

FAIR ISAAC CORP
Form 10-Q
February 02, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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)

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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 <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

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

The number of shares of common stock outstanding on January 31, 2012 was 36,031,522 (excluding 52,825,261 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>	29
Item 4.	<u>Controls and Procedures</u>	30

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	31
Item 1A.	<u>Risk Factors</u>	31
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3.	<u>Defaults Upon Senior Securities</u>	40
Item 4.	<u>(Removed and Reserved)</u>	40
Item 5.	<u>Other Information</u>	40
Item 6.	<u>Exhibits</u>	41
Signatures		42

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

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2011 (Unaudited) (In thousands, except par value data)	September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 175,375	\$ 135,752
Marketable securities available for sale, current portion	56,212	105,826
Accounts receivable, net	117,301	104,974
Prepaid expenses and other current assets	16,151	17,929
Total current assets	365,039	364,481
Marketable securities available for sale, less current portion	4,398	4,170
Other investments	10,934	10,934
Property and equipment, net	33,329	33,017
Goodwill	663,944	664,688
Intangible assets, net	17,559	19,498
Deferred income taxes	23,398	25,032
Other assets	7,079	7,648
Total assets	\$ 1,125,680	\$ 1,129,468
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 14,229	\$ 11,139
Accrued compensation and employee benefits	26,359	36,470
Other accrued liabilities	40,616	47,031
Deferred revenue	47,962	41,768
Deferred income taxes	2,633	2,090
Current maturities on long-term debt	8,000	8,000
Total current liabilities	139,799	146,498
Senior notes	504,000	504,000
Other liabilities	19,623	13,476
Total liabilities	663,422	663,974
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 and 35,993 and 37,084 shares outstanding at December 31, 2011 and September 30, 2011, respectively)	360	371
Paid-in-capital	1,094,544	1,098,388
	(1,653,142)	(1,627,180)

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Treasury stock, at cost (52,864 and 51,773 shares at December 31, 2011 and September 30, 2011, respectively)

Retained earnings	1,044,904	1,015,624
Accumulated other comprehensive loss	(24,408)	(21,709)
Total stockholders' equity	462,258	465,494
Total liabilities and stockholders' equity	\$ 1,125,680	\$ 1,129,468

See accompanying notes to condensed consolidated financial statements.

Table of Contents

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Quarter Ended December 31,	
	2011	2010
	(in thousands, except per share data)	
Revenues:		
Transactional and maintenance	\$ 114,183	\$ 114,762
Professional services	28,693	27,908
License	27,473	13,261
Total revenues	170,349	155,931
Operating expenses:		
Cost of revenues (1)	45,974	45,803
Research and development	13,049	18,061
Selling, general and administrative (1)	57,324	59,633
Amortization of intangible assets (1)	1,930	1,929
Restructuring		869
Total operating expenses	118,277	126,295
Operating income	52,072	29,636
Interest income	88	104
Interest expense	(7,987)	(8,241)
Other expense, net	(548)	(76)
Income from operations before income taxes	43,625	21,423
Provision for income taxes	13,628	5,414
Net income	\$ 29,997	\$ 16,009
Earnings per share:		
Basic	\$ 0.83	\$ 0.40
Diluted	\$ 0.81	\$ 0.40
Shares used in computing earnings per share:		
Basic	36,034	39,923
Diluted	36,887	40,439

(1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 4 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, except per share data)								
Balance at September 30, 2011	37,084	\$ 371	\$ 1,098,388	\$ (1,627,180)	\$ 1,015,624	\$ (21,709)	\$ 465,494	
Share-based compensation			4,757				4,757	
Exercise of stock options	660	7	(2,972)	20,607			17,642	
Tax effect from share-based payment arrangements			1,323				1,323	
Repurchases of common stock	(1,889)	(19)		(50,901)			(50,920)	
Issuance of ESPP shares from treasury				5			5	
Issuance of restricted stock to employees from treasury	138	1	(6,952)	4,327			(2,624)	
Dividends paid (\$0.02 per share)					(717)		(717)	
Net income					29,997		29,997	\$ 29,997
Unrealized loss on investments						(15)	(15)	(15)
Cumulative translation adjustments						(2,684)	(2,684)	(2,684)
Balance at December 31, 2011	35,993	\$ 360	\$ 1,094,544	\$ (1,653,142)	\$ 1,044,904	\$ (24,408)	\$ 462,258	\$ 27,298

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31,	
	2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 29,997	\$ 16,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,528	6,455
Share-based compensation	4,757	4,034
Deferred income taxes	425	819
Tax effect from share-based payment arrangements	1,323	(212)
Excess tax benefits from share-based payment arrangements	(1,671)	(435)
Net amortization of premium on marketable securities	120	297
Benefit from provision for doubtful accounts, net		(293)
Net loss on sales of property and equipment		3
Changes in operating assets and liabilities:		
Accounts receivable	(12,589)	7,817
Prepaid expenses and other assets	2,193	2,262
Accounts payable	6,892	3,325
Accrued compensation and employee benefits	(10,058)	(11,105)
Other liabilities	1,873	624
Deferred revenue	12,359	3,280
Net cash provided by operating activities	41,149	32,880
Cash flows from investing activities:		
Purchases of property and equipment	(7,757)	(1,328)
Purchases of marketable securities	(23,036)	
Proceeds from maturities of marketable securities	72,509	21,415
Net cash provided by investing activities	41,716	20,087
Cash flows from financing activities:		
Cash provided by issuances of common stock under employee stock option and purchase plans	15,023	68
Dividends paid	(717)	(798)
Repurchases of common stock	(57,685)	(2,169)
Excess tax benefits from share-based payment arrangements	1,671	435
Net cash used in financing activities	(41,708)	(2,464)
Effect of exchange rate changes on cash	(1,534)	(270)
Increase in cash and cash equivalents	39,623	50,233
Cash and cash equivalents, beginning of year	135,752	146,199
Cash and cash equivalents, end of year	\$ 175,375	\$ 196,432

Supplemental disclosures of cash flow information:

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Cash paid for income taxes, net of refunds	\$	4,696	\$	3,185
Cash paid for interest	\$	9,246	\$	9,588

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, 2011. 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. 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.

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

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observable market data. Our Level 2 securities are comprised of U.S. government and corporate debt obligations that are generally held to maturity.

Table of Contents

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

The following table represents financial assets that we measured at fair value on a recurring basis at December 31, 2011 and September 30, 2011, respectively:

December 31, 2011	Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Fair Value as of December 31, 2011
Assets:			
Cash equivalents (1)	\$ 96,425	\$	\$ 96,425
U.S. corporate debt (2)		3,544	3,544
U.S. commercial paper (2)		5,987	5,987
U.S. government obligations (2)		46,681	46,681
Marketable securities (3)	4,398		4,398
Total	\$ 100,823	\$ 56,212	\$ 157,035

September 30, 2011	Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Fair Value as of September 30, 2011
Assets:			
Cash equivalents (1)	\$ 67,504	\$	\$ 67,504
U.S. corporate debt (2)		1,529	1,529
U.S. commercial paper (2)		13,993	13,993
U.S. government obligations (2)		44,092	44,092
U.S. municipal obligations (2)		46,212	46,212
Marketable securities (3)	4,170		4,170
Total	\$ 71,674	\$ 105,826	\$ 177,500

(1) Included in cash and cash equivalents on our balance sheet at December 31, 2011 and September 30, 2011. Not included in this table are cash deposits of \$79.0 million and \$68.2 million at December 31, 2011 and September 30, 2011, respectively.

(2) Included in current marketable securities on our balance sheet at December 31, 2011 and September 30, 2011.

(3) Represents securities held under a supplemental retirement and savings plan for certain officers and senior management employees, which are distributed upon termination or retirement of the employees. Included in long-term marketable securities on our balance sheet at December 31, 2011 and September 30, 2011.

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

For the fair value of our derivative instruments, see Note 3 to the condensed consolidated financial statements.

Table of Contents*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 definite-lived intangible assets which are measured at fair value for the purposes of our annual impairment assessment.

3. 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 December 31, 2011 and September 30, 2011:

December 31, 2011

(In thousands)

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

September 30, 2011

(In thousands)

	Assets		Liabilities	
Derivatives not designated as hedging instruments	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 December 31, 2011 and September 30, 2011:

	December 31, 2011		
	Contract Amount		Fair Value
	Foreign Currency	US\$ (In thousands)	US\$
Sell foreign currency:			
Canadian dollar (CAD)	CAD 1,200	\$ 1,176	\$
Euro (EUR)	EUR 4,870	\$ 6,311	\$
Buy foreign currency:			
British pound (GBP)	GBP 3,391	\$ 5,250	\$

	September 30, 2011		
	Contract Amount		Fair Value
	Foreign		
	Currency	US\$	US\$
	(In thousands)		
Sell foreign currency:			
Canadian dollar (CAD)	CAD 8,000	\$ 7,663	\$
Euro (EUR)	EUR 4,830	\$ 6,524	\$
Buy foreign currency:			
British pound (GBP)	GBP 3,911	\$ 6,100	\$

The forward foreign currency contracts were all entered into on December 31, 2011 and September 30, 2011, respectively; therefore, their fair value was \$0.

Gains (losses) on derivative financial instruments are recorded in our condensed consolidated statements of income as a component of other income, net. These amounts are shown for the quarters ended December 31, 2011 and 2010 in the table below:

	Quarter Ended December 31, 2011	Quarter Ended December 31, 2010
	(In thousands)	
Foreign currency forward contracts	\$ (492)	\$ 123

4. 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 December 31,	
	2011	2010
	(In thousands)	
Cost of revenues	\$ 569	\$ 569
Selling, general and administrative expenses	1,361	1,360
	\$ 1,930	\$ 1,929

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, gross were \$136.1 million as of December 31, 2011 and September 30, 2011, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing at December 31, 2011, was as follows (in thousands):

Fiscal year	
Remainder of fiscal 2012	\$ 4,188
2013	4,126
2014	2,407
2015	2,407
2016	2,407
Thereafter	2,024
	\$ 17,559

The following table summarizes changes to goodwill during the quarter ended December 31, 2011, both in total and as allocated to our segments.

	Applications	Scores	Tools	Total
	(In thousands)			
Balance at September 30, 2011	\$ 451,205	\$ 146,648	\$ 66,835	\$ 664,688
Foreign currency translation adjustment	(731)		(13)	(744)
Balance at December 31, 2011	\$ 450,474	\$ 146,648	\$ 66,822	\$ 663,944

5. Composition of Certain Financial Statement Captions

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

	December 31, 2011	September 30, 2011
	(In thousands)	
Property and equipment	\$ 186,881	\$ 183,826
Less: accumulated depreciation and amortization	(153,552)	(150,809)
	\$ 33,329	\$ 33,017

6. Revolving Line of Credit

We have a \$200 million unsecured revolving line of credit with a syndicate of banks that expires on September 28, 2016. 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 1.000% to 1.625% 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 maintaining a maximum consolidated leverage ratio of 3.0 and a minimum fixed charge ratio of 2.5, and also contains other covenants typical of unsecured facilities. As of December 31, 2011, we had no borrowings outstanding under the credit facility and were in compliance with all financial covenants.

Table of Contents**7. 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 require interest payments semi-annually and also include certain restrictive covenants. As of December 31, 2011, we were in compliance with all financial covenants which include the maintenance of consolidated net debt to consolidated EBITDA and a fixed charge coverage ratio. The issuance of these Senior Notes also required us to make certain covenants typical of unsecured facilities. The carrying value of our Senior Notes was \$512.0 million as of December 31, 2011 and September 30, 2011. The fair value of our Senior Notes was \$564.8 million and \$572.5 million as of December 31, 2011 and September 30, 2011, respectively.

8. 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. There were no restructuring charges during the quarter ended December 31, 2011.

	Accrual at September 30, 2011	Expense Additions	Cash Payments	Accrual at December 31, 2011
	(In thousands)			
Facilities charges	\$ 5,362	\$	\$ (541)	\$ 4,821
Employee separation	1,034		(1,034)	
	6,396	\$	\$ (1,575)	4,821
Less: current portion	(3,062)			(1,804)
Non-current	\$ 3,334			\$ 3,017

9. Income Taxes*Effective Tax Rate*

The effective income tax rate for the three months ended December 31, 2011 was 31.2% compared to 25.3% for the three months ended December 31, 2010. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The effective tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution. The increase in our effective tax rate was due to the recognition of the 2010 extension of Federal Research and Development credit during fiscal 2011 and the expiration of the Federal Research and Development credit during fiscal 2012.

The total unrecognized tax benefit for uncertain tax positions at December 31, 2011 and September 30, 2011 is estimated to be approximately \$9.6 million and \$9.5 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 December 31, 2011 and September 30, 2011, we have accrued interest of \$0.9 million and \$0.8 million, respectively, related to the unrecognized tax benefits.

10. Share-Based Payments

We maintain the 1992 Long-term Incentive Plan (the "1992 Plan") under which we may grant stock options, stock appreciation rights, restricted stock, restricted stock units and common stock to officers, key employees and non-employee directors. The 1992 Plan will terminate in February 2012. In November 2003, our Board of Directors approved the adoption of the 2003 Employment Inducement Award Plan (the "2003 Plan"). The

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2003 Plan reserves shares of common stock solely for the granting of inducement stock options and other awards, as defined, that meet the employment inducement award exception to the New York Stock Exchange's listing standards requiring shareholder approval of equity-based inducement incentive plans. Except for the employment inducement award criteria, awards under the 2003 Plan will be generally consistent with those made under our 1992 Plan. The 2003 Plan shall remain in effect until terminated by the Board of Directors. Stock option awards granted typically have a maximum term of seven years and vest ratably over four years.

Table of Contents

The following table summarizes option activity during the quarter ended December 31, 2011:

	Shares (In thousands)	Weighted- average Price	Weighted- average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at October 1, 2011	5,812	\$ 29.94		
Granted	382	35.01		
Exercised	(660)	26.74		
Forfeited	(7)	22.24		
Expired	(33)	37.47		
Outstanding at December 31, 2011	5,494	\$ 30.64	3.88	\$ 37,188
Options exercisable at December 31, 2011	3,785	\$ 33.21	2.97	\$ 18,477

The following table summarizes restricted stock unit activity during the quarter ended December 31, 2011:

	Shares (In thousands)	Weighted- average Price
Outstanding at October 1, 2011	1,105	\$ 23.14
Granted	501	35.56
Released	(214)	22.99
Forfeited	(32)	23.46
Outstanding at December 31, 2011	1,360	\$ 27.73

Table of Contents**11. Earnings Per Share**

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

	Quarter Ended December 31, 2011 2010 (In thousands, except per share data)	
Numerator for diluted and basic earnings per share:		
Net Income	\$ 29,997	\$ 16,009
Denominator share:		
Basic weighted-average shares	36,034	39,923
Effect of dilutive securities	853	516
Diluted weighted-average shares	36,887	40,439
Earnings per share:		
Basic	\$ 0.83	\$ 0.40
Diluted	\$ 0.81	\$ 0.40

The computation of diluted EPS for the quarters ended December 31, 2011 and 2010 excludes options to purchase approximately 2,929,000 and 4,575,000 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.

12. 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.

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.

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

Table of Contents

The following tables summarize segment information for the quarters ended December 31, 2011 and 2010:

	Quarter ended December 31, 2011				
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	Total
Segment revenues:					
Transactional and maintenance	\$ 64,272	\$ 42,197	\$ 7,714	\$	\$ 114,183
Professional services	24,327	288	4,078		28,693
License	21,617	57	5,799		27,473
Total segment revenues	110,216	42,542	17,591		170,349
Segment operating expense	(70,090)	(13,295)	(15,341)	(12,864)	(111,590)
Segment operating income	\$ 40,126	\$ 29,247	\$ 2,250	\$ (12,864)	58,759
Unallocated share-based compensation expense					(4,757)
Unallocated amortization expense					(1,930)
Operating income					52,072
Unallocated interest income					88
Unallocated interest expense					(7,987)
Unallocated other expense, net					(548)
Income before income taxes					\$ 43,625
Depreciation expense	\$ 2,795	\$ 220	\$ 373	\$ 210	\$ 3,598

	Quarter ended December 31, 2010				
	Applications	Scores	Tools (In thousands)	Unallocated Corporate Expenses	Total
Segment revenues:					
Transactional and maintenance	\$ 66,597	\$ 40,505	\$ 7,660	\$	\$ 114,762
Professional services	24,749	239	2,920		27,908
License	6,290	71	6,900		13,261
Total segment revenues	97,636	40,815	17,480		155,931
Segment operating expense	(74,487)	(15,251)	(15,090)	(14,635)	(119,463)
Segment operating income	\$ 23,149	\$ 25,564	\$ 2,390	\$ (14,635)	36,468
Unallocated share-based compensation expense					(4,034)
Unallocated amortization expense					(1,929)
Unallocated restructuring expense					(869)
Operating income					29,636
Unallocated interest income					104
Unallocated interest expense					(8,241)

Unallocated other expense, net (76)

Income before income taxes						\$ 21,423
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Depreciation expense	\$ 3,490	\$ 280	\$ 506	\$ 250	\$ 4,526
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13. Contingencies

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

Table of Contents

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.

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, all of which have been dismissed or settled.

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 2012.

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 80% and 77% of our revenues during the quarters ended December 31, 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 67% and 74% of our revenues during the quarters ended December 31, 2011 and 2010, respectively, 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.

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 \$72.3 million and \$57.3 million during the quarters ended December 31, 2011 and 2010, respectively, representing 42% and 37% of total consolidated revenues in each of these periods. We expect our revenues derived from international clients will increase in the future, subject to the impact of foreign currency fluctuations.

Table of Contents

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 customers' 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*

	Bookings (in millions)	Bookings Yield*	Number of Bookings over \$1 Million	Weighted- Average Term (months)
Quarter ended December 31, 2011	\$ 59.2	21%	14	22
Quarter ended December 31, 2010	\$ 84.0	20%	10	42

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

Transactional and maintenance bookings were 33% and 60% of total bookings for the quarters ended December 31, 2011 and 2010, respectively. Professional services bookings were 46% and 25% of total bookings for the quarters ended December 31, 2011 and 2010, respectively. License bookings were 21% and 15% of total bookings for the quarters ended December 31, 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 stabilized in fiscal 2011 from which we realized overall growth in our revenues. However, high levels of unemployment and financial market uncertainty continue to impact our customers in the United States and the pace of global recovery. Consumer and small business lending activity, which is one of the drivers of demand for our services, has stabilized in most markets around the world but in most cases is not yet showing strong growth. We expect growth in consumer lending to continue to lag the general economic recovery. In an effort to respond to these market conditions, we have continued to focus on activities related to our ongoing reengineering initiative. As part of this initiative, we continue to manage our expenses to maintain solid earnings and cash flows and grow revenues through strategic resource allocation. Key components of the initiative include ongoing rationalization of our business portfolio, simplifying management hierarchy, eliminating low-priority positions, investing in high-priority positions, consolidating facilities and managing fixed and variable costs.

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 December 31,		Percentage of Revenues		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011 (In thousands)	2010	2011	2010		
Applications	\$ 110,216	\$ 97,636	65%	63%	\$ 12,580	13%
Scores	42,542	40,815	25%	26%	1,727	4%
Tools	17,591	17,480	10%	11%	111	1%
Total revenue	\$ 170,349	\$ 155,931	100%	100%	14,418	9%

Quarter Ended December 31, 2011 Compared to Quarter Ended December 31, 2010***Applications***

	Quarter Ended December 31,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011 (In thousands)	2010		
Transactional and maintenance	\$ 64,272	\$ 66,597	\$ (2,325)	(3)%
Professional services	24,327	24,749	(422)	(2)%
License	21,617	6,290	15,327	244%
Total	\$ 110,216	\$ 97,636	12,580	13%

Applications segment revenues increased \$12.6 million due to a \$19.0 million increase in our *fraud solutions*, partially offset by a \$3.9 million decrease in *customer management solutions*, a \$2.3 million decrease in *marketing solutions* and a \$0.2 million decrease in our other *applications solutions*.

The increase in *fraud solutions* revenues was primarily due to an increase in software revenue attributable to two large multi-year license transactions where revenue was recognized in the current quarter. In addition, the *fraud solutions* revenue was also impacted by increased professional services revenue from software implementations and a decrease in transactional-based revenues. The decrease in *customer management solutions* was mainly due to a decrease in license revenue. The decrease in *marketing solutions* was primarily attributable to a decrease in professional services revenue.

Scores

	Quarter Ended December 31,		Period-to-Period Change	Period-to-Period Percentage Change
	2011 (In thousands)	2010		

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			(In thousands)	
Transactional and maintenance	\$ 42,197	\$ 40,505	\$ 1,692	4%
Professional services	288	239	49	21%
License	57	71	(14)	(20)%
Total	\$ 42,542	\$ 40,815	1,727	4%

Scores segment revenues increased \$1.7 million due to an increase of \$1.8 million in our business-to-business Scores revenue partially offset by a decrease of \$0.1 million in our myFICO business-to-consumer services revenue. The increase in our business-to-business Scores was primarily attributable to an increase in PreScore and Credit Bureau Risk Scores revenues.

Table of Contents

During the quarters ended December 31, 2011 and 2010, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for approximately 17% and 18%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

Tools

	Quarter Ended December 31,		Period-to-Period Change (In thousands)	Period-to-Period Percentage Change
	2011	2010		
	(In thousands)			
Transactional and maintenance	\$ 7,714	\$ 7,660	\$ 54	1%
Professional services	4,078	2,920	1,158	40%
License	5,799	6,900	(1,101)	(16)%
Total	\$ 17,591	\$ 17,480	111	1%

Tools segment revenues increased \$0.1 million primarily due to increased professional services revenue in our Blaze product and an increase of license sales related to our Decision Optimizer product, partially offset by a decrease of license sales related to our Blaze Advisor and Model Builder 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 December 31,		Percentage of Revenues		Period-to-Period Change (In thousands, except employees)	Period-to-Period Percentage Change
	2011	2010	2011	2010		
	(In thousands, except employees)					
Revenues	\$ 170,349	\$ 155,931	100%	100%	\$ 14,418	9%
Operating expenses:						
Cost of revenues	45,974	45,803	27%	29%	171	%
Research and development	13,049	18,061	8%	12%	(5,012)	(28)%
Selling, general and administrative	57,324	59,633	33%	38%	(2,309)	(4)%
Amortization of intangible assets	1,930	1,929	1%	1%	1	%
Restructuring		869	%	1%	(869)	(100)%
Total operating expenses	118,277	126,295	69%	81%	(8,018)	(6)%
Operating income	52,072	29,636	31%	19%	22,436	76%
Interest income	88	104	%	%	(16)	(15)%
Interest expense	(7,987)	(8,241)	(5)%	(5)%	254	(3)%
Other expense, net	(548)	(76)	%	%	(472)	621%
Income from operations before income taxes	43,625	21,423	26%	14%	22,202	104%
Provision for income taxes	13,628	5,414	8%	4%	8,214	152%
Net income	\$ 29,997	\$ 16,009	18%	10%	13,988	87%
Number of employees at quarter end	2,047	2,206			(159)	

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.

Cost of revenues increased \$0.2 million primarily due to a \$3.7 million increase in personnel and labor costs, partially offset by a \$2.6 million decrease in third party software and data cost, and a \$0.9 million decrease in other costs. The increase in personnel and related costs was attributable to an increase in salary, related benefit and incentive cost. The decrease in third party software and data costs was attributable to a decrease in sales that require data acquisition, as well as cost savings resulting from vendor contract renegotiations. Cost of revenues as a percentage of revenues decreased from 29% for the quarter ended December 31, 2010 to 27% for the quarter end December 31, 2011 as a result of increased sales of higher-margin software products.

Over the next several quarters, we expect cost of revenues as a percentage of revenues will be consistent or slightly higher than those incurred during the quarter ended December 31, 2011.

Research and Development

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

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Research and development as a percentage of revenues was 8% during the quarter ended December 31, 2011, compared to 12% during the quarter ended December 31, 2010. The \$5.0 million decrease was mainly attributable to a \$2.9 million decrease in personnel and labor costs and a \$1.4 million decrease in facilities and infrastructure costs. The decrease in personnel and related costs was due to decreased salary and related benefit expenses, partially offset by an increase in incentive expense for the quarter ended December 31, 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

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

Selling, general and administrative expenses as a percentage of revenues was 33% for the quarter ended December 31, 2011, compared to 38% for the quarter ended December 31, 2010. The \$2.3 million decrease was attributable to a \$2.1 million decrease in labor and personnel costs, a \$0.8 million decrease in travel cost, a \$0.7 million decrease in other costs, partially offset by a \$1.3 million increase in marketing expenses. The decrease in labor and personnel costs was due to decreased salary and commission expenses, partially offset by an increase in incentive expense for the quarter ended December 31, 2011. The decrease in travel cost was due to increased restrictions on non-revenue producing travel. The increase in marketing expenses was due to the annual company marketing event held during the quarter ended December 31, 2011, partially offset by a reduction in marketing programs in areas that were not producing the anticipated sales results.

Over the next several quarters, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent or slightly higher than those incurred during the quarter ended December 31, 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 five 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 December 31, 2011.

Restructuring

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

There were no restructuring charges during the quarter ended December 31, 2011.

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements. Interest income during the quarter ended December 31, 2011 was \$0.1 million, consistent with the interest income we recorded during the quarter ended December 31, 2010.

Interest Expense

The quarter over quarter decrease in interest expense of \$0.3 million was attributable to an \$8.0 million principal payment in May 2011 on the Senior Notes issued in May 2008 resulting in lower average debt balance for the quarter ended December 31, 2011.

Over the next several quarters we expect that interest expense will be consistent with levels recorded during the quarter ended December 31, 2011.

Table of Contents***Other Expense, Net***

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

Other expense, net in the quarters ended December 31, 2011 and 2010 primarily consisted of foreign exchange currency losses.

Provision for Income Taxes

Our effective tax rate was 31.2% and 25.3% during the quarters ended December 31, 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. The increase in our effective tax rate was due to the recognition of the 2010 extension of Federal Research and Development credit during fiscal 2011 and the expiration of the Federal Research and Development credit during fiscal 2012.

Operating Income

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

Segment	Quarter Ended December 31,			Period-to-Period Percentage Change
	2011 (In thousands)	2010 (In thousands)	Period-to-Period Change (In thousands)	
Applications	\$ 40,126	\$ 23,149	\$ 16,977	73%
Scores	29,247	25,564	3,683	14%
Tools	2,250	2,390	(140)	(6)%
Corporate expenses	(12,864)	(14,635)	1,771	(12)%
Total segment operating income	58,759	36,468	22,291	61%
Unallocated share-based compensation	(4,757)	(4,034)	(723)	18%
Unallocated amortization expense	(1,930)	(1,929)	(1)	%
Unallocated restructuring		(869)	869	(100)%
Operating income	\$ 52,072	\$ 29,636	22,436	76%

The quarter over quarter \$22.4 million increase in operating income was attributable to an increase in segment revenues, a decrease in segment operating expenses, unallocated corporate expenses and restructuring expense, partially offset by an increase in share-based compensation expense.

Table of Contents

At the segment level, the quarter over quarter \$22.3 million increase in segment operating income was driven by a \$17.0 million increase in segment operating income in our Applications segment and a \$3.7 million increase in segment operating income in our Scores segment, a \$1.8 million decrease in corporate operating expenses, partially offset by a \$0.2 million decrease in our Tools segment operating income.

The increase in Applications segment operating income was attributable to an increase in segment revenue primarily due to two large multi-year license transactions and a decline in segment operating expenses.

The increase in Scores segment operating income was attributable to an increase in segment revenue, and a decrease in segment operating expenses, driven by a decrease in digital marketing and third party data costs.

The decrease in Tools segment operating income was attributable primarily to an increase in segment operating expenses, partially offset by an increase in segment revenue.

Capital Resources and Liquidity**Outlook**

As of December 31, 2011, we had \$175.4 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.

Summary of Cash Flows

	Quarter Ended December 31,	
	2011	2010
	(in thousands)	
Cash provided by/(used in):		
Operating activities	\$ 41,149	\$ 32,880
Investing activities	41,716	20,087
Financing activities	(41,708)	(2,464)
Effect of exchange rate changes on cash	(1,534)	(270)
 Increase in cash and cash equivalents	 \$ 39,623	 \$ 50,233

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 \$41.1 million during the quarter ended December 31, 2011 from \$32.9 million during the quarter ended December 31, 2010. The increase was primarily attributable to higher income for the quarter ended December 31, 2011 partially offset by a decrease caused by the timing of receipts and payments in the ordinary course of business.

Table of Contents

Cash Flows from Investing Activities

Net cash provided by investing activities increased to \$41.7 million during the quarter ended December 31, 2011 from \$20.1 million during the quarter ended December 31, 2010. The increase was primarily attributable to a \$28.0 million increase in proceeds from sales and maturities of marketable securities, net of purchases, partially offset by a \$6.4 million increase in fixed assets purchases.

Cash Flows from Financing Activities

Net cash used in financing activities increase to \$41.7 million during the quarter ended December 31, 2011 from \$2.5 million during the quarter ended December 31, 2010. The increase was primarily due to \$57.7 million of common stock repurchased in the quarter ended December 31, 2011 versus \$2.2 million of common stock repurchased in the quarter ended December 31, 2010, partially offset by an increase in cash generated from stock option exercises attributable to higher average stock price for the quarter ended December 31, 2011.

Repurchases of Common Stock

In June 2010, our Board of Directors approved a common stock repurchase program that allowed 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 was terminated in October 2011. On November 2, 2011, our Board of Directors approved an open-ended stock repurchase program to acquire shares of our common stock up to an aggregate cost of \$150.0 million in the open market or through negotiated transactions. Pursuant to these programs during the quarter ended December 31, 2011, we repurchased 1,888,527 shares of our common stock for \$50.9 million. As of December 31, 2011, we had \$133.6 million remaining under the November 2011 authorization.

Dividends

During the quarter ended December 31, 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.

Revolving Line of Credit

We have a \$200 million unsecured revolving line of credit with a syndicate of banks that expires on September 28, 2016. 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 1.000% to 1.625% 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 maintaining a maximum consolidated leverage ratio of 3.0 and a minimum fixed charge ratio of 2.5, and also contains other covenants typical of unsecured facilities. As of December 31, 2011, we had no borrowings outstanding under the credit facility and were in compliance with all financial covenants.

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 include covenants typical of unsecured facilities. As of December 31, 2011 we were in compliance with all financial covenants under these facilities.

Table of Contents

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.

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

Table of Contents

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

Hosting Services

We 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.

Multiple-Deliverable Arrangements including Non-Software

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.

Table of Contents

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.

Valuation of Goodwill and Other Intangible Assets Impairment Assessment

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. We amortize our definite-lived intangible assets based on forecasted cash flows associated with the assets over the estimated useful lives. Goodwill is not amortized, but is assessed at least annually for impairment.

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

We assess potential impairments to our intangible assets when there is evidence that events and circumstances related to our financial performance and economic environment indicate the carrying amount of the assets may not be recoverable. 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 and record the impairment as the difference between the carrying value of the asset and the fair value of the asset. Significant management judgment is required in forecasting future operating results used in the preparation of the projected discounted cash flows. 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 levels, which we have determined are the same as our reportable segments, at least annually during the fourth quarter of each fiscal year. 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, with the fair value below its carrying value. 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 a weighted combination of discounted cash flow valuation model (known as the income approach) and a comparison of our reporting units to guideline publicly-traded companies (known as the market approach). 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 evaluate historical trends, current budgets, operating plans, industry data, and other relevant factors when estimating these amounts. The determination of an impairment loss, using assumptions that are different from those used in our estimates but in each case reasonable, 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 economic environment impacts our forecasts beyond what we have anticipated, it could cause the fair value of a reporting unit to fall below its respective carrying value.

Table of Contents

The key assumptions that require significant management judgment for the income approach 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 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.

In the fourth quarter of fiscal 2011 we performed our annual goodwill impairment test. In step one of that test we compared the estimated fair value of each reporting unit to its carrying value. The estimated fair value of each of our reporting units exceeded its respective carrying value in fiscal 2011, 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 and recorded no goodwill impairment charges for the twelve months ended September 30, 2011.

During our fiscal 2011 goodwill impairment analysis, we concluded the estimated fair values of all of our reporting units substantially exceeded their carrying values. As discussed above, estimates of fair value for all of our reporting units can be affected by a variety of external and internal factors. 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.

Table of Contents***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.

Interest Rate Risk

We maintain an investment portfolio consisting mainly of income securities with an average maturity of three years or less. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. The following table presents the principal amounts and related weighted-average yields for our investments with interest rate risk at December 31, 2011 and September 30, 2011:

	December 31, 2011			September 30, 2011		
	Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield
	(Dollars in thousands)					
Cash and cash equivalents	\$ 175,378	\$ 175,375	0.13%	\$ 135,752	\$ 135,752	0.14%
Short-term investments	56,225	56,212	0.19%	105,819	105,826	0.16%
	\$ 231,603	\$ 231,587	0.15%	\$ 241,571	\$ 241,578	0.15%

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 December 31, 2011 and September 30, 2011:

	December 31, 2011			September 30, 2011		
	Principal	Carrying Amounts	Fair Value	Principal	Carrying Amounts	Fair Value
	(In thousands)					
May 2008 \$275 million Senior Notes	\$ 267,000	\$ 267,000	\$ 301,902	\$ 267,000	\$ 267,000	\$ 305,874
July 2010 \$245 million Senior Notes	\$ 245,000	\$ 245,000	\$ 262,868	\$ 245,000	\$ 245,000	\$ 266,620

Table of Contents

We have interest rate risk with respect to our five-year \$200 million 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 1.000% to 1.625% and is determined based on our consolidated leverage ratio. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows, but does not impact the fair value of the instrument. We had no borrowings outstanding under the credit facility as of December 31, 2011.

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.

The following table summarizes our outstanding forward foreign currency contracts, by currency at December 31, 2011 and September 30, 2011:

	December 31, 2011			Fair Value
	Contract Amount		US\$ (In thousands)	
	Foreign Currency			
Sell foreign currency:				
Canadian dollar (CAD)	CAD 1,200	\$	1,176	\$
Euro (EUR)	EUR 4,870	\$	6,311	\$
Buy foreign currency:				
British pound (GBP)	GBP 3,391	\$	5,250	\$

	September 30, 2011			Fair Value
	Contract Amount		US\$ (In thousands)	
	Foreign Currency			
Sell foreign currency:				
Canadian dollar (CAD)	CAD 8,000	\$	7,663	\$
Euro (EUR)	EUR 4,830	\$	6,524	\$
Buy foreign currency:				
British pound (GBP)	GBP 3,911	\$	6,100	\$

The forward foreign currency contracts were all entered into on December 31, 2011 and September 30, 2011, 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

Table of Contents

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

Not Applicable

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, fraud solutions, customer management solutions and tools 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 were 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. 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. Such disruption would result in 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. The loss of or a significant change in a relationship with one of these 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 major customer, the loss of or a significant change in a relationship with a significant third-party distributor or the delay of significant revenues from these sources, could have a material adverse effect on our revenues and results of operations.

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

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

If we do not engage in acquisition activity, 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.

Table of Contents

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;