases to be published) plus four (4) percentage points, and (ii) the highest rate permitted by applicable law.

ARTICLE 26

LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT

26.1 LANDLORD'S CURE. All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall fail to perform any obligation under this Lease, and such failure shall continue in excess of the time allowed under Section 19.1.2, above, unless a specific time period is otherwise stated in this Lease, Landlord may, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder.

26.2 TENANT'S REIMBURSEMENT. Except as may be specifically provided to the contrary in this Lease, Tenant shall pay to Landlord, upon delivery by Landlord to Tenant of statements therefor: (i) sums equal to expenditures reasonably made and obligations incurred by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of Section 26.1; (ii) sums equal to all losses, costs, liabilities, damages and expenses referred to in Article 10 of this Lease; and (iii) sums equal to all expenditures made and obligations incurred by Landlord in collecting or attempting to collect the Rent or in enforcing or attempting to enforce any rights of Landlord under this Lease or pursuant to law, including, without limitation, all legal fees and other amounts so expended. Tenant's obligations under this Section 26.2 shall survive the expiration or sooner termination of the Lease Term.

ARTICLE 27

ENTRY BY LANDLORD

Landlord reserves the right at all reasonable times, subject to Tenant's reasonable security requirements (and during Building Hours with respect to items (i) and (ii) below), and upon at least twenty-four (24) hours prior notice to Tenant (except in the case of an emergency) to enter the Premises to (i) inspect them; (ii) show the Premises to prospective purchasers, or to current or prospective mortgagees, ground or underlying lessors or insurers, or during the last twelve (12) months of the Lease Term, to prospective tenants; (iii) post notices of nonresponsibility; or (iv) alter, improve or repair the Premises or the Building, or for structural alterations, repairs or improvements to the Building or the Building's systems and equipment. Notwithstanding anything to the contrary contained in this Article 27, Landlord may enter the Premises at any time upon reasonable prior written notice to Tenant (except that no notice shall be required in an emergency or to perform regularly scheduled service, such as janitorial service) to (A) perform services required of Landlord, including janitorial service; (B) take possession due to any breach of this Lease in the manner provided herein; and (C) perform any covenants of Tenant which Tenant fails to perform. Landlord may make any such entries without the abatement of Rent, except as otherwise provided in this Lease, and may take such reasonable steps as required to accomplish the stated purposes; provided, however, except for (i) emergencies, (ii) repairs, alterations, improvements or additions required by governmental or quasi-governmental authorities or court order or decree, or (iii) repairs which are the obligation of Tenant hereunder, any such entry shall be performed in a manner so as not to unreasonably interfere with Tenant's

use of the Premises and shall be performed after normal business hours if reasonably practical, unless such after-hours entry is not compatible with Tenant's security requirements. With respect to items (ii) and (iii) above, Landlord shall use commercially reasonable efforts to not materially interfere with Tenant's use of, or access to, the Premises. Except as otherwise set forth in Section 3.2, Tenant hereby waives any claims for damages or for any injuries or inconvenience to or interference with Tenant's business, lost profits, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of the above purposes, unless Tenant is maintaining 24-hour on-site staffed security for access to the Premises (in which case no keys must be provided to Landlord), Landlord shall at all times have a key with which to unlock all the doors in the Premises, excluding Tenant's vaults, safes and special security areas designated in advance by Tenant. In an emergency, Landlord shall have the right to use any means that Landlord may reasonably deem proper, under the circumstances (including whether or not access is available through Tenant's security services), to obtain access to the Premises. Any entry into the Premises by Landlord in the manner hereinbefore described shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an actual or constructive eviction of Tenant from any portion of the Premises. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations except as otherwise expressly agreed to be performed by Landlord herein.

ARTICLE 28

TENANT PARKING

Landlord shall provide to Tenant, throughout the Lease Term and at no additional cost to Tenant, the number of unreserved parking passes set forth in Section 9 of the Summary, on a monthly basis throughout the Lease Term, which parking passes shall pertain to the Project parking facilities; provided, however, that the total number of Project parking passes outstanding at any time shall not exceed 110% of the aggregate number of actual parking spaces in the Project parking facilities (the number of parking passes above the number of parking spaces shall be the "PARKING FLOAT"); provided further, however, to the extent Landlord makes such Parking Float available for lease to other tenants of the Project, then Landlord shall make a pro-rata portion of such Parking Float available for lease by Tenant on substantially similar terms. In lieu of an equal number of parking passes, Tenant shall have the right to designate thirty (30) covered spaces as reserved for Tenant's executives, in particular locations to be mutually and reasonably agreed upon by Landlord and Tenant, which reserved spaces shall include that certain motorcycle parking area reserved for use by Tenant's employees in the location identified on EXHIBIT A. In addition to the foregoing, and upon Tenant's request therefor, Landlord shall provide an additional forty (40) reserved spaces directly in front of the Building, specifically designated for use by Tenant's visitors and vendors, in a location more particularly identified on EXHIBIT A. Tenant shall be responsible for the full amount of any taxes imposed by any governmental authority in connection with the renting of such parking passes (including any designated parking spaces) by Tenant or the use of the parking facility by Tenant. Tenant's continued right to use the parking passes (including any designated parking spaces) is conditioned upon Tenant abiding by all rules and regulations which are prescribed from time to time for the orderly operation and use of the parking facility where the parking passes/designated parking spaces are located, including any sticker or other identification system established by Landlord, Tenant's cooperation in seeing that Tenant's employees and visitors also comply with

such rules and regulations and Tenant not being in default under this Lease. To the extent reasonably necessary to ensure Tenant's parking rights hereunder are readily available to Tenant and its employees, Landlord shall establish a sticker or other identification system for the Project; provided, however, the enforcement of the Project parking facilities for only such stickered or otherwise identified employees/visitors/guests of the Project tenants shall be reasonably conducted by Landlord; provided further, however, to the extent the foregoing measures prove insufficient (as reasonably and mutually determined by Landlord and Tenant), Landlord shall additionally implement reasonable access control with regard to such Project parking facilities. Landlord specifically reserves the right to (i) change the size, configuration, design, layout and all other aspects of the Project parking facility at any time as long as the changes do not materially and adversely affect Tenant (provided that such restriction shall not apply to changes required by Laws) and/or (ii) perform repairs to the parking facilities, and Tenant acknowledges and agrees that Landlord may, without incurring any liability to Tenant and without any abatement of Rent under this Lease, from time to time, close-off or restrict access to the Project parking facility (for a period not to exceed thirty (30) days, as such thirty (30) day period may be extended by a Force Majeure), or relocate Tenant's parking spaces to other parking structures and/or surface parking areas within a reasonable distance of the Premises, for purposes of permitting or facilitating any such construction, alteration, improvements or repairs with respect to the parking facilities or to accommodate or facilitate renovation, alteration, construction or other modification of other improvements or structures located on the land underlying the Project, provided that Landlord shall use reasonable efforts to minimize any inconvenience to Tenant. Landlord may delegate its responsibilities hereunder to a parking operator in which case such parking operator shall have all the rights of control attributed hereby to the Landlord. The parking passes (including any designated parking spaces) granted to Tenant pursuant to this Article 28 are provided to Tenant solely for use by Tenant's own personnel, customers and visitors, and Permitted Occupants, and such passes (including any designated parking spaces) may not be transferred, assigned, subleased or otherwise alienated by Tenant separate from Tenant's interest in the Premises without Landlord's prior approval. Tenant may validate visitor parking by such method or methods as the Landlord may establish, at the validation rate from time to time generally applicable to visitor parking.

ARTICLE 29

MISCELLANEOUS PROVISIONS

29.1 TERMS; CAPTIONS. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. The necessary grammatical changes required to make the provisions hereof apply either to corporations or partnerships or individuals, men or women, as the case may require, shall in all cases be assumed as though in each case fully expressed. The captions of Articles and Sections are for convenience only and shall not be deemed to limit, construe, affect or alter the meaning of such Articles and Sections.

29.2 BINDING EFFECT. Subject to all other provisions of this Lease, each of the covenants, conditions and provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit not only of Landlord and of Tenant, but also of their respective heirs, personal representatives, successors or assigns, provided this clause shall not permit any assignment by Tenant contrary to the provisions of Article 14 of this Lease.

29.3 NO AIR RIGHTS. No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

29.4 MODIFICATION OF LEASE. Should any current or prospective mortgagee or ground lessor for the Building or Project require a modification of this Lease, which modification will not cause an increased cost or expense to Tenant or in any other way materially and adversely change the rights and obligations of Tenant hereunder, then and in such event, Tenant agrees that this Lease may be so modified and agrees to execute whatever documents are reasonably required therefor and to deliver the same to Landlord within ten (10) days following a request therefor. At the request of Landlord or any mortgagee or ground lessor, Tenant agrees to execute a short form of Lease and deliver the same to Landlord within ten (10) days following the request therefor.

29.5 TRANSFER OF LANDLORD'S INTEREST. Tenant acknowledges that Landlord has the right to transfer all or any portion of its interest in the Project or Building and in this Lease, and Tenant agrees that in the event of any such transfer, Landlord shall automatically be released from all liability under this Lease which accrues from and after the date of such transfer provided such transferee assumes such liability in writing (and further provided that such release shall include any liability which accrues prior to the transfer in the event the transferee assumes such liability in writing) and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations hereunder after the date of transfer. Tenant further acknowledges that Landlord may assign its interest in this Lease to a mortgage lender as additional security and agrees that such an assignment shall not release Landlord from its obligations hereunder and that Tenant shall continue to look to Landlord for the performance of its obligations hereunder.

29.6 PROHIBITION AGAINST RECORDING. A "Memorandum of Lease," substantially in the form attached hereto as EXHIBIT K, shall be executed and acknowledged by Landlord and Tenant concurrently with the execution of this Lease and either Landlord or Tenant may, at such party's sole cost and expense, record such Memorandum of Lease.

29.7 LANDLORD'S TITLE. Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the title of Landlord.

29.8 RELATIONSHIP OF PARTIES. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

29.9 APPLICATION OF PAYMENTS. Landlord shall have the right to apply payments received from Tenant pursuant to this Lease, regardless of Tenant's designation of such payments, to satisfy any obligations of Tenant hereunder, in such order and amounts as Landlord, in its sole discretion, may elect.

29.10 TIME OF ESSENCE. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

29.11 PARTIAL INVALIDITY. If any term, provision or condition contained in this Lease shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, provision or condition to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby, and each and every other term, provision and condition of this Lease shall be valid and enforceable to the fullest extent possible permitted by law.

29.12 NO WARRANTY. In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising Additional Rent or the amount of the Additional Rent in the aggregate or that Landlord is furnishing the same services to other tenants, at all, on the same level or on the same basis, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

29.13 LANDLORD EXCULPATION. The liability of Landlord or the Landlord Parties to Tenant for any default by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises shall be limited solely and exclusively to an amount which is equal to the net interest of Landlord (following payment of any outstanding liens and/or mortgages, whether attributable to sales or insurance proceeds or otherwise) in the Building (including any insurance proceeds which Landlord receives). Neither Landlord, nor any of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Section 29.13 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), or trustee or beneficiary (if Landlord or any partner of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring.

29.14 ENTIRE AGREEMENT. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease constitutes the parties' entire agreement with respect to the leasing of the Premises and supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto.

29.15 RIGHT TO LEASE. Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Building or Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Building or Project.

29.16 FORCE MAJEURE. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorist acts, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease and except as to Tenant's obligations under Articles 5 and 24 of this Lease (collectively, a "FORCE MAJEURE"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

29.17 WAIVER OF REDEMPTION BY TENANT. Tenant hereby waives, for Tenant and for all those claiming under Tenant, any and all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

29.18 NOTICES. All notices, demands, statements, designations, approvals or other communications (collectively, "NOTICES") given or required to be given by either party to the other hereunder or by law shall be in writing, shall be (A) sent by United States certified or registered mail, postage prepaid, return receipt requested ("MAIL"), (B) transmitted by telecopy, if such telecopy is promptly followed by a Notice sent by Mail, (C) delivered by a nationally recognized overnight courier, or (D) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in Section 10 of the Summary, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth below, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (i) three (3) days after the date it is posted if sent by Mail, (ii) the date the telecopy is transmitted, (iii) the date the overnight courier delivery is made, or (iv) the date personal delivery is made or attempted to be made. If Tenant is notified of the identity and address of Landlord's mortgagee or ground or underlying lessor, Tenant shall give to such mortgagee or ground or underlying lessor written notice of any default by Landlord under the terms of this Lease by registered or certified mail, and such mortgagee or ground or underlying lessor shall be given a reasonable opportunity to cure such default prior to Tenant's exercising any remedy available to Tenant. As of the date of this Lease, any Notices to Landlord must be sent, transmitted, or delivered, as the case may be, to the following addresses:

Kilroy Realty Corporation
12200 West Olympic Boulevard
Suite 200

Los Angeles, California 90064
Attention: Legal Department

with copies to:

Kilroy Realty Corporation
3811 Valley Centre Drive, Suite 300
San Diego, California 92130
Attention: Mr. Roger Simsiman

and

Allen Matkins Leck Gamble & Mallory LLP
1901 Avenue of the Stars, Suite 1800
Los Angeles, California 90067
Attention: Anton N. Natsis, Esq.

29.19 JOINT AND SEVERAL. If there is more than one Tenant, the obligations imposed upon Tenant under this Lease shall be joint and several.

29.20 AUTHORITY. If Tenant is a corporation, trust or partnership, each individual executing this Lease on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Lease and that each person signing on behalf of Tenant is authorized to do so. In such event, Tenant shall, within ten (10) days after execution of this Lease, deliver to Landlord satisfactory evidence of such authority and, if a corporation, upon demand by Landlord, also deliver to Landlord satisfactory evidence of (i) good standing in Tenant's state of incorporation and (ii) qualification to do business in California.

29.21 ATTORNEYS' FEES. In the event that either Landlord or Tenant should bring suit for the possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provision of this Lease or for any other relief against the other, then all costs and expenses, including reasonable attorneys' fees, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment.

29.22 GOVERNING LAW; WAIVER OF TRIAL BY JURY. This Lease shall be construed and enforced in accordance with the laws of the State of California. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LANDLORD AND TENANT HEREBY CONSENT TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW, AND (III) IN THE INTEREST OF SAVING TIME AND EXPENSE, TRIAL WITHOUT A JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER OR THEIR SUCCESSORS IN RESPECT OF ANY MATTER ARISING OUT OF OR IN CONNECTION WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR

DAMAGE, OR ANY EMERGENCY OR STATUTORY REMEDY. IN THE EVENT LANDLORD COMMENCES ANY SUMMARY PROCEEDINGS OR ACTION FOR NONPAYMENT OF BASE RENT OR ADDITIONAL RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF ANY NATURE OR DESCRIPTION (UNLESS SUCH COUNTERCLAIM SHALL BE MANDATORY) IN ANY SUCH PROCEEDING OR ACTION, BUT SHALL BE RELEGATED TO AN INDEPENDENT ACTION AT LAW.

29.23 SUBMISSION OF LEASE. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

29.24 BROKERS. Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the real estate brokers or agents specified in Section 12 of the Summary (the "BROKERS"), and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the Brokers, occurring by, through, or under the indemnifying party.

29.25 INDEPENDENT COVENANTS. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

29.26 PROJECT OR BUILDING NAME AND SIGNAGE. Landlord shall have the right at any time to change the name of the Project or Building and, subject to Tenant's signage rights set forth in Article 23 of this Lease, to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire; provided, however, Landlord shall provide Tenant with prior written notice of any such change. Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord. Notwithstanding the foregoing, Tenant may use a picture of the Building showing its name thereon in its advertising and promotional materials.

29.27 COUNTERPARTS. This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

29.28 CONFIDENTIALITY. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information

strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal, and space planning consultants.

29.29 TRANSPORTATION MANAGEMENT. Tenant shall fully comply with all present or future governmentally required programs intended to manage parking, transportation or traffic in and around the Building, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities.

29.30 BUILDING RENOVATIONS. It is specifically understood and agreed that Landlord has made no representation or warranty to Tenant and has no obligation and has made no promises to alter, remodel, improve, renovate, repair or decorate the Premises, Building, or any part thereof and that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant except as specifically set forth herein or in the Tenant Work Letter. However, Tenant hereby acknowledges that Landlord is currently renovating or may during the Lease Term renovate, improve, alter, or modify (collectively, the "RENOVATIONS") the Project, the Building and/or the Premises including without limitation the parking structure, common areas, systems and equipment, roof, and structural portions of the same, which Renovations may include, without limitation, (i) installing sprinklers in the Building common areas and tenant spaces, (ii) modifying the common areas and tenant spaces to comply with applicable laws and regulations, including regulations relating to the physically disabled, seismic conditions, and building safety and security, and (iii) installing new floor covering, lighting, and wall coverings in the Building common areas, and in connection with any Renovations, Landlord may, among other things, erect scaffolding or other necessary structures in the Building, limit or eliminate access to portions of the Project, including portions of the common areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Landlord shall have no responsibility or for any reason be liable to Tenant for any direct or indirect injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's personal property or improvements resulting from the Renovations or Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions.

29.31 NO VIOLATION. Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant shall protect, defend, indemnify and hold Landlord harmless against any claims, demands, losses, damages, liabilities, costs and expenses, including, without limitation, reasonable attorneys' fees and costs, arising from Tenant's breach of this warranty and representation.

29.32 COMMUNICATIONS AND COMPUTER LINES. Tenant may install, maintain, replace, remove or use any communications or computer wires and cables (collectively, the "LINES") at the Project in or serving the Premises, provided that (i) Tenant shall use an experienced and qualified contractor and shall comply with all of the other provisions of Articles 7 and 8 of this

Lease, (ii) an acceptable number of spare Lines and space for additional Lines shall be maintained for existing and future occupants of the Project, as determined in Landlord's reasonable opinion, (iii) the Lines therefor (including riser cables) shall be appropriately insulated to prevent excessive electromagnetic fields or radiation, and shall be surrounded by a protective conduit reasonably acceptable to Landlord, (iv) any new or existing Lines servicing the Premises shall comply with all applicable governmental laws and regulations, (v) as a condition to permitting the installation of new Lines, Landlord may require that Tenant remove any Lines previously installed by Tenant (or any Permitted Transferee) which are no longer serving the Premises and repair any damage in connection with such removal, and (vi) Tenant shall pay all costs in connection therewith. Landlord reserves the right to require that Tenant remove any Lines located in or serving the Premises which are installed in violation of these provisions, or which are at any time in violation of any laws or represent a dangerous or potentially dangerous condition.

29.33 HAZARDOUS SUBSTANCES.

29.33.1 DEFINITIONS. For purposes of this Lease, the following definitions shall apply: "HAZARDOUS MATERIAL(S)" shall mean any solid, liquid or gaseous substance or material that is described or characterized as a toxic or hazardous substance, waste, material, pollutant, contaminant or infectious waste, or any matter that in certain specified quantities would be injurious to the public health or welfare, or words of similar import, in any of the "Environmental Laws," as that term is defined below, or any other words which are intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity or reproductive toxicity and includes, without limitation, asbestos, petroleum (including crude oil or any fraction thereof, natural gas, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel, or any mixture thereof), petroleum products, polychlorinated biphenyls, urea formaldehyde, radon gas, nuclear or radioactive matter, medical waste, soot, vapors, fumes, acids, alkalis, chemicals, microbial matters (such as molds, fungi or other bacterial matters), biological agents and chemicals which may cause adverse health effects, including but not limited to, cancers and /or toxicity. "ENVIRONMENTAL LAWS" shall mean any and all federal, state, local or quasi-governmental laws (whether under common law, statute or otherwise), ordinances, decrees, codes, rulings, awards, rules, regulations or guidance or policy documents now or hereafter enacted or promulgated and as amended from time to time, in any way relating to a) the protection of the environment, the health and safety of persons (including employees), property or the public welfare from actual or potential release, discharge, escape or emission (whether past or present) of any Hazardous Materials or b) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Materials.

29.33.2 COMPLIANCE WITH ENVIRONMENTAL LAWS. Landlord covenants that during the Lease Term, Landlord shall comply with all Environmental Laws in accordance with, and as required by, the TCCs of Article 24 of this Lease. Tenant represents and warrants that, except as herein set forth, it will not use, store or dispose of any Hazardous Materials in or on the Premises. However, notwithstanding the preceding sentence, Landlord agrees that Tenant may use, store and properly dispose of commonly available household items (such as saccharine), and household cleaners and chemicals to maintain the Premises and Tenant's routine office operations (such as printer toner and copier toner) (hereinafter the "Permitted Chemicals").

Landlord and Tenant acknowledge that any or all of the Permitted Chemicals described in this paragraph may constitute Hazardous Materials. However, Tenant may use, store and dispose of same, provided that in doing so, Tenant fully complies with all Environmental Laws.

29.33.3 LANDLORD'S RIGHT OF ENVIRONMENTAL AUDIT. Landlord may, upon reasonable notice to Tenant, be granted access to and enter the Premises no more than once annually to perform or cause to have performed an environmental inspection, site assessment or audit. Such environmental inspector or auditor may be chosen by Landlord, in its sole discretion, and be performed at Landlord's sole expense. To the extent that the report prepared upon such inspection, assessment or audit, indicates the presence of Hazardous Materials in violation of Environmental Laws, or provides recommendations or suggestions to prohibit the release, discharge, escape or emission of any Hazardous Materials at, upon, under or within the Premises, or to comply with any Environmental Laws, Tenant shall promptly, at Tenant's sole expense, comply with such recommendations or suggestions, including, but not limited to performing such additional investigative or subsurface investigations or remediation(s) as recommended by such inspector or auditor. Notwithstanding the above, if at any time, Landlord has actual notice or reasonable cause to believe that Tenant has violated, or permitted any violations of any Environmental Law, then Landlord will be entitled to perform its environmental inspection, assessment or audit at any time, notwithstanding the above mentioned annual limitation, and Tenant must reimburse Landlord for the reasonable cost or fees incurred for such as Additional Rent.

29.33.4 INDEMNIFICATIONS. Landlord agrees to indemnify, defend, protect and hold harmless the Tenant Parties from and against any liability, obligation, damage or costs, including without limitation, attorneys' fees and costs, resulting directly or indirectly from any use, presence, removal or disposal of any Hazardous Materials to the extent such liability, obligation, damage or costs was a result of actions caused or permitted by Landlord or a Landlord Party, or which occurred prior to the date of this Lease. Tenant agrees to indemnify, defend, protect and hold harmless the Landlord Parties from and against any liability, obligation, damage or costs, including without limitation, attorneys' fees and costs, resulting directly or indirectly from any use, presence, removal or disposal of any Hazardous Materials or breach of any provision of this section, to the extent such liability, obligation, damage or costs was a result of actions caused or permitted by Tenant or a Tenant Party.

29.34 DEVELOPMENT OF THE PROJECT.

29.34.1 SUBDIVISION. Landlord reserves the right to further subdivide all or a portion of the Project. Tenant agrees to execute and deliver, upon demand by Landlord and in the form requested by Landlord, any additional documents needed to conform this Lease to the circumstances resulting from such subdivision.

29.34.2 THE OTHER IMPROVEMENTS. If portions of the Project or property adjacent to the Project (collectively, the "OTHER IMPROVEMENTS") are owned by an entity other than Landlord, Landlord, at its option, may enter into an agreement with the owner or owners of any or all of the Other Improvements to provide (i) for reciprocal rights of access and/or use of the Project and the Other Improvements, (ii) for the common management, operation, maintenance, improvement and/or repair of all or any portion of the Project and the Other

Improvements, (iii) for the allocation of a portion of the Direct Expenses to the Other Improvements and the operating expenses and taxes for the Other Improvements to the Project, and (iv) for the use or improvement of the Other Improvements and/or the Project in connection with the improvement, construction, and/or excavation of the Other Improvements and/or the Project. Nothing contained herein shall be deemed or construed to limit or otherwise affect Landlord's right to convey all or any portion of the Project or any other of Landlord's rights described in this Lease.

29.34.3 CONSTRUCTION OF PROJECT AND OTHER IMPROVEMENTS. Tenant acknowledges that portions of the Project and/or the Other Improvements may be under construction following Tenant's occupancy of the Premises, and that such construction may result in levels of noise, dust, obstruction of access, etc. which are in excess of that present in a fully constructed project. Tenant hereby waives any and all rent offsets or claims of constructive eviction which may arise in connection with such construction.

29.35 OFFICE AND COMMUNICATIONS SERVICES.

29.35.1 THE PROVIDER. Landlord has advised Tenant that certain office and communications services may be offered to Tenant (and, if applicable, any other tenants of the Building) by a concessionaire under contract to Landlord ("PROVIDER"), including, without limitation, phone service and cable TV/fiber optic services. Tenant shall be permitted to contract with Provider for the provision of any or all of such services on such terms and conditions as Tenant and Provider may agree. Landlord hereby covenants that its contract with Provider does not unreasonable exclude any qualified carrier from providing similar services to the Premises.

29.35.2 OTHER TERMS. Tenant acknowledges and agrees that: (i) Landlord has made no warranty or representation to Tenant with respect to the availability of any such services, or the quality, reliability or suitability thereof; (ii) the Provider is not acting as the agent or representative of Landlord in the provision of such services, and Landlord shall have no liability or responsibility for any failure or inadequacy of such services, or any equipment or facilities used in the furnishing thereof, or any act or omission of Provider, or its agents, employees, representatives, officers or contractors; (iii) Landlord shall have no responsibility or liability for the installation, alteration, repair, maintenance, furnishing, operation, adjustment or removal of any such services, equipment or facilities; and (iv) any contract or other agreement between Tenant and Provider shall be independent of this Lease, the obligations of Tenant hereunder, and the rights of Landlord hereunder, and, without limiting the foregoing, no default or failure of Provider with respect to any such services, equipment or facilities, or under any contract or agreement relating thereto, shall have any effect on this Lease or give to Tenant any offset or defense to the full and timely performance of its obligations hereunder, or entitle Tenant to any abatement of rent or additional rent or any other payment required to be made by Tenant hereunder, or constitute any accrual or constructive eviction of Tenant, or otherwise give rise to any other claim of any nature against Landlord.

29.36 FURNITURE, FIXTURES AND EQUIPMENT. Landlord shall, at no additional cost to Tenant, as part of "Landlord's Work," as that term is set forth in Section 1.2 of the Tenant Work Letter, and pursuant to that certain "Test Fit" plan (the "TEST FIT PLAN") attached hereto as EXHIBIT I, cause (i) that certain furniture, fixtures, and equipment currently existing in the

Premises (collectively, the "EXISTING FF&E" which is set forth and identified on the Test Fit Plan, as such Test Fit Plan may be revised to reflect permitted modifications pursuant the TCCs of this Section 29.36), and (ii) the additional furniture, fixtures, and equipment (collectively, the "ADDITIONAL FF&E" which is set forth and identified on EXHIBIT I) to be purchased, installed and/or otherwise located in the Premises; provided, however, Tenant may, upon reasonable prior written notice to Landlord, and to the extent such modifications do not cause Landlord to incur any increased cost or expense (above the cost of the Additional FF&E originally identified on that certain "Test Fit" plan dated November 6, 2002), modify the Test Fit Plan. In addition, Landlord shall provide Tenant, within thirty (30) days of Tenant's written request, with an allowance an in amount equal to One Hundred Fifty Thousand and No/100 Dollars ($150,000.00) (the "TELECOMMUNICATIONS ALLOWANCE") for the telecommunications equipment (collectively, the "TELECOM FF&E"). The Existing FF&E, Additional FF&E and Telecom FF&E shall be referred to collectively, as the "FF&E") Tenant hereby acknowledges that the Existing FF&E is currently installed in the Premises and that, notwithstanding any provision of this Lease or the Tenant Work Letter to the contrary, Landlord makes no representations or warranties regarding the condition of such Existing FF&E, and Tenant hereby acknowledges and agrees that it shall accept, upon delivery of the same, such Existing FF&E in its then currently existing, "as-is" condition (but in the locations installed by Landlord in accordance with EXHIBIT I); provided, however, that Landlord hereby covenants to Tenant that Landlord has good and marketable title to the Existing FF&E and shall have good and marketable title to the Additional FF&E, and Landlord shall indemnify, defend and hold Tenant harmless against any and all liens, claims and encumbrances, and any and all proceedings relating thereto, of any third party or parties claiming any prior right, title or interest in the Existing FF&E or the Additional FF&E. Except to the extent the same is damaged in conjunction with Landlord's Work, Landlord shall have no obligation to maintain or repair any FF&E. Tenant hereby agrees that Tenant shall maintain and repair all such FF&E in as good a condition as received by Tenant (subject to normal wear and tear) throughout the term of the Lease, at Tenant's sole cost and expense. Landlord shall have the right, at any time during the Lease Term, upon reasonable prior notice to Tenant, to inspect the FF&E to ensure Tenant's compliance with the TCCs of this Section 29.36. In the event Tenant fails to maintain and repair the FF&E in accordance with this Section 29.36, Landlord shall have the right to repair such FF&E, at Tenant's sole cost and expense, and Tenant shall reimburse Landlord for the cost of such maintenance and repair within ten (10) days following Landlord's request therefor. In the event of irreparable damage (excluding normal wear and tear) to any item of the FF&E, then Tenant shall replace such damaged item, at Tenant's sole cost and expense, prior to the expiration or earlier termination of the Lease Term. With respect to the insurance which Tenant is obligated to maintain on its personal property during the term of the Lease pursuant to the TCCs of Section 10.3.2, Tenant shall cause such insurance to also cover the FF&E. Tenant shall not (i) remove any of the FF&E from the Premises, (ii) assign the FF&E as collateral or otherwise, (iii) sell any of the FF&E, or (iv) give any third party a security interest or any other interest in such FF&E. To the extent Tenant is not then in economic default under the terms of this Lease (beyond any applicable notice and cure periods), upon the expiration of the initial Lease Term, Tenant may purchase such FF&E from Landlord in its then existing "as-is" condition for One Dollar ($1.00) and Landlord shall convey its interest therein to Tenant (free and clear of all liens or claims of any third parties against such interest) pursuant to a Bill of Sale substantially in the form of EXHIBIT J, attached hereto. Following the expiration or earlier termination of the Lease Term, Tenant shall either

(A) remove such FF&E to the extent Tenant purchased the same from Landlord pursuant to the immediately preceding sentence, or (B) promptly surrender such FF&E to Landlord in good condition and repair (ordinary wear and tear excepted) in conjunction with Tenant's vacation of the Premises pursuant to Section 8.5 and Article 16 of this Lease.

29.37 EMERGENCY GENERATOR. Subject to Landlord's approval, which shall not be unreasonably withheld or delayed, and subject to the TCCs of this Section 29.37 and Article 8 of this Lease, Tenant may install, for Tenant's own use and at Tenant's sole cost and expense, but without the payment of any Rent or a license or similar fee or charge, an emergency generator and related equipment, cabling and conduits (all such equipment defined collectively as the "EMERGENCY GENERATOR") in the location identified on EXHIBIT A, with conduits and cabling to be located between the Emergency Generator pad and the Premises' electrical room. The particular location, physical appearance (including such conduits and cabling) and the size of the Emergency Generator (and components thereof) shall be subject to Landlord's reasonable approval, and Landlord may require Tenant to install screening around such Emergency Generator, at Tenant's sole cost and expense, as reasonably designated by Landlord. Tenant shall maintain such Emergency Generator, at Tenant's sole cost and expense. In the event Tenant elects to exercise its right to install the Emergency Generator, then Tenant shall give Landlord no less than thirty (30) days prior written notice thereof. Tenant shall reimburse to Landlord the reasonable costs actually incurred by Landlord in approving such Emergency Generator. Tenant shall, if instructed by Landlord at the time of Landlord's approval of such Emergency Generator, remove such Emergency Generator within thirty (30) days of the expiration or earlier termination of this Lease and shall repair any damage to the Building caused by such removal and return the affected portion of the Project's parking, landscaping and driveway areas to their pre-Emergency Generator condition. Such Emergency Generator shall be installed pursuant to plans and specifications approved by Landlord, which approval will not be unreasonably withheld. Such Emergency Generator shall remain Tenant's personal property throughout the Lease Term and, in all instances, comply with applicable governmental laws, codes, rules and regulations, and CC&Rs.

[remainder of page intentionally left blank]

29.38 NO DISCRIMINATION. Tenant covenants by and for itself, its heirs, executors, administrators and assigns, and all persons claiming under or through Tenant, and this Lease is made and accepted upon and subject to the following conditions: that there shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, sex, religion, marital status, ancestry or national origin in the leasing, subleasing, transferring, use, or enjoyment of the Premises, nor shall Tenant itself, or any person claiming under or through Tenant, establish or permit such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy, of tenants, lessees, sublessees, subtenants or vendees in the Premises.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

"LANDLORD":

KILROY REALTY, L.P.,
a Delaware limited partnership

By: Kilroy Realty Corporation,
a Maryland corporation,
General Partner

By: /s/ Steve Scott

Its: Senior Vice President

By: Jeffrey C. Hawken

Its: Executive Vice President, Chief Operating Officer

"TENANT":

FAIR, ISAAC AND COMPANY,
INCORPORATED,
a Delaware corporation

By: /s/ Thomas G. Grudnowski

Its: Chief Executive Officer

By: /s/ Kenneth J. Saunders

Its: Chief Financial Officer

EXHIBIT 99

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

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

A signed original of this written statement required by Section 906 has been provided to Fair Isaac Corporation and will be retained by Fair Isaac Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Date: April 23, 2003

/s/ Thomas G. Grudnowski

Thomas G. Grudnowski
Chief Executive Officer

EXHIBIT 99

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

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

A signed original of this written statement required by Section 906 has been provided to Fair Isaac Corporation and will be retained by Fair Isaac Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Date: April 23, 2003

/s/ Kenneth J. Saunders

Kenneth J. Saunders
Chief Financial Officer