

FAIR ISAAC CORP  
Form 10-Q  
August 08, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

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

For the transition period from            to

Commission File Number 1-11689

**Fair Isaac Corporation**

(Exact name of registrant as specified in its charter)

Edgar Filing: FAIR ISAAC CORP - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-1499887**  
(I.R.S. Employer  
Identification No.)

**901 Marquette Avenue, Suite 3200**

**Minneapolis, Minnesota**  
(Address of principal executive offices)

**55402-3232**  
(Zip Code)

**Registrant's telephone number, including area code:**

**612-758-5200**

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

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

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

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

The number of shares of common stock outstanding on July 29, 2011 was 38,614,075 (excluding 50,242,708 shares held by the Company as treasury stock).

**Table of Contents**

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	1
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4.	<u>Controls and Procedures</u>	33

**PART II OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	33
Item 1A.	<u>Risk Factors</u>	34
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3.	<u>Defaults Upon Senior Securities</u>	44
Item 4.	Reserved	44
Item 5.	<u>Other Information</u>	44
Item 6.	<u>Exhibits</u>	44
	<u>Signatures</u>	45

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FAIR ISAAC CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2011 (Unaudited)</b>	<b>September 30, 2010</b>
	<b>(In thousands, except par value data)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 140,917	\$ 146,199
Marketable securities available for sale, current portion	117,593	68,615
Accounts receivable, net	102,030	113,187
Prepaid expenses and other current assets	15,866	19,174
<b>Total current assets</b>	<b>376,406</b>	<b>347,175</b>
Marketable securities available for sale, less current portion	4,846	4,367
Other investments	10,999	11,074
Property and equipment, net	27,278	30,975
Goodwill	667,149	665,953
Intangible assets, net	21,483	27,244
Deferred income taxes	26,054	27,774
Other assets	7,471	9,154
<b>Total assets</b>	<b>\$ 1,141,686</b>	<b>\$ 1,123,716</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 14,877	\$ 8,765
Accrued compensation and employee benefits	29,395	33,697
Other accrued liabilities	30,929	28,732
Deferred revenue	51,482	42,953
Current maturities on long-term debt	8,000	8,000
<b>Total current liabilities</b>	<b>134,683</b>	<b>122,147</b>
Senior notes	504,000	512,000
Other liabilities	15,217	14,655
<b>Total liabilities</b>	<b>653,900</b>	<b>648,802</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (\$0.01 par value; 1,000 shares authorized; none issued and outstanding)		
Common stock (\$0.01 par value; 200,000 shares authorized, 88,857 shares issued, 38,685 and 39,882 shares outstanding at June 30, 2011 and September 30, 2010, respectively)	387	399
Paid-in-capital	1,099,420	1,103,244
	(1,587,765)	(1,556,253)

## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

Treasury stock, at cost (50,172 and 48,975 shares at June 30, 2011 and September 30, 2010, respectively)

Retained earnings	991,756	947,202
Accumulated other comprehensive loss	(16,012)	(19,678)
<b>Total stockholders' equity</b>	<b>487,786</b>	<b>474,914</b>
Total liabilities and stockholders' equity	\$ 1,141,686	\$ 1,123,716

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended June 30, 2011	2010	Nine Months Ended June 30, 2011	2010
	(in thousands, except per share data)			
<b>Revenues:</b>				
Transactional and maintenance	\$ 111,740	\$ 115,902	\$ 337,933	\$ 344,709
Professional services	29,582	25,541	84,531	75,704
License	9,357	13,886	36,970	30,132
<b>Total revenues</b>	<b>150,679</b>	<b>155,329</b>	<b>459,434</b>	<b>450,545</b>
<b>Operating expenses:</b>				
Cost of revenues (1)	43,398	45,316	137,707	132,476
Research and development	14,290	19,176	48,573	57,403
Selling, general and administrative (1)	53,643	57,077	168,725	165,977
Amortization of intangible assets (1)	1,942	2,683	5,804	8,918
Restructuring			12,391	
<b>Total operating expenses</b>	<b>113,273</b>	<b>124,252</b>	<b>373,200</b>	<b>364,774</b>
<b>Operating income</b>	<b>37,406</b>	<b>31,077</b>	<b>86,234</b>	<b>85,771</b>
Interest income	1,923	393	2,084	1,439
Interest expense	(8,023)	(5,462)	(24,401)	(16,293)
Other income, net	631	701	477	1,347
<b>Income from operations before income taxes</b>	<b>31,937</b>	<b>26,709</b>	<b>64,394</b>	<b>72,264</b>
Provision for income taxes	8,748	8,771	17,451	23,648
<b>Net Income</b>	<b>\$ 23,189</b>	<b>\$ 17,938</b>	<b>\$ 46,943</b>	<b>\$ 48,616</b>
<b>Earnings per share</b>				
Basic	\$ 0.59	\$ 0.40	\$ 1.18	\$ 1.05
Diluted	\$ 0.58	\$ 0.40	\$ 1.16	\$ 1.04
<b>Shares used in computing earnings per share:</b>				
Basic	39,451	44,446	39,788	46,171
Diluted	40,241	44,885	40,426	46,561

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

See accompanying notes to condensed consolidated financial statements.



Table of Contents

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

	Common Stock Shares	Par Value	Paid-in-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
(In thousands)								
<b>Balance at September 30, 2010</b>	<b>39,882</b>	<b>\$ 399</b>	<b>\$ 1,103,244</b>	<b>\$ (1,556,253)</b>	<b>\$ 947,202</b>	<b>\$ (19,678)</b>	<b>\$ 474,914</b>	
Share-based compensation			11,762				11,762	
Exercise of stock options	508	5	(6,321)	16,124			9,808	
Tax effect from share-based payment arrangements			(2,338)				(2,338)	
Repurchases of common stock	(1,863)	(19)		(52,655)			(52,674)	
Issuance of ESPP shares from treasury	1		(4)	26			22	
Issuance of restricted stock to employees from treasury	157	2	(6,923)	4,993			(1,928)	
Dividends paid (\$0.06 per share)					(2,389)		(2,389)	
Net income					46,943		46,943	\$ 46,943
Unrealized loss on investments						(40)	(40)	(40)
Cumulative translation adjustments						3,706	3,706	3,706
<b>Balance at June 30, 2011</b>	<b>38,685</b>	<b>\$ 387</b>	<b>\$ 1,099,420</b>	<b>\$ (1,587,765)</b>	<b>\$ 991,756</b>	<b>\$ (16,012)</b>	<b>\$ 487,786</b>	<b>\$ 50,609</b>

See accompanying notes to condensed consolidated financial statements.



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

	<b>Nine Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 46,943	\$ 48,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,623	23,762
Share-based compensation	11,762	13,235
Deferred income taxes	1,185	689
Tax effect from share-based payment arrangements	(2,338)	(3,966)
Excess tax benefits from share-based payment arrangements	(1,312)	(1,052)
Net amortization of premium on marketable securities	443	1,668
Benefit from provision for doubtful accounts, net	(583)	(234)
Net loss on sales of property and equipment	146	658
Changes in operating assets and liabilities:		
Accounts receivable	12,262	(7,852)
Prepaid expenses and other assets	3,869	815
Accounts payable	5,808	24
Accrued compensation and employee benefits	(4,438)	3,453
Other liabilities	6,386	693
Deferred revenue	6,297	3,516
<b>Net cash provided by operating activities</b>	<b>105,053</b>	<b>84,025</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(8,323)	(12,746)
Cash proceeds from sale of property and equipment		50
Cash proceeds from sale of product line assets		2,182
Purchases of marketable securities	(117,675)	(71,749)
Proceeds from sales of marketable securities	13,644	
Proceeds from maturities of marketable securities	54,545	122,573
Distribution from cost method investees	75	
<b>Net cash provided by (used in) investing activities</b>	<b>(57,734)</b>	<b>40,310</b>
<b>Cash flows from financing activities:</b>		
Payments on revolving line of credit		(50,000)
Payments on Senior Notes	(8,000)	
Proceeds from issuances of common stock under employee stock option and purchase plans	7,902	1,981
Dividends paid	(2,389)	(2,772)
Repurchases of common stock	(53,761)	(137,497)
Excess tax benefits from share-based payment arrangements	1,312	1,052
<b>Net cash used in financing activities</b>	<b>(54,936)</b>	<b>(187,236)</b>
<b>Effect of exchange rate changes on cash</b>	<b>2,335</b>	<b>(2,644)</b>

Edgar Filing: FAIR ISAAC CORP - Form 10-Q

Decrease in cash and cash equivalents	(5,282)	(65,545)
Cash and cash equivalents, beginning of year	146,199	178,157
Cash and cash equivalents, end of year	\$ 140,917	\$ 112,612

**Supplemental disclosures of cash flow information:**

Cash paid for income taxes, net of refunds	\$ 9,214	\$ 13,374
Cash paid for interest	\$ 25,547	\$ 20,519

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****1. Nature of Business*****Fair Isaac Corporation***

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

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

***Principles of Consolidation and Basis of Presentation***

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the applicable accounting guidance. Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the year ended September 30, 2010. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

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

***Use of Estimates***

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

**2. Goodwill and Intangible Assets**

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

	Quarter Ended June 30, 2011	2010	Nine Months Ended June 30, 2011	2010
	(In thousands)			
Cost of revenues	\$ 569	\$ 1,337	\$ 1,706	\$ 4,787
Selling, general and administrative expenses	1,373	1,346	4,098	4,131
	\$ 1,942	\$ 2,683	\$ 5,804	\$ 8,918

**Table of Contents**

Cost of revenues reflects our amortization of completed technology and selling, general and administrative expenses reflects our amortization of other intangible assets. Intangible assets (excluding goodwill) were \$21.5 million and \$27.2 million, net of accumulated amortization of \$113.0 million and \$108.8 million, as of June 30, 2011 and September 30, 2010, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing at June 30, 2011, was as follows (in thousands):

Fiscal year	
Remainder of fiscal 2011	\$ 1,934
2012	6,159
2013	4,146
2014	2,407
2015	2,407
Thereafter	4,430
	\$ 21,483

The following table summarizes changes to goodwill during fiscal 2011, both in total and as allocated to our segments.

	Applications	Scores (In thousands)	Tools	Total
<b>Balance at September 30, 2010</b>	\$ 452,248	\$ 146,648	\$ 67,057	\$ 665,953
Foreign currency translation adjustment	985		211	1,196
<b>Balance at June 30, 2011</b>	\$ 453,233	\$ 146,648	\$ 67,268	\$ 667,149

**3. Restructuring Expenses**

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

	Accrual at September 30, 2010	Expense Additions	Cash Payments	Accrual at June 30, 2011
	(In thousands)			
Facilities charges	\$ 2,836	\$ 4,226	\$ (1,007)	\$ 6,055
Employee separation	742	8,165	(7,803)	1,104
	3,578	\$ 12,391	\$ (8,810)	7,159
Less: current portion	(1,474)			(3,149)
<b>Non-current</b>	<b>\$ 2,104</b>			<b>\$ 4,010</b>

During the quarter ended December 31, 2010, we incurred net charges totaling \$0.9 million consisting mainly of costs for vacating excess leased space. During the quarter ended March 31, 2011, in connection with our reengineering initiative, we incurred net charges totaling \$11.5 million. The charges included \$8.2 million for severance costs associated with the reduction of 177 positions throughout the company. Cash payments

## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

for substantially all the severance costs have been paid by the end of our third quarter of fiscal 2011. We also recognized charges of \$3.3 million associated with vacating excess leased space in Minnesota and Georgia. Costs for vacating excess leased space represent future cash lease payments, net of estimated sublease income, which will be paid out over the next seven years.

**Table of Contents****4. Composition of Certain Financial Statement Captions**

The following table summarizes property and equipment, and the related accumulated depreciation and amortization.

	June 30, 2011	September 30, 2010
	(In thousands)	
Property and equipment	\$ 195,690	\$ 218,125
Less: accumulated depreciation and amortization	(168,412)	(187,150)
	\$ 27,278	\$ 30,975

**5. Earnings Per Share**

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)		(In thousands, except per share data)	
Numerator for diluted and basic earnings per share - net income:	\$ 23,189	\$ 17,938	\$ 46,943	\$ 48,616
Denominator - shares:				
Basic weighted-average shares	39,451	44,446	39,788	46,171
Effect of dilutive securities	790	439	638	390
Diluted weighted-average shares	40,241	44,885	40,426	46,561
Earnings per share from continuing operations:				
Basic	\$ 0.59	\$ 0.40	\$ 1.18	\$ 1.05
Diluted	\$ 0.58	\$ 0.40	\$ 1.16	\$ 1.04

The computation of diluted EPS for the quarters ended June 30, 2011 and 2010 excludes options to purchase approximately 2,832,000 and 4,371,000 shares of common stock, respectively, and for the nine months ended June 30, 2011 and 2010 excludes options to purchase approximately 3,747,000 and 5,001,000 shares of common stock, respectively, because the options' exercise prices exceeded the average market price of our common stock in these periods and their inclusion would be antidilutive.

**6. Segment Information**

We are organized into the following three reportable segments to align with internal management of our worldwide business operations based on product offerings.

*Applications.* Our Applications products are pre-configured Decision Management applications and associated professional services, designed for a specific type of business problem or process, such as marketing, account origination, customer management, fraud and insurance claims management.

## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

*Scores.* This segment includes our business-to-business scoring solutions, our myFICO® solutions for consumers and associated professional services. Our scoring solutions give our clients access to analytics that can be easily integrated into their transaction streams and decision-making processes. Our scoring solutions are distributed through major credit reporting agencies, as well as services through which we provide our scores to clients directly.

*Tools.* The Tools segment is composed of software tools and associated professional services that clients can use to create their own custom Decision Management applications.

**Table of Contents**

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

The following tables summarize segment information for the three and nine months ended June 30, 2011 and 2010:

	Quarter Ended June 30, 2011				
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	Total
Segment revenues:					
Transactional and maintenance	\$ 63,355	\$ 40,798	\$ 7,587	\$	\$ 111,740
Professional services	25,893	610	3,079		29,582
License	2,812	385	6,160		9,357
Total segment revenues	92,060	41,793	16,826		150,679
Segment operating expense	(64,413)	(11,739)	(13,270)	(18,352)	(107,774)
Segment operating income	\$ 27,647	\$ 30,054	\$ 3,556	\$ (18,352)	42,905
Unallocated share-based compensation expense					(3,557)
Unallocated amortization expense					(1,942)
Operating income					37,406
Unallocated interest income					1,923
Unallocated interest expense					(8,023)
Unallocated other income, net					631
Income before income taxes					\$ 31,937
Depreciation expense	\$ 3,050	\$ 232	\$ 377	\$ 252	\$ 3,911

	Quarter Ended June 30, 2010				
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	Total
Segment revenues:					
Transactional and maintenance	\$ 62,939	\$ 46,153	\$ 6,810	\$	\$ 115,902
Professional services	21,500	352	3,689		25,541
License	6,991		6,895		13,886
Total segment revenues	91,430	46,505	17,394		155,329
Segment operating expense	(68,003)	(15,907)	(15,409)	(18,397)	(117,716)
Segment operating income	\$ 23,427	\$ 30,598	\$ 1,985	\$ (18,397)	37,613



Edgar Filing: FAIR ISAAC CORP - Form 10-Q

Unallocated share-based compensation expense					(3,853)
Unallocated amortization expense					(2,683)
Operating income					31,077
Unallocated interest income					393
Unallocated interest expense					(5,462)
Unallocated other income, net					701
Income before income taxes					\$ 26,709
Depreciation expense	\$ 3,753	\$ 333	\$ 540	\$ 325	\$ 4,951

**Table of Contents**

	Nine Months Ended June 30, 2011				
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	Total
Segment revenues:					
Transactional and maintenance	\$ 194,054	\$ 121,197	\$ 22,682	\$	\$ 337,933
Professional services	74,128	1,579	8,824		84,531
License	17,450	792	18,728		36,970
<b>Total segment revenues</b>	<b>285,632</b>	<b>123,568</b>	<b>50,234</b>		<b>459,434</b>
Segment operating expense	(211,162)	(42,252)	(41,417)	(48,412)	(343,243)
<b>Segment operating income</b>	<b>\$ 74,470</b>	<b>\$ 81,316</b>	<b>\$ 8,817</b>	<b>\$ (48,412)</b>	<b>116,191</b>
Unallocated share-based compensation expense					(11,762)
Unallocated amortization expense					(5,804)
Unallocated restructuring expense					(12,391)
<b>Operating income</b>					<b>86,234</b>
Unallocated interest income					2,084
Unallocated interest expense					(24,401)
Unallocated other income, net					477
<b>Income before income taxes</b>					<b>\$ 64,394</b>
Depreciation expense	\$ 9,971	\$ 783	\$ 1,289	\$ 776	\$ 12,819

	Nine Months Ended June 30, 2010				
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	Total
Segment revenues:					
Transactional and maintenance	\$ 194,376	\$ 129,181	\$ 21,152	\$	\$ 344,709
Professional services	62,583	1,411	11,710		75,704
License	14,239		15,893		30,132
<b>Total segment revenues</b>	<b>271,198</b>	<b>130,592</b>	<b>48,755</b>		<b>450,545</b>
Segment operating expense	(201,525)	(45,386)	(43,298)	(52,412)	(342,621)
<b>Segment operating income</b>	<b>\$ 69,673</b>	<b>\$ 85,206</b>	<b>\$ 5,457</b>	<b>\$ (52,412)</b>	<b>107,924</b>
Unallocated share-based compensation expense					(13,235)
Unallocated amortization expense					(8,918)
<b>Operating income</b>					<b>85,771</b>
Unallocated interest income					1,439
Unallocated interest expense					(16,293)
Unallocated other income, net					1,347
<b>Income before income taxes</b>					<b>\$ 72,264</b>

Depreciation expense	\$ 11,257	\$ 1,013	\$ 1,583	\$ 991	\$ 14,844
----------------------	-----------	----------	----------	--------	-----------

**7. Fair Value Measurements**

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

**Table of Contents**

Level 1 - uses unadjusted quoted prices that are available in active markets for identical assets or liabilities. Our Level 1 securities are comprised of money market funds and certain equity securities.

Level 2 - uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data. Our Level 2 securities are comprised of U.S. government and corporate debt obligations that are generally held to maturity.

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

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

The following table represents financial assets that we measured at fair value on a recurring basis at June 30, 2011 and September 30, 2010, respectively:

<b>June 30, 2011</b>	<b>Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Fair Value as of June 30, 2011</b>
<b>Assets:</b>			
Cash equivalents (1)	\$ 85,285	\$	\$ 85,285
U.S. corporate debt (2)		21,996	21,996
U.S. government obligations (2)		95,597	95,597
Marketable securities (3)	4,846		4,846
<b>Total</b>	<b>\$ 90,131</b>	<b>\$ 117,593</b>	<b>\$ 207,724</b>
<b>September 30, 2010</b>	<b>Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Fair Value as of September 30, 2010</b>
<b>Assets:</b>			
Cash equivalents (1)	\$ 82,545	\$	\$ 82,545
U.S. corporate debt (2)		2,981	2,981
Non U.S. corporate debt (2)		17,267	17,267
U.S. government obligations (2)		39,452	39,452
U.S. municipal obligations (2)		8,915	8,915
Marketable securities (3)	4,367		4,367
<b>Total</b>	<b>\$ 86,912</b>	<b>\$ 68,615</b>	<b>\$ 155,527</b>

(1) Included in cash and cash equivalents on our balance sheet at June 30, 2011 and September 30, 2010. Not included in this table are cash deposits of \$55.6 million and \$63.7 million at June 30, 2011 and September 30, 2010, respectively.

(2) Included in current marketable securities on our balance sheet at June 30, 2011 and September 30, 2010.

**Table of Contents**

- (3) Represents securities held under a supplemental retirement and savings plan for certain officers and senior management employees, which are distributed upon termination or retirement of the employees. Included in long-term marketable securities on our balance sheet at June 30, 2011 and September 30, 2010.

Where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing applies to our Level 1 investments. To the extent quoted prices in active markets for assets or liabilities are not available, the valuation techniques used to measure the fair values of our financial assets incorporate market inputs, which include reported trades, broker/dealer quotes, benchmark yields, issuer spreads, benchmark securities and other inputs derived from or corroborated by observable market data. This methodology applies to our Level 2 investments. We have not changed our valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

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

Assets and liabilities measured at fair value on a nonrecurring basis primarily include goodwill and indefinite-lived intangible assets which are measured at fair value for the purposes of our annual impairment assessment.

**8. Derivative Financial Instruments**

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

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

The following tables summarize the fair value of our derivative instruments and their location in the consolidated balance sheet as of June 30, 2011 and September 30, 2010:

**June 30, 2011**

(In thousands)

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

**September 30, 2010**

(In thousands)

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

**Table of Contents**

The following tables summarize our outstanding forward foreign currency contracts, by currency, at June 30, 2011 and September 30, 2010:

	June 30, 2011		Fair Value US\$
	Foreign Currency	Contract Amount	
		US\$ (In thousands)	
Sell foreign currency:			
Canadian dollar (CAD)	CAD 1,250	\$ 1,297	\$
Euro (EUR)	EUR 4,800	6,938	
Buy foreign currency:			
British pound (GBP)	GBP 3,907	6,250	

	September 30, 2010		Fair Value US\$
	Foreign Currency	Contract Amount	
		US\$ (In thousands)	
Sell foreign currency:			
Canadian dollar (CAD)	CAD 1,300	\$ 1,258	\$
Euro (EUR)	EUR 5,460	\$ 7,446	
Buy foreign currency:			
British pound (GBP)	GBP 3,672	\$ 5,800	

The forward foreign currency contracts were all entered into on June 30, 2011 and September 30, 2010, respectively; therefore, their fair value was \$0.

Gains (losses) on derivative financial instruments are recorded in our consolidated statements of income as a component of other income, net. These amounts are shown for the quarter and nine months ended June 30, 2011 and 2010 in the table below:

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010
	(In thousands)	
Foreign currency forward contracts	\$ (279)	\$ 644
	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
	(In thousands)	
Foreign currency forward contracts	\$ (528)	\$ 520

**9. Income Taxes***Effective Tax Rate*

Our effective tax rate was 27.4% and 32.8% during the quarters ended June 30, 2011 and 2010, respectively, and 27.1% and 32.7% during the nine months ended June 30, 2011 and 2010, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year.

---

## **Table of Contents**

The effective tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution. The decrease in our effective tax rate year over year was due to the recognition of the 2010 extension of the Federal Research and Development credit, changes in the foreign and domestic earnings mix and a favorable tax settlement in one of our jurisdictions.

The total unrecognized tax benefit for uncertain tax positions at June 30, 2011 and September 30, 2010 is estimated to be approximately \$13.5 million and \$12.3 million, respectively. We recognize interest expense related to unrecognized tax benefits and penalties as part of the provision for income taxes in our consolidated statements of income. As of June 30, 2011 and September 30, 2010, we have accrued interest of \$1.7 million and \$1.4 million, respectively, related to the unrecognized tax benefits.

### **10. Revolving Line of Credit**

As of June 30, 2011 we had a \$200 million unsecured revolving line of credit with a syndicate of banks that expires on October 20, 2011. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The credit facility also contains covenants typical of unsecured facilities. As of June 30, 2011 and September 30, 2010, we had no borrowings outstanding under the credit facility.

### **11. Senior Notes**

In May 2008, we issued \$275 million of Senior Notes in a private placement to a group of institutional investors. The Senior Notes were issued in four series with maturities ranging from 5 to 10 years. The Senior Notes' weighted average interest rate is 6.8% and the weighted average maturity is 7.9 years. In July 2010, we issued \$245 million of Senior Notes in a private placement to a group of institutional investors. The Senior Notes were issued in four series with maturities ranging from 5 to 10 years. The Senior Notes' weighted average interest rate is 5.2% and the weighted average maturity is 8.0 years. These Senior Notes are subject to certain restrictive covenants that are substantially similar to those in the credit agreement for the revolving line of credit, including maintenance of consolidated leverage and fixed charge coverage ratios. The purchase agreement for the Senior Notes also includes covenants typical of unsecured facilities. The fair value of our Senior Notes was \$557.1 million and \$573.7 million as of June 30, 2011 and September 30, 2010, respectively.

### **12. Contingencies**

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

#### ***Braun Consulting, Inc.***

Braun (which we acquired in November 2004) was a defendant in a lawsuit filed on November 26, 2001, in the United States District Court for the Southern District of New York (Case No. 01 CV 10629) that alleges violations of federal securities laws in connection with Braun's initial public offering in August 1999. This lawsuit is among approximately 300 coordinated putative class actions against certain issuers, their officers and directors, and underwriters with respect to such issuers' initial public offerings.

**Table of Contents**

On April 2, 2009, a stipulation and agreement of settlement between the plaintiffs, issuer defendants and underwriter defendants was submitted to the United States District Court for the Southern District of New York for preliminary approval. This settlement requires no financial contribution from us. The Court granted the plaintiffs' motion for preliminary approval and preliminarily certified the settlement classes on June 10, 2009. The settlement fairness hearing was held on September 10, 2009. The Court granted the plaintiffs' motion for final approval of the settlement and certified the settlement classes on October 5, 2009. The Court determined that the settlement is fair to the class members, approved the settlement and dismissed, with prejudice, the case against the Company and its individual defendants. Appeals of the opinion granting final approval were filed, and the appeals filed by one objector have been remanded to the district court to determine standing to appeal. Due to the inherent uncertainties of litigation and because the settlement remains subject to appeal, the ultimate outcome of the matter is uncertain.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****FORWARD LOOKING STATEMENTS**

*Statements contained in this Report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). In addition, certain statements in our future filings with the Securities and Exchange Commission ("SEC"), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators; and (v) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as believes, anticipates, expects, intends, targeted, should, potential, goals, strategy, and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Part II, Item 1A, Risk Factors. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-Q and 8-K to be filed by the Company in fiscal 2011.*

**OVERVIEW**

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

Most of our revenues are derived from the sale of products and services within the banking (including consumer credit) and insurance industries, approximately 79% and 75% of our revenues during the quarters ended June 30, 2011 and 2010, respectively, and 78% and 76% of our revenues for the nine months ended June 30, 2011 and 2010, respectively, were derived from within these industries. A significant portion of our remaining revenues is derived from the healthcare and retail industries. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. A significant portion of our revenues is derived from transactional or unit-based software license fees, annual license fees under long-term software license arrangements, transactional fees derived under scoring, network service or internal hosted software arrangements, and annual software maintenance fees. The recurrence of these revenues is, to a significant degree, dependent upon our clients' continued usage of our products and services in their business activities. The more significant activities underlying the use of our products in these areas include: credit and debit card usage or active account levels; lending acquisition, origination and customer management activity; and customer acquisition, cross selling and retention programs. Approximately 74% and 75% of our revenues during the quarters ended June 30, 2011 and 2010, respectively, and 74% and 77% of our revenues for the nine months ended June 30, 2011 and 2010 were derived from maintenance or arrangements with transactional or unit-based pricing. We also derive revenues from other sources which generally do not recur and include, but are not limited to, perpetual or time-based licenses with upfront payment terms and non-recurring professional service arrangements.

---

## **Table of Contents**

Our revenues derived from clients outside the United States have generally grown, and may in the future grow, more rapidly than our revenues from domestic clients. International revenues totaled \$54.9 million and \$54.2 million during the quarters ended June 30, 2011 and 2010, representing 36% and 35% of total consolidated revenues in each of these periods. International revenues totaled \$171.5 million and \$152.6 million during the nine months ended June 30, 2011 and 2010, representing 37% and 34% of total consolidated revenues in each of these periods. We expect that the percentage of our revenues derived from international clients will increase in the future, subject to the impact of foreign currency fluctuations.

### **Bookings**

Management uses bookings as an indicator of our business performance. Bookings represent contracts signed in the current reporting period that will generate current and future revenue streams. We consider contract terms, knowledge of the marketplace and experience with our customers, among other factors, when determining the estimated value of contract bookings.

Bookings calculations have varying degrees of certainty depending on the revenue type and individual contract terms. Our revenue types are transactional and maintenance, professional services and license. Our estimate of bookings is as of the end of the period in which a contract is signed, and we do not update our initial booking estimates in future periods for changes between estimated and actual results. Actual revenue and the timing thereof could differ materially from our initial estimates. The following paragraphs discuss the key assumptions used to calculate bookings and the susceptibility of these assumptions to variability.

#### *Transactional and Maintenance Bookings*

We calculate transactional bookings as the total estimated volume of transactions or number of accounts under contract, multiplied by a contractual rate. Transactional contracts generally span multiple years and require us to make estimates about future transaction volumes or number of active accounts. We develop estimates from discussions with our customers and examinations of historical data from similar products and customer arrangements. Differences between estimated bookings and actual results occur due to variability in the volume of transactions or number of active accounts estimated. This variability is primarily caused by the following:

The health of the economy and economic trends in our customer's industries;

Individual performance of our customers relative to their competitors; and

Regulatory and other factors that affect the business environment in which our customers operate.

We calculate maintenance bookings directly from the terms stated in the contract.

#### *Professional Services Bookings*

We calculate professional services bookings as the estimated number of hours to complete a project multiplied by the rate per hour. We estimate the number of hours based on our understanding of the project scope, conversations with customer personnel and our experience in estimating professional services projects. Estimated bookings may differ from actual results primarily due to differences in the actual number of hours incurred. These differences typically result from customer decisions to alter the mix of FICO and internal services resources used to complete a project.

#### *License Bookings*

Licenses are sold on a perpetual or term basis and bookings generally equal the fixed amount stated in the contract.

**Table of Contents***Bookings Trend Analysis*

	<b>Bookings (in millions)</b>	<b>Bookings Yield*</b>	<b>Number of Bookings over \$1 Million</b>	<b>Weighted- Average Term (months)</b>
Quarter ended June 30, 2011	\$ 50.0	24%	10	19
Quarter ended June 30, 2010	\$ 63.5	29%	12	28
Nine months ended June 30, 2011	\$ 191.6	36%	32	NM
Nine months ended June 30, 2010	\$ 177.7	35%	35	NM

\* Bookings yield represents the percentage of revenue recognized from bookings for the period indicated.

NM Measure is not meaningful

Transactional and maintenance bookings were 35% and 44% of total bookings for the quarters ended June 30, 2011 and 2010, respectively. Professional services bookings were 46% and 35% of total bookings for the quarters ended June 30, 2011 and 2010, respectively. License bookings were 19% and 22% of total bookings for the quarters ended June 30, 2011 and 2010, respectively.

Transactional and maintenance bookings were 44% and 49% of total bookings for the nine months ended June 30, 2011 and 2010, respectively. Professional services bookings were 38% and 35% of total bookings for the nine months ended June 30, 2011 and 2010, respectively. License bookings were 18% and 16% of total bookings for the nine months ended June 30, 2011 and 2010, respectively.

The weighted-average term of bookings achieved measures the average term over which the bookings are expected to be recognized as revenue. As the weighted-average term increases, the average amount of revenues expected to be realized in a quarter decreases, however, the revenues are expected to be recognized over a longer period of time. As the weighted-average term decreases, the average amount of revenues expected to be realized in a quarter increases; however, the revenues are expected to be recognized over a shorter period of time.

Management regards the volume of bookings achieved, among other factors, as an important indicator of future revenues, but they are not comparable to, nor should they be substituted for, an analysis of our revenues, and they are subject to a number of risks and uncertainties concerning timing and contingencies affecting product delivery and performance.

Although many of our contracts contain noncancelable terms, most of our bookings are transactional or service related and are dependent upon estimates such as volume of transactions, number of active accounts, or number of hours incurred. Since these estimates cannot be considered fixed or firm, we do not believe it is appropriate to characterize bookings as backlog.

**Current Business Environment**

General economic conditions have stabilized, however high levels of unemployment and a difficult housing market continue to impact our customers in the United States and the pace of global recovery is likely to be modest across the majority of the geographical markets we serve. During the latter half of fiscal 2010 our business stabilized and we currently see signs of gradual improvement. We will continue to manage our expenses in an effort to maintain solid earnings and cash flows. We also plan to continue to invest in our Decision Management solutions as well as our core business operations to drive revenue growth.

Prior year's negative economic conditions were considered in the estimates we used in our July 1, 2010 annual goodwill impairment testing, and in particular, for our Applications segment, which had \$448.0 million in goodwill as of July 1, 2010. If market conditions decline more quickly than we can reduce costs, our margins may decrease and we may experience a decline in the fair value of our reporting units. Such declines in fair value may require us to record an impairment charge related to goodwill.

**Table of Contents****RESULTS OF OPERATIONS****Revenues**

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

Segment	Quarter Ended June 30,		Percentage of Revenues		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010	2011	2010		
	(In thousands)					
Applications	\$ 92,060	\$ 91,430	61%	59%	\$ 630	1 %
Scores	41,793	46,505	28%	30%	(4,712)	(10)%
Tools	16,826	17,394	11%	11%	(568)	(3)%
Total revenue	\$ 150,679	\$ 155,329	100%	100%	(4,650)	(3)%

Segment	Nine Months Ended June 30,		Percentage of Revenues		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010	2011	2010		
	(In thousands)					
Applications	\$ 285,632	\$ 271,198	62%	60%	\$ 14,434	5 %
Scores	123,568	130,592	27%	29%	(7,024)	(5)%
Tools	50,234	48,755	11%	11%	1,479	3 %
Total revenue	\$ 459,434	\$ 450,545	100%	100%	8,889	2 %

**Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010**

Applications	Quarter Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Transactional and maintenance	\$ 63,355	\$ 62,939	\$ 416	1 %
Professional services	25,893	21,500	4,393	20 %
License	2,812	6,991	(4,179)	(60)%
Total	\$ 92,060	\$ 91,430	630	1 %

Applications segment revenues increased \$0.6 million due to a \$3.0 million increase in our *fraud solutions*, partially offset by a \$1.3 million decrease in *marketing solutions* and a \$1.1 million decrease in our other *applications solutions*.

The increase in *fraud solutions* revenues was primarily due to an increase in professional services revenue from software implementations and an increase in volumes associated with transactional-based revenues. The decrease in *marketing solutions* was primarily attributable to a decrease in volumes associated with transactional-based revenues from our Retail Action Manager solution.

**Table of Contents**

Scores	Quarter Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Transactional and maintenance	\$ 40,798	\$ 46,153	\$ (5,355)	(12)%
Professional services	610	352	258	73%
License	385		385	%
Total	\$ 41,793	\$ 46,505	(4,712)	(10)%

Scores segment revenues decreased \$4.7 million due to a decrease of \$3.8 million in our business-to-business Scores revenue and a decrease of \$0.9 million in our myFICO business-to-consumer services revenue. The decline in our business-to-business Scores was primarily due to a true up of royalty fees with one of the credit reporting agencies in fiscal 2010. The decrease in our business-to-consumer services was primarily attributable to a decrease in transaction volumes from our bureau channel partner selling FICO scores to consumers, which was partially offset by an increase in revenue generated from direct sales to consumers.

During the quarters ended June 30, 2011 and 2010, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for approximately 19% and 22%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

Tools	Quarter Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Transactional and maintenance	\$ 7,587	\$ 6,810	\$ 777	11%
Professional services	3,079	3,689	(610)	(17)%
License	6,160	6,895	(735)	(11)%
Total	\$ 16,826	\$ 17,394	(568)	(3)%

Tools segment revenues decreased \$0.6 million primarily due to a decrease of license sales related to our Decision Optimizer products.

**Nine Months Ended June 30, 2011 Compared to Nine Months Ended June 30, 2010**

Applications	Nine Months Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Transactional and maintenance	\$ 194,054	\$ 194,376	\$ (322)	%
Professional services	74,128	62,583	11,545	18%
License	17,450	14,239	3,211	23%
Total	\$ 285,632	\$ 271,198	14,434	5%

Applications segment revenues increased \$14.4 million due to a \$13.3 million increase in our *fraud solutions* and a \$4.8 million increase in our *originations solutions*. This revenue increase was partially offset by a \$3.3 million decrease in *customer management solutions* and a \$0.4 million decrease in our other applications solutions.

The increase in *fraud solutions* revenues was primarily due to an increase in volumes associated with transactional-based revenues and an increase in license sales. The increase in *originations solutions* was attributable to an increase in license sales and an increase in professional services revenue from software implementations. The decrease in *customer management solutions* was attributable to a decrease in

transactional-based revenues.

**Table of Contents**

Scores	Nine Months Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Transactional and maintenance	\$ 121,197	\$ 129,181	\$ (7,984)	(6)%
Professional services	1,579	1,411	168	12 %
License	792		792	%
Total	\$ 123,568	\$ 130,592	(7,024)	(5)%

Scores segment revenues decreased \$7.0 million due to a \$5.1 million decrease in our business-to-business Scores revenue and a \$1.9 million decrease in our myFICO business-to-consumer services revenue. The decline in our business-to-business Scores was primarily due to a true up of royalty fees with one of the credit reporting agencies in fiscal 2010 and a decrease in volume of transactional revenues derived from the credit reporting agencies. The decrease in our myFICO business-to-consumer services was primarily attributable to a decrease in transaction volumes from our bureau channel partner selling FICO scores to consumers, which was partially offset by an increase in revenue generated from direct sales to consumers.

During the nine months ended June 30, 2011 and 2010, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for approximately 18% and 21%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

Tools	Nine Months Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Transactional and maintenance	\$ 22,682	\$ 21,152	\$ 1,530	7 %
Professional services	8,824	11,710	(2,886)	(25)%
License	18,728	15,893	2,835	18 %
Total	\$ 50,234	\$ 48,755	1,479	3 %

Tools segment revenues increased \$1.5 million primarily due to an increase of license sales related to our Blaze Advisor products.

**Table of Contents****Operating Expenses and Other Income (Expense)**

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

	Quarter Ended June 30,		Percentage of Revenues		Period-to-Period	Period-to-Period
	2011	2010	2011	2010	Change	Percentage
	(In thousands, except employees)				(In thousands, except employees)	Change
Revenues	\$ 150,679	\$ 155,329	100 %	100 %	\$ (4,650)	(3)%
Operating expenses:						
Cost of revenues	43,398	45,316	29 %	29 %	(1,918)	(4)%
Research and development	14,290	19,176	9 %	12 %	(4,886)	(25)%
Selling, general and administrative	53,643	57,077	36 %	37 %	(3,434)	(6)%
Amortization of intangible assets	1,942	2,683	1 %	2 %	(741)	(28)%
Total operating expenses	113,273	124,252	75 %	80 %	(10,979)	(9)%
Operating income	37,406	31,077	25 %	20 %	6,329	20 %
Interest income	1,923	393	1 %	%	1,530	389 %
Interest expense	(8,023)	(5,462)	(5)%	(3)%	(2,561)	47 %
Other income, net	631	701	%	%	(70)	(10)%
Income from operations before income taxes	31,937	26,709	21 %	17 %	5,228	20 %
Provision for income taxes	8,748	8,771	6 %	5 %	(23)	%
Net income	\$ 23,189	\$ 17,938	15 %	12 %	5,251	29 %
Number of employees at quarter end	1,998	2,153			(155)	(7)%



**Table of Contents**

	Nine Months Ended June 30,		Percentage of Revenues		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010	2011	2010		
	(In thousands)					
Revenues	\$ 459,434	\$ 450,545	100%	100%	\$ 8,889	2%
Operating expenses:						
Cost of revenues	137,707	132,476	30%	29%	5,231	4%
Research and development	48,573	57,403	11%	13%	(8,830)	(15)%
Selling, general and administrative	168,725	165,977	36%	37%	2,748	2%
Amortization of intangible assets	5,804	8,918	1%	2%	(3,114)	(35)%
Restructuring	12,391		3%	%	12,391	%
Total operating expenses	373,200	364,774	81%	81%	8,426	2%
Operating income	86,234	85,771	19%	19%	463	1%
Interest income	2,084	1,439	%	%	645	45%
Interest expense	(24,401)	(16,293)	(5)%	(3)%	(8,108)	50%
Other income, net	477	1,347	%	%	(870)	(65)%
Income from operations before income taxes	64,394	72,264	14%	16%	(7,870)	(11)%
Provision for income taxes	17,451	23,648	4%	5%	(6,197)	(26)%
Net income	\$ 46,943	\$ 48,616	10%	11%	(1,673)	(3)%

**Cost of Revenues**

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

The quarter over quarter decrease of \$1.9 million in cost of revenues resulted from a \$4.0 million decrease in third party software and data cost and a \$1.2 million decrease in facilities and infrastructure costs, partially offset by a \$2.9 million increase in personnel and related costs and a \$0.4 million increase in other expenses. The decrease in third party software and data costs is due to decreased sales that require data acquisition. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities. The increase in personnel and other labor-related costs was attributable to an increase in salary and related benefit costs.

The year-to-date period over period increase of \$5.2 million in cost of revenues resulted from an \$8.4 million increase in personnel and labor costs and \$0.8 million increase in other expenses, partially offset by a \$2.6 million decrease in third party software and data cost and a \$1.4 million decrease in facilities and infrastructure costs. The increase in personnel and other labor-related costs was attributable to an increase in salary and related benefit costs. The decrease in third party software and data costs was attributable to decreased sales that require data acquisition. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

Over the next several quarters, we expect that cost of revenues as a percentage of revenues will be consistent or slightly higher than those incurred during the quarter ended June 30, 2011.

**Research and Development**

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

The quarter over quarter decrease of \$4.9 million in research and development expenditures was attributable primarily to a \$3.8 million decrease in personnel and related costs and a \$1.1 million decrease in facilities and infrastructure costs. The decrease in personnel and related costs was

## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

due to decreased salary and incentive expenses for the quarter ended June 30, 2011. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

## **Table of Contents**

The year-to-date period over period decrease of \$8.8 million in research and development expenditures was attributable primarily to a \$7.8 million decrease in personnel and related costs and a \$1.3 million decrease in facilities and infrastructure costs partially offset by a \$0.3 million increase in other expenses. The decrease in personnel and related costs was due to decreased salary and incentive expenses for the nine months ended June 30, 2011. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

Over the next several quarters, we expect that research and development expenditures as a percentage of revenues will be slightly higher than those incurred during the quarter ended June 30, 2011.

### ***Selling, General and Administrative***

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

The quarter over quarter decrease of \$3.4 million in selling, general and administrative expenses was attributable to a \$2.7 million decrease in marketing expenses, a \$0.9 million decrease in facilities and infrastructure costs and a \$0.7 million decrease in other expenses, partially offset by a \$0.9 million increase in professional fees. The decrease in marketing expenses was due to a reduction in marketing programs. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities. The increase in professional fees was primarily due to increased legal expenses.

The year-to-date period over period increase of \$2.7 million in selling, general and administrative expenses was attributable to a \$8.8 million increase in personnel and related costs and a \$0.5 million increase in other costs, partially offset by a \$4.1 million decrease in marketing expenses, a \$1.4 million decrease in professional fees and a \$1.1 million decrease in facilities and infrastructure costs. The increase in personnel and related cost was due to increased salary and commission expenses. The decrease in marketing expenses was due to a reduction in marketing programs. The decrease in professional fees was primarily due to decreased legal fees. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

Over the next several quarters, we expect that selling, general and administrative expenses as a percentage of revenues will be slightly higher than those incurred during the quarter ended June 30, 2011.

### ***Amortization of Intangible Assets***

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

Over the next several quarters we expect that amortization expense will be slightly lower than the amortization expense we recorded during the quarter ended June 30, 2011.

### ***Restructuring***

During the quarter ended March 31, 2011, in connection with our reengineering initiative, we incurred net charges totaling \$11.5 million consisting mainly of \$8.2 million for severance costs associated with the reduction of 177 positions throughout the company and \$3.3 million of costs for vacating excess leased space.

During the quarter ended December 31, 2010, we incurred net charges totaling \$0.9 million consisting of costs for vacating excess leased space.

## **Table of Contents**

### ***Interest Income***

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. The quarter over quarter increase in interest income of \$1.5 million was primarily attributable to interest received on tax refunds during the quarter.

The year-to-date period over period increase in interest income of \$0.6 million was attributable to interest received on tax refunds partially offset by lower investment balances and a decline in interest rates and investment income yields due to market conditions.

### ***Interest Expense***

The quarter over quarter increase in interest expense of \$2.6 million was primarily due to the interest expense recorded on our \$245 million Senior Notes issued in July 2010.

The year-to-date period over period increase in interest expense of \$8.1 million was primarily due to the interest expense recorded on our \$245 million Senior Notes issued in July 2010.

Over the next several quarters we expect that interest expense will be consistent with levels recorded during the quarter ended June 30, 2011.

### ***Other Income, Net***

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

Other income, net in the quarter ended June 30, 2011 and June 30, 2010, primarily consisted of foreign exchange currency losses and other dividend income.

Other income, net in the nine months ended June 30, 2011, primarily consisted of foreign exchange currency losses and other dividend income. In the nine months ended June 30, 2010, other income, net consisted of exchange currency losses, other dividend income and gains on the sale of assets of \$0.8 million.

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

Our effective tax rate was 27.4% and 32.8% during the quarters ended June 30, 2011 and 2010, respectively, and 27.1% and 32.7% during the nine months ended June 30, 2011 and 2010, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution. Our effective tax rate for the quarter and nine months ended June 30, 2011 was positively affected by the reinstatement of the Federal Research and Development credit, changes in the foreign and domestic earnings mix and a favorable tax settlement in one of our jurisdictions.

**Table of Contents****Operating Income**

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

Segment	Quarter Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Applications	\$ 27,647	\$ 23,427	\$ 4,220	18 %
Scores	30,054	30,598	(544)	(2)%
Tools	3,556	1,985	1,571	79 %
Corporate expenses	(18,352)	(18,397)	45	%
Total segment operating income	42,905	37,613	5,292	14 %
Unallocated share-based compensation	(3,557)	(3,853)	296	(8)%
Unallocated amortization expense	(1,942)	(2,683)	741	(28)%
Operating income	\$ 37,406	\$ 31,077	6,329	20 %

Segment	Nine Months Ended June 30,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Applications	\$ 74,470	\$ 69,673	\$ 4,797	7 %
Scores	81,316	85,206	(3,890)	(5)%
Tools	8,817	5,457	3,360	62 %
Corporate expenses	(48,412)	(52,412)	4,000	(8)%
Total segment operating income	116,191	107,924	8,267	8 %
Unallocated share-based compensation	(11,762)	(13,235)	1,473	(11)%
Unallocated amortization expense	(5,804)	(8,918)	3,114	(35)%
Unallocated restructuring	(12,391)		(12,391)	%
Operating income	\$ 86,234	\$ 85,771	463	1 %

The quarter over quarter \$6.3 million increase in operating income was attributable to a decrease in segment operating expenses and a decrease in amortization expenses, partially offset by a decrease in segment revenues.

At the segment level, the quarter over quarter \$5.3 million increase in segment operating income was driven by a \$4.2 million increase in segment operating income in our Applications segment and a \$1.6 million increase in segment operating income in our Tools segment, partially offset by a \$0.5 million decrease in our Scores segment operating income.

The increase in Applications segment operating income was attributable to a decrease in segment operating expenses.

The increase in Tools segment operating income was attributable to a decrease in segment operating expenses.

The decrease in Scores segment operating income was attributable primarily to a decline in revenues derived from business-to-business services and business-to-consumer services partially offset by a decrease in digital marketing and third party data costs.

## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

The year-to-date period over period increase of \$0.5 million in operating income was attributable to an increase in segment revenues, a decrease in amortization expenses, a decrease in share-based compensation expenses and a decrease in corporate overhead expenses, partially offset by an increase in restructuring expenses and segment operating expenses.

At the segment level, the year-to-date period over period \$8.3 million increase in segment operating income was driven by a \$4.8 million increase in our Applications segment, a \$3.4 million increase in our Tools segment and a \$4.0 million decrease in corporate overhead expenses, partially offset by a \$3.9 million decrease in segment operating income in our Scores segment.

---

## **Table of Contents**

The increase in Applications segment operating income was attributable to an increase in revenues.

The increase in Tools segment operating income was attributable to a decrease in segment operating expenses.

The decrease in Scores segment operating income was attributable primarily to a decline in revenues derived from business-to-business services and business-to-consumer services partially offset by a decrease in digital marketing and third party data costs.

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

## **Capital Resources and Liquidity**

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

Our primary method for funding operations and growth has been through cash flows generated from operating activities. Net cash provided by operating activities increased to \$105.1 million during the nine months ended June 30, 2011 from \$84.0 million during the nine months ended June 30, 2010. The increase in operating cash flows was primarily due to an increase in cash provided by accounts receivable, prepaid expenses and other assets, other liabilities and deferred revenue. The increase was partially offset by the cash used for accrued compensation and employee benefits.

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

Net cash used in investing activities totaled \$57.7 million during the nine months ended June 30, 2011, compared to net cash provided by investing activities of \$40.3 million in the nine months ended June 30, 2010. The change in cash flows from investing activities was primarily attributable to \$49.5 million of cash used in purchases of marketable securities, net of sales and maturities, during the nine months ended June 30, 2011 compared to \$50.8 million of proceeds from sales and maturities of marketable securities, net of purchases for the nine months ended June 30, 2010.

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

Net cash used in financing activities totaled \$54.9 million in the nine months ended June 30, 2011, compared to net cash used in financing activities of \$187.2 million in the nine months ended June 30, 2010. The change in cash flows from financing activities was primarily due to \$53.8 million of common stock repurchased in the nine months ended June 30, 2011 versus \$137.5 million of common stock repurchased in the nine months ended June 30, 2010 and payments of \$8.0 million on our Senior Notes during the nine months ended June 30, 2011 versus \$50.0 million of payments on our revolving line of credit during the nine months ended June 30, 2010.

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

In June 2010, our Board of Directors approved a common stock repurchase program that allows us to purchase shares of our common stock up to an aggregate cost of \$250.0 million. From time to time, we repurchase our common stock in the open market pursuant to this program. During the three and nine months ended June 30, 2011, we repurchased 1,220,672 shares of our common stock for \$35.2 million and 1,862,972 shares of our common stock for \$52.7 million, respectively. As of June 30, 2011, we had \$122.1 million remaining under this authorization.

### ***Dividends***

During the quarter ended June 30, 2011, we paid a quarterly dividend of two cents per common share, which is representative of the eight cents per year dividend we have paid in recent years. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

---

## **Table of Contents**

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

We have a \$200 million unsecured revolving line of credit with a syndicate of banks that expires in October 2011. Proceeds from the revolving line of credit can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the revolving line of credit is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the revolving line of credit exceed 50% of the total commitment, as well as facility fees. The revolving line of credit contains certain restrictive covenants, including maintenance of consolidated leverage and fixed charge coverage ratios. The revolving line of credit also contains covenants typical of unsecured facilities. As of June 30, 2011 we were in compliance with all covenants under the revolving line of credit and we had no borrowings outstanding under the credit facility.

### ***Senior Notes***

In May 2008, we issued \$275 million of Senior Notes in a private placement to a group of institutional investors. These Senior Notes' weighted average interest rate is 6.8% and the weighted average maturity is 7.9 years. On July 14, 2010, we issued \$245 million of Senior Notes in a private placement to a group of institutional investors. These Senior Notes have a weighted average interest rate of 5.20% and a weighted average maturity of 8 years. All of the Senior Notes are subject to certain restrictive covenants that are substantially similar to those in the credit agreement for the revolving credit facility, including maintenance of consolidated leverage and fixed charge coverage ratios. The purchase agreements for the Senior Notes also includes covenants typical of unsecured facilities. As of June 30, 2011 we were in compliance with all covenants under these facilities.

### ***Capital Resources and Liquidity Outlook***

As of June 30, 2011, we had \$263.4 million in cash, cash equivalents and marketable security investments. We believe that these balances, as well as available borrowings from our \$200 million revolving line of credit and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements and any scheduled repayments of existing debt over the course of the next twelve months. Under our current financing arrangements we have no significant debt obligations maturing until May 2013. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, or if we refinance our existing debt, we may raise additional funds from a combination of sources, including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

### ***Off-Balance Sheet Arrangements***

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

### ***Critical Accounting Policies and Estimates***

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. These accounting principles require management to make certain judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We periodically evaluate our estimates including those relating to revenue recognition, the allowance for doubtful accounts, goodwill and other intangible assets resulting from business acquisitions, share-based compensation, 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.



---

**Table of Contents**

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

***Revenue Recognition******Software Licenses***

Software license fee revenue is recognized when persuasive evidence of an arrangement exists, software is made available to our customers, the fee is fixed or determinable and collection is probable. The determination of whether fees are fixed or determinable and collection is probable involves the use of judgment. If at the outset of an arrangement we determine that the arrangement fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes fixed or determinable, assuming all other revenue recognition criteria have been met. If at the outset of an arrangement we determine that collectability is not probable, revenue is deferred until the earlier of when collectability becomes probable or the receipt of payment. If there is uncertainty as to the customer's acceptance of our deliverables, revenue is not recognized until the earlier of receipt of customer acceptance, expiration of the acceptance period, or when we can demonstrate we meet the acceptance criteria. We evaluate contract terms and customer information to ensure that these criteria are met prior to our recognition of license fee revenue.

We use the residual method to recognize revenue when a software arrangement includes one or more elements to be delivered at a future date and vendor-specific objective evidence ( VSOE ) of the fair value of all undelivered elements exists. VSOE of fair value is based on the normal pricing practices for those products and services when sold separately by us and customer renewal rates for post-contract customer support services. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the fair value of one or more undelivered elements does not exist, the revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, the fair value of the respective elements, and change to a product's estimated life cycle could materially impact the amount of earned and unearned revenue.

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

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

***Transactional-based Revenues***

Transactional-based revenue is recognized when persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured. Revenues from our credit scoring, data processing, data management and internet delivery services are recognized as these services are performed. Revenues from transactional or unit-based license fees under software license arrangements, network service and internally-hosted software agreements are recognized based on minimum contractual amounts or on system usage that exceeds minimum contractual amounts. Certain of our transactional-based revenues are based on transaction or active account volumes as reported by our clients. In instances where volumes are reported to us in arrears, we estimate volumes based on preliminary customer transaction information or average actual reported volumes for an immediate trailing period. Differences between our estimates and actual final volumes reported are recorded in the period in which actual volumes are reported. We have not experienced significant variances between our estimates and actual reported volumes in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we were unable to reasonably estimate transaction volumes in the future, revenue may be deferred until actual customer data is received, and this could have a material impact on our consolidated results of operations.

***Consulting Services***

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

## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

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

---

**Table of Contents***Hosting Services*

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

*Non-Software Multiple-Deliverable Arrangements*

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

*Gross vs. Net Revenue Reporting*

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

*Allowance for Doubtful Accounts*

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

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

Our business acquisitions typically result in the recognition of goodwill and other intangible assets, which affect the amount of current and future period charges and amortization expense. Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identified intangible assets, in connection with our business combinations accounted for by the purchase method of accounting. We amortize our definite-lived intangible assets based on forecasted cash flows associated with the assets over the estimated useful lives. Goodwill is not amortized, but is assessed at least annually for impairment.



---

**Table of Contents**

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

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

We test goodwill for impairment at the reporting unit level at least annually during the fourth quarter of each fiscal year and more frequently if impairment indicators are identified. We have determined that our reporting units are the same as our reportable segments. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using the discounted cash flow valuation model and by comparing our reporting units to guideline publicly-traded companies. The two valuation methodologies are generally weighted equally in our final fair value calculation. These methods require estimates of our future revenues, profits, capital expenditures, working capital, costs of capital and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. In addition, we compare the aggregate reporting unit fair values to our market capitalization.

The estimated fair value of each of our reporting units exceeded its respective carrying value in fiscal 2010, indicating the underlying goodwill of each reporting unit was not impaired as of our most recent testing date. Accordingly, we were not required to complete the second step of the goodwill impairment test. As of July 1, 2010, the estimated fair value of our Applications reporting unit was 110% of carrying value. Total goodwill allocated to the reporting unit was \$448.0 million as of July 1, 2010.

In a discounted cash flow valuation analysis, key assumptions that require significant management judgment include revenue growth rates and weighted average cost of capital. In our analysis, revenue growth rates were primarily based on third party studies of industry growth rates for each of our reporting units. Within each reporting unit, management refined these estimates based on their knowledge of the product, the needs of our customers and expected market opportunity. The key uncertainty for revenue growth in the Applications reporting unit is the recovery of the consumer credit industry over the next several years. The weighted average cost of capital was determined based on publicly available data such as the long-term yield on U.S. treasury bonds, the expected rate of return on high quality bonds and the returns and betas of various equity instruments. As it relates to the market approach, there is less management judgment in determining the fair value of our reporting units other than selecting which guideline publicly-traded companies are included in our peer group.

For the fiscal 2010 impairment assessment our Applications reporting unit revenue terminal growth rate was 3% and our weighted average cost of capital was 11%. A decline in cash flow of 13.5% due to a reduction in revenues, or margins achieved, as compared to our forecast would have caused the Applications reporting unit to fail step one of our annual impairment test. In addition, a 1.3 percentage point increase in our weighted average cost of capital would have caused the Applications reporting unit to fail step one of our annual impairment test.

The timing and frequency of our goodwill impairment test is based on an ongoing assessment of events and circumstances that would be an indicator of potential impairment of a reporting unit below its carrying value. There are various assumptions and estimates underlying the determination of an impairment loss, and estimates using different but, in each case, reasonable assumptions

**Table of Contents**

could produce significantly different results and materially affect the determination of fair value and/or goodwill impairment for each reporting unit. For example, if the expected recovery of the economy is delayed significantly beyond what we have anticipated in our forecasts, it could cause the fair value of our Applications reporting unit to fall below its respective carrying value. We believe that the assumptions and estimates utilized were appropriate based on the information available to management. The timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions.

***Share-Based Compensation***

We account for share-based compensation using the fair value recognition provisions as required in the accounting literature. We estimate the fair value of options granted using the Black-Scholes option valuation model. We estimate the volatility of our common stock at the date of grant based on a combination of the implied volatility of publicly traded options on our common stock and our historical volatility rate. Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. We estimate the expected term of options granted based on historical exercise patterns. The dividend yield assumption is based on historical dividend payouts. The risk-free interest rate assumption is based on observed interest rates appropriate for the term of our employee options. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. For options granted, we amortize the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods. If factors change we may decide to use different assumptions under the Black-Scholes option valuation model in the future, which could materially affect our share-based compensation expense, net income and earnings per share.

***Income Taxes***

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

***Contingencies and Litigation***

We are subject to various proceedings, lawsuits and claims relating to products and services, technology, labor, shareholder and other matters. We are required to assess the likelihood of any adverse outcomes and the potential range of probable losses in these matters. If the potential loss is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. If the potential loss is considered less than probable or the amount cannot be reasonably estimated, disclosure of the matter is considered. The amount of loss accrual or disclosure, if any, is determined after analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies. Due to uncertainties related to these matters, accruals or disclosures are based on the best information available at the time. Significant judgment is required in both the assessment of likelihood and in the determination of a range of potential losses. Revisions in the estimates of the potential liabilities could have a material impact on our consolidated financial position or consolidated results of operations.

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

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



**Table of Contents****Interest Rate Risk**

We maintain an investment portfolio consisting mainly of income securities with an average maturity of three years or less. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our investments with interest rate risk at June 30, 2011 and September 30, 2010:

	June 30, 2011			September 30, 2010		
	Cost Basis	Carrying Amount	Average Yield (Dollars in thousands)	Cost Basis	Carrying Amount	Average Yield
Cash and cash equivalents	\$ 140,918	\$ 140,917	0.16%	\$ 146,199	\$ 146,199	0.10%
Short-term investments	117,596	117,593	0.16%	68,554	68,615	0.94%
	\$ 258,514	\$ 258,510	0.16%	\$ 214,753	\$ 214,814	0.37%

In May 2008, we issued \$275 million of Senior Notes to a group of institutional investors in a private placement. In July 2010 we issued an additional \$245 million of Senior Notes to a group of institutional investors in a private placement. The fair value of our Senior Notes may increase or decrease due to various factors, including fluctuations in market interest rates and fluctuations in general economic conditions. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity, above, for additional information on the Senior Notes. The following table presents the principal amounts, carrying amounts, and fair values for our Senior Notes at June 30, 2011 and September 30, 2010:

	June 30, 2011			September 30, 2010		
	Principal	Carrying Amounts	Fair Value (In thousands)	Principal	Carrying Amounts	Fair Value
\$275 million Senior Notes	\$ 267,000	\$ 267,000	\$ 301,034	\$ 275,000	\$ 275,000	\$ 315,019
\$245 million Senior Notes	\$ 245,000	\$ 245,000	\$ 256,052	\$ 245,000	\$ 245,000	\$ 258,727

We have interest rate risk with respect to our unsecured revolving line of credit. Interest on amounts borrowed under the line of credit is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 0.30% to 0.55% and is determined based on our consolidated leverage ratio. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows, but does not impact the fair value of the instrument. As of June 30, 2011 and September 30, 2010 we had no outstanding borrowings on this facility.

**Forward Foreign Currency Contracts**

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



**Table of Contents**

The following table summarizes our outstanding forward foreign currency contracts, by currency at June 30, 2011 and September 30, 2010:

	Contract Amount		Fair Value
	Foreign Currency	US\$ (In thousands)	US\$
Sell foreign currency:			
Canadian dollar (CAD)	CAD 1,250	\$ 1,297	\$
Euro (EUR)	EUR 4,800	6,938	
Buy foreign currency:			
British pound (GBP)	GBP 3,907	6,250	

	September 30, 2010		Fair Value
	Foreign Currency	US\$ (In thousands)	US\$
Sell foreign currency:			
Canadian dollar (CAD)	CAD 1,300	\$ 1,258	\$
Euro (EUR)	EUR 5,460	\$ 7,446	
Buy foreign currency:			
British pound (GBP)	GBP 3,672	\$ 5,800	

The forward foreign currency contracts were all entered into on June 30, 2011 and September 30, 2010, respectively; therefore, the fair value was \$0 on each of those dates.

**Item 4. Controls and Procedures**  
*Evaluation of Disclosure Controls and Procedures*

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

**Changes in Internal Control over Financial Reporting**

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

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

On October 11, 2006, we filed a lawsuit in the U.S. District Court for the District of Minnesota captioned Fair Isaac Corporation and myFICO Consumer Services Inc. v. Equifax Inc., Equifax Information Services LLC, Experian Information Solutions, Inc., TransUnion LLC, VantageScore Solutions LLC, and Does I through X. The lawsuit related in part to the development, marketing, and



**Table of Contents**

distribution of VantageScore, a credit score product developed by VantageScore Solutions LLC, which is jointly owned by the three national credit reporting companies. We alleged in the lawsuit violations of antitrust laws, unfair competitive practices and false advertising, trademark infringement, and breach of contract. We sought injunctive relief and compensatory damages. On June 6, 2008, we entered into a settlement agreement with Equifax Inc. and Equifax Information Services LLC, and on June 13, 2008, Equifax Inc. and Equifax Information Services LLC were formally dismissed from this lawsuit. On February 9, 2009, the Court granted our motions to strike counterclaims the remaining defendants had attempted to bring against us in the case, allowing them to assert only a counterclaim for trademark cancellation. On July 24, 2009, the Court issued a summary judgment order, which limited the claims to be tried. The Court dismissed our antitrust, contract, and certain false advertising claims. The Court allowed our trademark infringement, unfair competition, and passing off claims to proceed to trial. After a three-week trial on these claims, the jury ruled in the defendants' favor on November 20, 2009. We filed post-trial motions to address issues in the trial, and the defendants filed post-trial motions seeking payment of certain attorneys' fees and costs. On May 10, 2010, the Court issued a ruling denying our post-trial motions and substantially denying defendants' motions for attorneys' fees and costs (other than an award to TransUnion LLC for certain fees associated with our contract claims). On May 17, 2010, we entered into a settlement agreement with TransUnion LLC pursuant to which, among many other terms, TransUnion LLC released all claims to the fee award and was dismissed from the lawsuit. On August 20, 2010, we filed an appeal with the U.S. Court of Appeals for the Eighth Circuit appealing the results from the district court, including the dismissal of our antitrust claims and certain rulings fundamental to our trademark and false advertising claims. On November 4, 2010, the remaining defendants, Experian Information Solutions, Inc. and VantageScore Solutions LLC, filed an appeal regarding the denial of their motions for attorneys' fees. A hearing before the Eighth Circuit was held on May 12, 2011, and a ruling is expected later in 2011.

**Item 1A. Risk Factors***Risks Related to Our Business*

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

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

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

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

changes in the business analytics industry;

changes in technology;

our inability to obtain or use key data for our products;

saturation or contraction of market demand;

loss of key customers;

industry consolidation;

failure to execute our selling approach; and

inability to successfully sell our products in new vertical markets.

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

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

---

## **Table of Contents**

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

Our growth and the success of our DM strategy depend upon our ability to develop and sell new products or suites of products. If we are unable to develop new products, or if we are not successful in introducing new products, we may not be able to grow our business, or growth may occur more slowly than we anticipate. In addition, significant undetected errors or delays in new products or new versions of products may affect market acceptance of our products and could harm our business, financial condition or results of operations. In the past, we have experienced delays while developing and introducing new products and product enhancements, primarily due to difficulties developing models, acquiring data and adapting to particular operating environments. We have also experienced errors or bugs in our software products, despite testing prior to release of the products. Software errors in our products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. Errors or defects in our products that are significant, or are perceived to be significant, could result in rejection of our products, damage to our reputation, loss of revenues, diversion of development resources, an increase in product liability claims, and increases in service and support costs and warranty claims.

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

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

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

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

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

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

Most of our products rely on distributors, and we intend to continue to market and distribute our products through existing and future distributor relationships. Our Scores segment relies on, among others, TransUnion, Equifax and Experian. Failure of our existing and future distributors to generate significant revenues, demands by such distributors to change the terms on which they offer our products or our failure to establish additional distribution or sales and marketing alliances could have a material adverse effect on our business, operating results and financial condition. In addition, certain of our distributors presently compete with us and may

## **Table of Contents**

compete with us in the future either by developing competitive products themselves or by distributing competitive offerings. For example, TransUnion, Equifax and Experian have developed a credit scoring product to compete directly with our products and are collectively attempting to sell the product. Competition from distributors or other sales and marketing partners could significantly harm sales of our products and services.

*If we do not engage in acquisition activity, we may be unable to increase our revenues at comparable market growth rates.*

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

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

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

failure to achieve the financial and strategic goals for the acquired and combined business;

overpayment for the acquired companies or assets;

difficulty assimilating the operations and personnel of the acquired businesses;

product liability and other exposure associated with acquired businesses or the sale of their products;

disruption of our ongoing business;

dilution of our existing stockholders and earnings per share;

unanticipated liabilities, legal risks and costs;

retention of key personnel;

distraction of management from our ongoing business; and

impairment of relationships with employees and customers as a result of integration of new management personnel.

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

disruption of our ongoing business;

reductions of our revenues or earnings per share;

unanticipated liabilities, legal risks and costs;

the potential loss of key personnel;

distraction of management from our ongoing business; and

impairment of relationships with employees and customers as a result of migrating a business to new owners.

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

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

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

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

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

variability in demand from our existing customers;

**Table of Contents**

failure to meet the expectations of market analysts;

changes in recommendations by market analysts;

the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increases the likelihood of short-term fluctuation in revenues;

consumer dissatisfaction with, or problems caused by, the performance of our products;

the timing of new product announcements and introductions in comparison with our competitors;

the level of our operating expenses;

changes in competitive and other conditions in the consumer credit, banking and insurance industries;

fluctuations in domestic and international economic conditions;

our ability to complete large installations on schedule and within budget;

acquisition-related expenses and charges; and

timing of orders for and deliveries of software systems.

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

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

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

We experience difficulty in forecasting our revenues accurately because the length of our sales cycles makes it difficult for us to predict the quarter in which sales will occur. In addition, our selling approach is complex as we look to sell multiple products and services across our customers' organizations. This makes forecasting of revenues in any given period more difficult. As a result of our sales approach and lengthening sales cycles, revenues and operating results may vary significantly from period to period. For example, the sales cycle for licensing our products typically ranges from 60 days to 18 months. Customers are often cautious in making decisions to acquire our products because purchasing our products typically involves a significant commitment of capital and may involve shifts by the customer to a new software and/or hardware platform or changes in the customer's operational procedures. This may cause customers, particularly those experiencing financial stress, to make purchasing decisions more cautiously. Delays in completing sales can arise while customers complete their internal procedures to



## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

approve large capital expenditures and test and accept our applications. Consequently, we face difficulty predicting the quarter in which sales to expected customers will occur and experience fluctuations in our revenues and operating results. If we are unable to accurately forecast our revenues, our stock price could be adversely affected.

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

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

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

Our DM strategy and our future success will depend in large part on our ability to attract and retain experienced sales, consulting, research and development, marketing, technical support and management personnel. The complexity of our products requires highly

**Table of Contents**

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

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

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

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

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

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

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

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

incur significant defense costs or substantial damages;

be required to cease the use or sale of infringing products;

expend significant resources to develop or license a substitute non-infringing technology;

---

## **Table of Contents**

discontinue the use of some technology; or

be required to obtain a license under the intellectual property rights of the third party claiming infringement, which license may not be available or might require substantial royalties or license fees that would reduce our margins.

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

Our business requires the appropriate and secure utilization of consumer and other sensitive information. Internet-based electronic commerce requires the secure transmission of confidential information over public networks, and several of our products are accessed through the Internet, including our consumer services accessible through the www.myfico.com website. Security breaches in connection with the delivery of our products and services, including products and services utilizing the Internet, or well-publicized security breaches, and the trend toward broad consumer and general public notification of such incidents, could significantly harm our business, financial condition or results of operations. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting the networks that access our net-sourced products, consumer services and proprietary database information.

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

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

### **Risks Related to Our Industry**

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

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

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

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

innovate by internally developing new and competitive technologies;

use leading third-party technologies effectively;

continue to develop our technical expertise;

anticipate and effectively respond to changing customer needs;

initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and

influence and respond to emerging industry standards and other technological changes.

**Table of Contents**

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

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

in-house analytic and systems developers;

scoring model builders;

enterprise resource planning (ERP) and customer relationship management (CRM) packaged solutions providers;

business intelligence solutions providers;

credit report and credit score providers;

business process management solution providers;

process modeling tools providers;

automated application processing services providers;

data vendors;

neural network developers and artificial intelligence system builders;

third-party professional services and consulting organizations;

account/workflow management software providers; and

software tools companies supplying modeling, rules, or analytic development tools.

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, certain of our fraud solutions products compete against other methods of preventing credit card fraud, such as credit cards that contain the cardholder's photograph, smart cards, cardholder verification and authentication solutions and other card authorization techniques. Many of our anticipated competitors have greater financial, technical, marketing, professional services and other resources than we do, and industry consolidation is creating even larger competitors in many of our markets. As a result, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources than we can to develop,

promote and sell their products. Many of these companies have extensive customer relationships, including relationships with many of our current and potential customers. Furthermore, new competitors or alliances among competitors may emerge and rapidly gain significant market share. For example, TransUnion, Equifax and Experian have formed an alliance that has developed a credit scoring product competitive with our products. If we are unable to respond as quickly or effectively to changes in customer requirements as our competition, our ability to expand our business and sell our products will be negatively affected.

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

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

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

Use of data by creditors and consumer reporting agencies. Examples in the U.S. include the Fair Credit Reporting Act ( FCRA ), the Fair and Accurate Credit Transactions Act ( FACTA ), which amends FCRA, and certain proposed regulations and studies mandated by FACTA, under consideration;

Laws and regulations that limit the use of credit scoring models such as state mortgage trigger laws, state inquiries laws, state insurance restrictions on the use of credit based insurance scores, and the Consumer Credit Directive in the European Union;

---

**Table of Contents**

Fair lending laws, such as the Truth In Lending Act ( TILA ) and Regulation Z, and the Equal Credit Opportunity Act ( ECOA ) and Regulation B.

Privacy and security laws and regulations that limit the use and disclosure of personally identifiable information or require security procedures, including but not limited to the provisions of the Financial Services Modernization Act of 1999, also known as the Gramm Leach Bliley Act ( GLBA ); FACTA; the Health Insurance Portability and Accountability Act of 1996 ( HIPAA ); the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ( USA Patriot Act ); identity theft, file freezing, security breach notification and similar state privacy laws;

Extension of credit to consumers through the Electronic Fund Transfers Act, as well as nongovernmental VISA and MasterCard electronic payment standards;

Regulations applicable to secondary market participants such as Fannie Mae and Freddie Mac that could have an impact on our products;

Insurance laws and regulations applicable to our insurance clients and their use of our insurance products and services;

The application or extension of consumer protection laws, including, laws governing the use of the Internet and telemarketing, advertising, endorsements and testimonials and credit repair;

Laws and regulations applicable to operations in other countries, for example, the European Union s Privacy Directive and the Foreign Corrupt Practices Act;

Sarbanes-Oxley Act ( SOX ) requirements to maintain and verify internal process controls, including controls for material event awareness and notification;

The implementation of the Emergency Economic Stabilization Act of 2008 by federal regulators to manage the financial crisis in the United States;

Financial regulatory reform stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act; and

Laws and regulations regarding export controls as they apply to FICO products delivered in non-US countries.

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

In response to recent market disruptions, legislators and financial regulators implemented a number of mechanisms designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions, assistance by the banking authorities in arranging acquisitions of weakened banks and broker-dealers, and implementation of programs by the Federal Reserve to provide liquidity to the commercial paper markets. The overall effects of these and other legislative and regulatory efforts on the financial markets are



uncertain, and they may not have the intended stabilization effects. Should these or other legislative or regulatory initiatives fail to stabilize and add liquidity to the financial markets, our business, financial condition, results of operations and prospects could be materially and adversely affected. Whether or not legislative or regulatory initiatives or other efforts designed to address recent economic conditions successfully stabilize and add liquidity to the financial markets, we may need to modify our strategies, businesses or operations, and we may incur additional costs in order to compete in a changed business environment.

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

During fiscal 2010, 76% of our revenues were derived from sales of products and services to the banking and insurance industries. Since mid-2007, global credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in the fall of 2008, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. The recent market developments and the potential for increased and continuing disruptions present considerable risks to our businesses and operations. These risks include potential bankruptcies or credit deterioration of financial institutions, many of which are our customers. Further deterioration or a continuation of recent market conditions is likely to lead to a continued decline in the revenue we receive from financial and other institutions.

---

## **Table of Contents**

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

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

### **Risk Related to External Conditions**

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

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

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

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

A growing portion of our revenues is derived from international sales. During fiscal 2010, 35% of our revenues were derived from business outside the United States. As part of our growth strategy, we plan to continue to pursue opportunities outside the United States, including opportunities in countries with economic systems that are in early stages of development and that may not mature sufficiently to result in growth for our business. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

general economic and political conditions in countries where we sell our products and services;

difficulty in staffing and efficiently managing our operations in multiple geographic locations and in various countries;

effects of a variety of foreign laws and regulations, including restrictions on access to personal information;

import and export licensing requirements;

longer payment cycles;

reduced protection for intellectual property rights;

currency fluctuations;

changes in tariffs and other trade barriers; and

difficulties and delays in translating products and related documentation into foreign languages.

**Table of Contents**

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

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

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

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

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

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**  
**Issuer Purchases of Equity Securities (1)**

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2011 through April 30, 2011	18,746	\$ 29.13	14,070	\$ 156,874,059
May 1, 2011 through May 31, 2011	540,812	\$ 28.96	540,602	\$ 141,217,715
June 1, 2011 through June 30, 2011	668,751	\$ 28.75	666,000	\$ 122,055,128
	1,228,309	\$ 28.85	1,220,672	\$ 122,055,128

(1)

## Edgar Filing: FAIR ISAAC CORP - Form 10-Q

In June 2010, our Board of Directors approved a common stock repurchase program that allows us to purchase shares of our common stock up to an aggregate cost of \$250.0 million in the open market or through negotiated transactions. The June 2010 program does not have a fixed expiration date.

- (2) Includes 7,637 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended June 30, 2011.

**Table of Contents**

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

**Exhibit**

<b>Number</b>	<b>Description</b>
3.1	Composite Restated Certificate of Incorporation of Fair Isaac Corporation (incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q filed on February 8, 2010).
3.2	By laws of Fair Isaac Corporation (Incorporated by reference to Exhibit 3.1 to the Company's 10-Q filed on February 8, 2010).
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.
32.1	Section 1350 Certification of CEO.
32.2	Section 1350 Certification of CFO.
101	The following materials from Fair Isaac Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in Extensive Business Reporting Language (XBRL), (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income, (iii) condensed consolidated statement of stockholders' equity and comprehensive income, (iv) condensed consolidated statements of cash flows, and (v) the notes to the condensed consolidated financial statements.

**Table of Contents**

**SIGNATURES**

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

FAIR ISAAC CORPORATION

DATE: August 8, 2011

By */s/ MICHAEL J. PUNG*  
*Michael J. Pung*  
*Senior Vice President and Chief Financial Officer*  
  
*(for Registrant as duly authorized officer,*  
  
*Principal Financial Officer and*  
  
*Principal Accounting Officer)*

45

**Table of Contents**

**EXHIBIT INDEX**

**To Fair Isaac Corporation Report On Form 10-Q**

**For The Quarterly Period Ended June 30, 2011**

**Exhibit**

<b>Number</b>	<b>Description</b>	
3.1	Composite Restated Certificate of Incorporation of Fair Isaac Corporation	Incorporated by Reference
3.2	By Laws of Fair Isaac Corporation	Incorporated by Reference
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO.	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO.	Filed Electronically
32.1	Section 1350 Certification of CEO.	Filed Electronically
32.2	Section 1350 Certification of CFO.	Filed Electronically
101	The following materials from Fair Isaac Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in Extensive Business Reporting Language (XBRL), (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income, (iii) condensed consolidated statement of stockholders' equity and comprehensive income, (iv) condensed consolidated statements of cash flows, and (v) the notes to the condensed consolidated financial statements.	Filed Electronically