

FAIR ISAAC CORP
Form 10-K
November 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

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

For the fiscal year ended September 30, 2015

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

For the transition period from _____ to _____
Commission File Number 1-11689

Fair Isaac Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
181 Metro Drive, Suite 700
San Jose, California

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

(Address of principal executive offices)

95110-1346
(Zip Code)

Registrant's telephone number, including area code:
408-535-1500

Securities registered pursuant to Section 12(b) of the Act:
(Title of Class)

(Name of each exchange on which registered)
New York Stock Exchange, Inc.

Common Stock, \$0.01 par value per share

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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

As of March 31, 2015, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$2,098,972,006 based on the last transaction price as reported on the New York Stock Exchange on such date. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes.

The number of shares of common stock outstanding on October 30, 2015 was 31,076,089 (excluding 57,780,694 shares held by the Company as treasury stock).

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on February 24, 2016.

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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, research and development, and the sufficiency of capital resources; (iii) statements of assumptions underlying such statements, including those related to economic conditions; (iv) statements regarding business relationships with vendors, customers or collaborators, including the proportion of revenues generated from international as opposed to domestic customers; 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,” 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 Item 1A of Part I, Risk Factors, below. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-Q and 8-K to be filed by the Company in fiscal 2016.

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PART I

Item 1. Business

GENERAL

Fair Isaac Corporation (NYSE: FICO) (together with its consolidated subsidiaries, the “Company,” which may also be referred to in this report as “we,” “us,” “our,” and “FICO”) provides products and services that enable businesses to automate, improve and connect decisions to enhance business performance. Our predictive analytics, which includes the industry-standard FICO® Score, and our decision management systems leverage the use of Big Data and mathematical algorithms to predict consumer behavior and power hundreds of billions of customer decisions each year.

We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, we help thousands of companies in over 100 countries use our decision management technology to target and 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 insurers, retailers, telecommunications providers, pharmaceutical companies, healthcare organizations, public agencies and organizations in other industries. We also serve consumers through online services that enable people to purchase and understand their FICO® Scores, the standard measure in the U.S. of consumer credit risk, empowering them to manage their financial health.

More information about us can be found on our principal website, www.fico.com. We make our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, as well as amendments to those reports, available free of charge through our website as soon as reasonably practicable after we electronically file them with the SEC. References to our website addresses in this report are provided as a convenience and do not constitute an incorporation by reference. Information on our website is not part of this report.

PRODUCTS AND SERVICES

We use analytics to help businesses automate, improve and connect decisions across their enterprise, an approach we commonly refer to as decision management. Most of our solutions address customer engagement, including customer acquisition, customer onboarding, customer servicing and management, and customer protection. We also help businesses improve noncustomer decisions such as transaction and claims processing. Our solutions enable users to make decisions that are more precise, consistent and agile, and that systematically advance business goals. This helps our clients to reduce the cost of doing business, increase revenues and profitability, reduce losses from risks and fraud, and increase customer loyalty.

Our Segments

We categorize our products and services into the following three operating segments:

Applications. This segment includes pre-configured decision management applications designed for a specific type of business problem or process - such as marketing, account origination, customer management, fraud, collections and insurance claims management - as well as associated professional services. These applications are available to our customers as on-premises software, and many are available as hosted, software-as-a-service (“SaaS”) applications through the FICO® Analytic Cloud.

Scores. This segment includes our business-to-business scoring solutions and services, 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 worldwide, as well as services through which we provide our scores to clients directly.

- Tools. This segment is composed of analytic and decision management software tools that clients can use to create their own custom decision management applications, our new FICO® Decision Management Suite, as well as associated professional services. These tools are available to our customers as on-premises software or through the FICO® Analytic Cloud.

Comparative segment revenues, operating income and related financial information for fiscal 2015, 2014 and 2013 are set forth in Note 17 to the accompanying consolidated financial statements.

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Our Solutions

Our solutions involve four fundamental disciplines:

Analytics, which include predictive analytics that identify risks and opportunities associated with individual customers, prospects and transactions, in order to detect patterns such as risk and fraud, as well as optimization analytics that are used to improve the design of decision logic or "strategies."

Data management and profiling that bring extensive consumer information to every decision.

Software such as decision management systems that implement business rules, models and decision strategies, often in a real-time environment, as well as software for managing customer engagement.

Consulting services that help clients make the most of investments in FICO applications, tools and scores in the shortest possible time.

All of our solutions are designed to help businesses make decisions that are faster, more precise, more consistent and more agile, while reducing costs and risks incurred in making decisions. With the new FICO[®] Analytic Cloud, FICO[®] Decision Management Platform and FICO[®] Decision Management Suite, we now offer clients an increasing portfolio of applications, tools and services in the cloud, which they can use to create, customize, deploy and manage powerful analytic services.

Applications

We develop industry-tailored decision management applications, which apply analytics, data management and decision management software to specific business challenges and processes. These include credit offer prescreening, insurance claims management and others. Our applications primarily serve clients in the banking, insurance, healthcare, retail and public sectors. During fiscal 2015, we continued to expand our product offerings for the FICO[®] Analytic Cloud, resulting in increased sales opportunities by accommodating small to midsize businesses that benefit from the affordability and simplicity of cloud-based solutions. Within our applications segment our fraud solutions accounted for 23%, 23% and 22% of total revenues in each of fiscal 2015, 2014 and 2013, respectively; our customer management solutions accounted for 9%, 10% and 11% of total revenues, in each of these periods, respectively; and our collections & recovery solutions accounted for 9% of total revenues for each of these periods.

Marketing Applications

The chief offerings for marketing are our FICO[®] Analytic Offer Manager and FICO[®] Customer Dialogue Manager. These solutions offer a suite of products, capabilities and services designed to integrate the technology and analytic services needed to perform context-sensitive customer acquisition, cross-selling and retention programs and deliver mathematically optimized offers. Our marketing solutions enable companies that offer multiple products and use multiple channels (companies such as large financial institutions, consumer branded goods companies, pharmaceutical companies, retail merchants and hospitality companies) to execute more efficient and profitable customer interactions. Services offered in our marketing solutions include customer data integration services; services that enable real-time marketing through direct consumer interaction channels; campaign management and optimization services; interactive tools that automate the design, execution and collection of customer response data across multiple channels; and customer data collection, management and profiling services.

Originations Applications

We provide solutions that enable banks, credit unions, finance companies, alternative peer-to-peer and online lenders, auto lenders and other companies to automate and improve the processing of requests for credit or service. These solutions increase the speed and efficiency with which requests are handled, reduce losses and increase approval rates through analytics that assess applicant risk, and reduce the need for manual review by loan officers.

The latest version of our origination application, FICO® Origination Manager, is an application-to-decision processing solution, available both on premises and in the FICO® Analytic Cloud. Our other solutions include the web-based FICO® LiquidCredit® service, which is primarily focused on credit decisions and is offered largely to mid-tier banking institutions. We also offer custom and consortium-based credit risk and application fraud models.

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Customer Management Applications

Our customer strategy management products and services enable businesses to automate and improve risk-based decisions for their existing customers. These solutions help businesses apply advanced analytics in account and customer decisions to increase portfolio revenue, decrease risk exposure and losses, and reduce customer attrition, while improving operational efficiencies.

We provide customer strategy management solutions for banking, telecommunications and retail. Our primary account and customer strategy management product is FICO® TRIAD® Customer Manager, a leading credit management system, available both on premises and in the FICO® Analytic Cloud. The solution is an adaptive control system, which enables businesses to rapidly adapt to changing business and internal conditions by designing and testing new strategies in a “champion/challenger” environment. The current version enables users to manage risk and communications at both the account and customer level from a single platform.

We market and sell FICO® TRIAD® Customer Manager software licenses, maintenance, consulting services, and strategy design and evaluation. Additionally, we provide TRIAD services and similar credit account management services through third-party credit card processors worldwide, including the two largest processors in the U.S., First Data Resources, Inc. and Total System Services, Inc.

Fraud Management Applications

Our fraud management products improve our clients’ profitability by predicting the likelihood a given transaction or customer account is experiencing fraud. Our fraud products analyze transactions in real time and generate recommendations for immediate action, which is critical to stopping third-party fraud, as well as first-party fraud and deliberate misuse of account privileges.

Our solutions are designed to detect and prevent a wide variety of fraud and risk types across multiple industries, including credit and debit payment card fraud; e-payment fraud; deposit account fraud; healthcare fraud; Medicaid and Medicare fraud; and property and casualty insurance claims fraud, including workers' compensation fraud. FICO fraud solutions protect financial institutions, insurance companies and government agencies from losses and damaged customer relationships caused by fraud and related criminal behavior.

Our leading fraud detection solution is FICO® Falcon® Fraud Manager, recognized as a leader in global payment card fraud detection. Falcon® Fraud Manager examines transaction, cardholder, account, customer, device and merchant data to detect a wide range of payment card fraud quickly and accurately. It analyzes payment transactions in real time, assesses the risk of fraud in a fraud score, and provides the ability for user-defined variables and rules strategies to be used in conjunction with the fraud score to prevent fraud while expediting legitimate transactions.

FICO® Fraud Predictor with Merchant Profiles is used in conjunction with Falcon® Fraud Manager on payment card monitoring for credit and debit to improve fraud detection rates through the inclusion of merchant profiles. Merchant profiles are built using fraud and transactional data that include characteristics revealing which merchants have a history of higher fraud volumes, and which purchase types and ticket sizes have most often been fraudulent at a particular merchant, among others.

In addition to the Falcon products, we offer FICO® Card Alert Service. Card Alert Service is a solution for fighting ATM debit fraud. The Card Alert Service identifies counterfeit payment cards and reports them to issuers. The service analyzes daily transactions from participating networks, and uses this data to identify common points of compromise and suspect cards most likely to incur fraud.

FICO® Insurance Fraud Manager uses advanced unsupervised predictive modeling techniques to detect health care claims fraud, abuse and errors as soon as unusual behavior patterns emerge. Insurance Fraud Manager is used by both public and private health care payers to detect and prevent fraud in both pre- and post-pay fraud investigation environments.

In fiscal 2015, FICO acquired TONBELLER Aktiengesellschaft (“TONBELLER”), a provider of financial crime prevention and compliance solutions for financial institutions, banks, insurance companies and industrial corporations. By combining these solutions with its legacy fraud analytics, such as those used in FICO® Falcon® Fraud Manager, FICO now offers a comprehensive modular set of solutions to fight money-laundering, fraud, terrorist financing, and to fulfill custom requirements for governance, risk and compliance.

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Collections & Recovery Applications

FICO® Debt Manager™ Solution and FICO® PlacementsPlus® service automate the full cycle of collections and recovery, including early collections, late collections, asset disposal, agency placement, recovery, litigation, bankruptcy, asset management and residual balance recovery. PlacementsPlus service facilitates control over the distribution and management of accounts to agencies, attorneys, debt buyers and internal recovery departments. FICO Debt Management Solutions also include assessments, models and scores, predictive analytics, advanced customer engagement, optimization and speech analytics capabilities. FICO® Debt Manager™ is now available in the cloud.

Customer Communication Services

FICO® Customer Communication Services provides customer engagement, fraud resolution, and collections solutions in the cloud. It enables leading financial services institutions, utilities, telecommunications firms, insurers, and other businesses to engage in automated two-way communications. It allows businesses to reach customers in real time using short message service (“SMS”), mobile applications, automated voice, email and other channels; resolve matters such as verification of suspicious credit or debit card transactions; request missed payments; and resolve customer service issues. FICO® Customer Communication Services, combined with FICO’s decision management applications, allow businesses to execute and resolve customer interactions while improving customer outcomes.

Analytic Services

We perform custom predictive, descriptive and decision modeling and related analytic projects for clients in multiple industries to address business processes across the customer life cycle. This work leverages our analytic methodologies and expertise to solve risk management and marketing challenges for a single business, using that business's data and industry best practices to develop a highly customized solution. Most of this work falls under predictive analytics, decision analysis and optimization, which provide greater insight into customer preferences and future customer behavior. Within decision analysis and optimization, we apply data and proprietary algorithms to the design of customer treatment strategies.

Scores

Our FICO® Scores are used in the majority of U.S. credit decisions, by nearly all of the major banks, credit card organizations, mortgage lenders and auto loan originators. These credit scores, developed based on third-party data, provide a consistent and objective measure of an individual's credit risk. Credit grantors use our FICO® Scores in a variety of ways: to prescreen candidates for marketing programs; evaluate applicants for new credit; and manage existing customer accounts. FICO® Score is a three-digit score ranging from 300-850. They are calculated by running data from the three U.S. national credit reporting agencies, TransUnion, Experian and Equifax, through one of several proprietary scoring models developed by FICO. Lenders generally pay the credit reporting agencies scoring fees based on usage, and the credit reporting agencies pay an associated fee to us. FICO® Score 9, the most recent version of the FICO® Score, was released in early fiscal 2015.

While the core FICO® Score is the foundation of our scoring portfolio, we offer a number of other broad based scores, including several specific FICO® Industry Scores. We also develop various custom scores for our financial services clients. During 2015 we announced a pilot program for a new FICO® Score we refer to as FICO® Score XD to expand the scorable population using alternative data. The pilot will run into fiscal 2016 in partnership with Equifax and LexisNexis. The FICO® Score Open Access program allows participating clients to provide their customers with a FICO® Score along with materials to help them understand what affects their score at no fee to the consumer. In addition, we offer the FICO® Custom Credit Education program where lenders can license enhanced credit education

tools to include in their consumer financial education programs.

Outside the U.S., we offer the FICO® Score for consumers, as well as for small and medium enterprises lending through credit reporting agencies in 12 countries worldwide. We have installed client-specific versions of the FICO® Score in nine countries. Like FICO® Scores in the U.S., these scores help lenders in multiple countries leverage the FICO® Score's predictive analysis to assess the risk of marketing prospects and credit applicants. FICO® Scores are in use or being implemented in 20 different countries across five continents outside the U.S.

We also have scoring systems for insurance underwriters and marketers. They use the same underlying statistical technology as our FICO® Scores, but are designed to predict applicant or policyholder insurance loss ratio for automobile or homeowners' coverage. Our insurance scores are available in the U.S. and Canada. We license credit bureau scoring services and related consulting directly to users in banking through the FICO® PreScore® service for prescreening solicitation candidates and the FICO® Score Delivery Service for account review.

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We also provide FICO® Score based products, education and information on FICO® Scores to consumers. They are sold directly by us through our myFICO® service and through licensed distribution partners. In fiscal 2015, we made available the 19 most widely used versions of the FICO® Score from the three major credit bureaus through our myFICO® service, representing approximately 95% of all FICO® Scores sold and used by lenders. Consumers can use the myFICO.com website to purchase their FICO® Scores including credit reports associated with the scores, explanations of the factors affecting their scores, and customized information on how to manage their scores. Customers can use products to simulate how taking specific actions would affect their FICO® Score. Consumers can also subscribe to monitoring services, which deliver alerts via email and text when changes to a user's FICO Scores or other credit report content are detected. In addition, consumers can purchase identity theft monitoring products that alert consumers of potential risks of identity fraud with comprehensive detection, defense, and identity restoration services.

The myFICO® products and subscription offerings are available online at www.myfico.com and are also available to consumers through numerous other partners.

Tools

We provide analytic and decision management platforms and tools that businesses use to build their own tailored, analytically powered decision management applications on-premises or within the FICO® Analytic Cloud. In contrast to our packaged applications developed for specific industry solutions, our tools add scalable and flexible decision management capabilities to virtually any application or operational system. These tools are sold as licensed software, and can be used standalone, or in conjunction with third-party solutions to advance a client's decision management initiatives. We use these tools as common software components for our own decision management solutions, described above in the Applications section. They are also key components of our decision management architecture. We also partner with third-party providers within given industry markets and with major software companies to embed our tools within existing applications.

During fiscal 2015, FICO enhanced the FICO® Decision Management Suite, a collection of tools for building, extending, deploying and scaling applications and solutions. The Decision Management Suite includes the FICO® Decision Management Platform with tools for building and customizing decision components and services; developing, orchestrating and publishing analytics-powered applications, and visualizing, analyzing and reporting data trends. Decision Management Suite tools are available in the FICO® Analytic Cloud and on-premises; businesses can choose either or both deployments depending on their specific needs, IT environments and other factors. In fiscal 2015, we added two new products to the suite:

• FICO® Big Data Analyzer, a purpose-built analytics environment that enables a broad range of users to collaboratively explore data and discover new insights from any type and size of data on Hadoop; and
• FICO® Data Management Integration Platform, a streaming analytics and real-time distributed processing platform.

The FICO® Decision Management Suite combines Big Data, predictive analytics and decision execution together in an easy-to-use development environment. It enables organizations to rapidly create innovative analytic applications; dramatically increase developer and business user productivity with support for a broad range of analytic and decision tools; and execute decisions in real time. It also empowers business analysts and other domain experts to modify systems in real time without IT involvement, providing organizations with the agility they need to rapidly respond to customer, regulatory and business changes.

The principal products offered are software tools for:

Rules Management. The FICO® Blaze Advisor® decision rules management system is used to design, develop, execute and maintain rules-based business applications. The Blaze Advisor system enables business users to propose and preview the impact of changes to decisioning logic, to review and approve proposed changes, and commit those changes to production decisioning, all without demanding IT cycles. The Blaze Advisor system is sold as an end-user tool and is also the rules engine within several of our decision management applications. The Blaze Advisor system, available in six languages, is a multi-platform solution that: embeds rules management within existing applications; supports Web Services and service-oriented architecture (“SOA”), Java 2 Enterprise Edition (“J2EE”) platforms, Microsoft .NET and COBOL for z/OS mainframes; and is the first rules engine to support Java, .NET and COBOL deployment of the same rules. It also incorporates the exclusive Rete III rules execution technology, which improves the efficiency and speed with which the Blaze Advisor® system is able to process and execute complex, high-volume decision rules. FICO’s solution for rules management in the cloud is called FICO® Decision Modeler.

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Predictive Modeling. FICO® Model Central™ is a comprehensive offering to help banks and other organizations, including insurance, retail and health care companies, maximize the power of their predictive models and meet stricter regulations for model management. It complements FICO® Model Builder, which enables the user to develop and deploy sophisticated predictive models for use in automated decisions. This software is based on the methodology and tools FICO uses to build both client-level and industry-level predictive models and scorecards, which we have developed over more than 40 years, and includes additional algorithms for rapidly discovering variable relationships, predictive interactions and optimal segmentation. The predictive models produced can be embedded in custom production applications or one of our Decision Management applications and can also be executed in the FICO® Blaze Advisor® system. FICO's solution set for predictive modeling in the cloud is called FICO® Analytic Modeler.

Optimization. FICO® Xpress Optimization Suite provides operations research professionals with world-class solvers and high-productivity tools to quickly design and deliver custom, mathematically optimal solutions for a wide range of industry problems. Xpress includes a powerful modeling and programming language, with robust scalability, to quickly model and solve even the largest optimization problems. Xpress tools are licensed to end users, consultants and independent software vendors in several industries, and are a core component within FICO® Decision Optimizer. Decision Optimizer is a software tool that enables complex, large-scale optimizations involving dozens of networked action-effect models, and enables exploration and simulation of many optimized scenarios along an efficient frontier of options. The data-driven strategies produced by these tools can be executed by the FICO® Blaze Advisor® system or one of our Decision Management applications. FICO's solution for executing optimization services in the cloud is called FICO® Optimization Modeler.

COMPETITION

The market for our advanced solutions is intensely competitive and is constantly changing. Our competitors vary in size and in the scope of the products and services they offer. We encounter competition from a number of sources, including:

- in-house analytic and systems developers;
- scoring model builders;
- enterprise resource planning (“ERP”) and customer relationship management (“CRM”) packaged solutions providers;
- business intelligence solutions providers;
- business process management and business rules management providers;
- providers of credit reports and credit scores;
- providers of automated application processing services;
- data vendors;
- neural network developers and artificial intelligence system builders;
- third-party professional services and consulting organizations;

- providers of account/workflow management software;

• software companies supplying modeling, rules, or analytic development tools; collections and recovery solutions providers; entity resolution and social network analysis solutions providers; and

• providers of cloud-based customer engagement and risk management solutions.

We believe our competitors are unable to provide the mix of products, expertise in predictive analytics and their integration with decision management software, and enhanced customer management capabilities we are able to deliver. However, certain competitors may have larger shares of particular geographic or product markets than we do.

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Applications

The competition for our Applications varies by both application and industry.

In the marketing services market, we compete with Acxiom, Epsilon, Equifax, Experian, Harte-Hanks, InfoUSA, KnowledgeBase, Merkle and TargetBase, among others. We also compete with traditional advertising agencies and companies' own internal information technology and analytics departments.

In the customer origination market, we compete with Experian, Equifax, and CGI, among others.

In the customer strategy management market, we compete with Experian, among others.

In the fraud management market for banking, we compete primarily with Actimize, a division of NICE Systems, Experian, Detica, a division of BAE, SAS and ACI Worldwide. In the fraud solutions market for health care insurance, we compete with Emdeon, Ingenix, ViPS, MedStat, Detica, a division of BAE, SAS, Verisk Analytics and IBM. Verisk Analytics and SAS also compete in the property and casualty insurance claims fraud market.

In the collections and recovery market, we compete with both outside suppliers and in-house scoring and computer systems departments for software and ASP servicing. Major competitors include CGI, Experian, and various boutique firms, along with the three major U.S. credit reporting agencies and Experian-Scorex for scoring and optimization projects.

Scores

In this segment, we compete with both outside suppliers and in-house analytics departments for scoring business. Primary competitors among outside suppliers of scoring models are the three major credit reporting agencies in the U.S. and Canada, which are also our partners in offering our scoring solutions, Experian, TransUnion and TransUnion International, Equifax, and VantageScore (a joint venture entity established by the major U.S. credit reporting agencies). Additional competitors include CRIF and other credit reporting agencies outside the U.S., and other data providers like LexisNexis and ChoicePoint, some of which also represent FICO partners.

For our direct-to-consumer services that deliver credit scores, credit reports and consumer credit education services, we compete with other direct to consumer credit and identity services.

Tools

Our primary competitors in this segment include IBM, SAS, Pegasystems and Angoss.

Competitive Factors

We believe the principal competitive factors affecting our markets include: technical performance; access to unique proprietary databases; availability in SaaS format; product attributes like adaptability, scalability, interoperability, functionality and ease-of-use; product price; customer service and support; the effectiveness of sales and marketing efforts; existing market penetration; and reputation. Although we believe our products and services compete favorably with respect to these factors, we may not be able to maintain our competitive position against current and future competitors.

MARKETS AND CUSTOMERS

Our products and services serve clients in multiple industries, including primarily banking, insurance, retail, healthcare and public agencies. End users of our products include all of the 100 largest financial institutions in the U.S., and two-thirds of the largest 100 banks in the world. Our clients also include more than 700 insurers, including the top ten U.S. property and casualty insurers; more than 400 retailers and general merchandisers, including more than one-third of the top 100 U.S. retailers; more than 150 government or public agencies; and more than 150 healthcare and pharmaceuticals companies, including eight of the world's top ten pharmaceuticals companies. All of the top ten companies on the 2015 Fortune 500 list use FICO's solutions. In addition, our consumer services are marketed to an estimated 200 million U.S. consumers whose credit relationships are reported to the three major U.S. credit reporting agencies.

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In the U.S., we market our products and services primarily through our own direct sales organization that is organized around vertical markets. Sales groups are based in our headquarters and in field offices strategically located both in and outside the U.S. We also market our products through indirect channels, including alliance partners and other resellers.

Our scores are marketed and sold through credit reporting agencies. During fiscal 2015, 2014 and 2013, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 16%, 15% and 16% of our total revenues, respectively.

Outside the U.S., we market our products and services primarily through our subsidiary sales organizations. Our subsidiaries license and support our products in their local countries as well as within other foreign countries where we do not operate through a direct sales subsidiary. We also market our products through resellers and independent distributors in international territories not covered by our subsidiaries' direct sales organizations.

Our largest market segments outside the U.S. are the United Kingdom and Canada. In addition, we have delivered products to users in more than 100 countries.

Revenues from international customers, including end users and resellers, amounted to 40%, 42% and 40% of our total revenues in fiscal 2015, 2014 and 2013, respectively. See Note 17 to the accompanying consolidated financial statements for a summary of our operating segments and geographic information.

TECHNOLOGY

We specialize in analytics software and decision management technologies that analyze data and drive decision strategies and customer engagement. We maintain active research in a number of fields for the purposes of deriving greater insight and predictive value from data, making various forms of data more usable and valuable to the model-building process, and automating and applying analytics to the various processes involved in making high-volume decisions in real time.

We are widely recognized as a leader in predictive analytics due to our pioneering work in credit scoring and fraud detection. We believe that our tools and processes are among the very best commercially available, and that we are uniquely able to integrate advanced analytic, software and data technologies into mission-critical business solutions that offer superior returns on investment.

In fiscal 2015, we continued to make significant progress with our FICO® Analytic Cloud and FICO® Decision Management Platform initiatives. We have made many of our software solutions, which were previously available only as on-premises software installations, into SaaS solutions hosted on our cloud. The FICO® Decision Management Suite enables clients to use FICO tools, along with rapid application development tools and visualization tools, to quickly develop their own decision management applications and services. We continue to add functionality to the platform as well as host additional FICO applications in the cloud. These ongoing initiatives are driven by enhancing our core technical capabilities listed below, and extending them through partnerships with other technology providers as well as through employing open source software.

Principal Areas of Expertise

Predictive Modeling. Predictive modeling identifies and mathematically represents underlying relationships in historical data in order to explain the data and make predictions or classifications about future events. Our models summarize large quantities of data to amplify its value. Predictive models typically analyze current and historical data

on individuals to produce easily understood metrics such as scores. These scores rank-order individuals by likely future performance, e.g., their likelihood of making credit payments on time, or of responding to a particular offer for services. We also include in this category models that detect the likelihood of a transaction being fraudulent. Our predictive models are frequently operationalized in mission-critical transactional systems and drive decisions and actions in near real time. A number of analytic methodologies underlie our products in this area. These include proprietary applications of both linear and nonlinear mathematical programming algorithms, in which one objective is optimized within a set of constraints, and advanced neural systems, which learn complex patterns from large data sets to predict the probability that a new individual will exhibit certain behaviors of business interest. We also apply various related statistical techniques for analysis and pattern detection within large datasets, and have enhanced our abilities to derive insights and predictive variables from various forms of so-called Big Data, including unstructured data, such as text.

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Decision Analysis and Optimization. Decision analysis refers to the broad quantitative field that deals with modeling, analyzing and optimizing decisions made by individuals, groups and organizations. Whereas predictive models analyze multiple aspects of individual behavior to forecast future behavior, decision analysis analyzes multiple aspects of a given decision to identify the most effective action to take to reach a desired result. We have developed an integrated approach to decision analysis that incorporates the development of a decision model that mathematically maps the entire decision structure; proprietary optimization technology that identifies the most effective strategies, given both the performance objective and constraints; the development of designed testing required for active, continuous learning; and the robust extrapolation of an optimized strategy to a wider set of scenarios than historically encountered. Our optimization capabilities also include a proprietary mathematical modeling and programming language, an easy-to-use development environment, and a state-of-the-art set of optimization algorithms.

Transaction Profiling. Transaction profiling is a patent-protected technique used to extract meaningful information and reduce the complexity of transaction data used in modeling. Many of our products operate using transactional data, such as credit card purchase transactions, or other types of data that change over time. In its raw form, this data is very difficult to use in predictive models for several reasons. First, an isolated transaction contains very little information about the behavior of the individual who generated the transaction. In addition, transaction patterns change rapidly over time. Finally, this type of data can often be highly complex. To overcome these issues, we have developed a set of techniques that transform raw transactional data into a mathematical representation that reveals latent information, and which make the data more usable by predictive models. This profiling technology accumulates data across multiple transactions of many types to create and update profiles of transaction patterns. These profiles enable our neural network models to efficiently and effectively make accurate assessments of, for example, fraud risk and credit risk within real-time transaction streams.

Customer Data Integration. Decisions made on customers or prospects can benefit from data stored in multiple sources, both inside and outside the enterprise. We have focused on developing data integration processes that are able to assemble and integrate those disparate data sources into a unified view of the customer or household, through the application of persistent keying technology. This data can include structured or unstructured data. During 2015 we made available a new solution that can integrate multiple data sources in real time and make them available for analysis and decisions.

Decision Management Software. In order to make a decision strategy operational, various steps and rules need to be programmed or exported into the business's software infrastructure, where they can communicate with front-end, customer-facing systems and back-end systems such as billing systems. We have developed software systems, sometimes known as decision engines and business rules management systems, which perform the necessary functions to execute a decision strategy. Our software includes very efficient programs for these functions, facilitating, for example, business user definition of extremely complex decision strategies using graphical user interfaces; simultaneous testing of hundreds of decision strategies in "champion/challenger" (test/control) mode; high-volume processing and analysis of transactions in real time; integration of multiple data sources; and execution of predictive models for improved behavior forecasts and finer segmentation. Decision management software is an integral part of our decision management applications, described earlier.

Customer Engagement. We have advanced technology for customer engagement, which enables the execution of decisions and customer contact through SMS, email, automated voice, mobile applications and other channels. This technology enables FICO to extend decision management beyond the rendering of the decision to the final resolution with a customer, using the most effective method of communication for a given event and customer. Integrating this technology with our decision management systems has proven to decrease costs, improve staff efficiency, increase customer satisfaction and improve the return from marketing, fraud and collections activities.

Social Network Analysis. We have advanced technology for identity resolution and social network analysis, which enables users to understand the relationships between their organization, customers, events, and third-party actors. Businesses can perform real-time searches across their enterprise data to find, match, and link similar entities and uncover hidden relationship between people, places and things. This technology complements FICO's capabilities in the area of fraud and marketing analytics.

Cyber Security. We continue to seek projects in the cyber security and security information and event management ("SIEM") space that leverage FICO's streaming analytics, transaction profiling, and unsupervised modeling technologies. These technologies include those successfully leveraged by our fraud management systems, including FICO® Falcon® Fraud Manager and new methods that we believe to be unique approaches for detecting certain types of cyber security threats.

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Research and Development Activities

Our research and development expenses were \$98.8 million, \$83.4 million and \$67.0 million in fiscal 2015, 2014 and 2013, respectively. We believe that our future success depends on our ability to continually maintain and improve our core technologies, enhance our existing products, and develop new products and technologies that meet an expanding range of markets and customer requirements. In the development of new products and enhancements to existing products, we use our own development tools extensively.

We have traditionally relied primarily on the internal development of our products. Based on timing and cost considerations; however, we have acquired, and in the future may consider acquiring, technology or products from third parties.

PRODUCT PROTECTION AND TRADEMARKS

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality agreements and procedures to protect our proprietary rights.

We retain the title to and protect the suite of models and software used to develop scoring models as a trade secret. We also restrict access to our source code and limit access to and distribution of our software, documentation and other proprietary information. We have generally relied upon the laws protecting trade secrets and upon contractual nondisclosure safeguards and restrictions on transferability to protect our software and proprietary interests in our product and service methodology and know-how. Our confidentiality procedures include invention assignment and proprietary information agreements with our employees and independent contractors, and nondisclosure agreements with our distributors, strategic partners and customers. We also claim copyright protection for certain proprietary software and documentation.

We have patents on many of our technologies and have patent applications pending on other technologies. The patents we hold may not be upheld as valid and may not prevent the development of competitive products. In addition, patents may never be issued on our pending patent applications or on any future applications that we may submit. We currently hold 153 U.S. and 14 foreign patents with 93 applications pending.

Despite our precautions, it may be possible for competitors or users to copy or reproduce aspects of our software or to obtain information that we regard as trade secrets. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the U.S.. Patents and other protections for our intellectual property are important, but we believe our success and growth will depend principally on such factors as the knowledge, ability, experience and creative skills of our personnel, new products, frequent product enhancements and name recognition.

We have developed technologies for research projects conducted under agreements with various U.S. government agencies or their subcontractors. Although we have acquired commercial rights to these technologies, the U.S. government typically retains ownership of intellectual property rights and licenses in the technologies that we develop under these contracts. In some cases, the U.S. government can terminate our rights to these technologies if we fail to commercialize them on a timely basis. In addition, under U.S. government contracts, the government may make the results of our research public, which could limit our competitive advantage with respect to future products based on funded research.

We have used, registered and/or applied to register certain trademarks and service marks for our technologies, products and services. We currently have 38 trademarks registered in the U.S. and select foreign countries.

PERSONNEL

As of September 30, 2015, we employed 2,803 persons worldwide. Of these, 142 full-time employees were located in our San Jose, California office, 314 full-time employees were located in our San Diego, California office, 206 full-time employees were located in our San Rafael, California office, 189 full-time employees were located in our Roseville, Minnesota office, 146 full-time employees were located in our Fairfax, Virginia office, 532 full-time employees were located in our India-based offices and 272 full-time employees were located in our United Kingdom-based offices. None of our employees are covered by a collective bargaining agreement, and no work stoppages have been experienced.

Information regarding our executive officers is included in Item 10 of this report.

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Item 1A. Risk Factors

Risks Related to Our Business

We continue to expand 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 continue to expand 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, and 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.

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 including the development and sale of our cloud-based product offerings. 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 or certain client or other systems. 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.

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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. Many of our customers are significantly larger than we are and may have greater bargaining power. The businesses of our largest customers depend, in large part, on favorable macroeconomic conditions. If these customers are negatively impacted by weak global economic conditions, global economic volatility or 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, retailers and public agencies. 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, the U.S. and other key international economies have experienced in the past a downturn in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. The European Union continues to face great economic uncertainty which could impact the overall world economy or various other regional economies. The potential for 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 could result in a 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 (including credit card processors) 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.

Our acquisition and divestiture activities may disrupt our ongoing business and may involve increased expenses, and we may not realize the financial and strategic goals contemplated at the time of a transaction.

We have acquired and expect to continue to acquire companies, businesses, products, services and technologies. Acquisitions involve significant risks and uncertainties, including:

our ongoing business may be disrupted and our management's attention may be diverted by acquisition, transition or integration activities;

an acquisition may not further our business strategy as we expected, we may not integrate an acquired company or technology as successfully as we expected or we may overpay for our investments, or otherwise not realize the expected return, which could adversely affect our business or operating results;

we may be unable to retain the key employees, customers and other business partners of the acquired operation;

we may have difficulties entering new markets where we have no or limited direct prior experience or where competitors may have stronger market positions;

our operating results or financial condition may be adversely impacted by claims or liabilities we assume from an acquired company, business, product or technology, including claims from government agencies, terminated employees, current or former customers, former stockholders or other third parties; pre-existing contractual relationships of an acquired company we would not have otherwise entered into; unfavorable revenue recognition or other accounting treatment as a result of an acquired company's practices; and intellectual property claims or disputes;

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we may fail to identify or assess the magnitude of certain liabilities or other circumstances prior to acquiring a company, business, product or technology, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition;

we may not realize the anticipated increase in our revenues from an acquisition for a number of reasons, including if a larger than predicted number of customers decline to renew their contracts, if we are unable to sell the acquired products to our customer base or if contract models of an acquired company do not allow us to recognize revenues on a timely basis;

we may have difficulty incorporating acquired technologies or products with our existing product lines and maintaining uniform standards, architecture, controls, procedures and policies;

our use of cash to pay for acquisitions may limit other potential uses of our cash, including stock repurchases, dividend payments and retirement of outstanding indebtedness;

to the extent we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease; and

we may experience additional or unexpected changes in how we are required to account for our acquisitions pursuant to U.S. generally accepted accounting principles, including arrangements we assume from an acquisition.

We have also divested ourselves of businesses in the past and may do so again in the future. Divestitures involve significant risks and uncertainties, including:

- disruption of our ongoing business;
- reductions of our revenues or earnings per share;
- unanticipated liabilities, legal risks and costs;
- the potential loss of key personnel;
- distraction of management from our ongoing business; and
- impairment of relationships with employees and customers as a result of migrating a business to new owners.

Because acquisitions and divestitures are inherently risky, our transactions may not be successful and may have a material adverse effect on our business, results of operations, financial condition or cash flows. Acquisitions of businesses having a significant presence outside the U.S. will increase our exposure to the risks of conducting operations in international markets.

Charges to earnings resulting from acquisitions may adversely affect our operating results.

Under business combination accounting standards, we recognize the identifiable assets acquired and the liabilities assumed in acquired companies generally at their acquisition-date fair values and separately from goodwill. Goodwill is measured as the excess amount of consideration transferred, which is also generally measured at fair value, and the net of the amounts of the identifiable assets acquired and the liabilities assumed as of the acquisition date. Our estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain. After we complete an acquisition, the following factors could result in material charges and adversely affect our operating results and may adversely affect our cash flows:

- impairment of goodwill or intangible assets, or a reduction in the useful lives of intangible assets acquired;
- amortization of intangible assets acquired;
- identification of, or changes to, assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- costs incurred to combine the operations of companies we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;

charges to our operating results to maintain certain duplicative pre-merger activities for an extended period of time or to maintain these activities for a period of time that is longer than we had anticipated, charges to eliminate certain duplicative pre-merger activities, and charges to restructure our operations or to reduce our cost structure; and charges to our operating results resulting from expenses incurred to effect the acquisition.

Substantially all of these costs will be accounted for as expenses that will decrease our net income and earnings per share for the periods in which those costs are incurred. Charges to our operating results in any given period could differ substantially from other periods based on the timing and size of our future acquisitions and the extent of integration activities. A more detailed discussion of our accounting for business combinations and other items is presented in the “Critical Accounting Policies and Estimates” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations (Item 7).

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Our reengineering initiative may cause our growth prospects and profitability to suffer.

As part of our management approach, we implemented an ongoing reengineering initiative designed to grow revenues through strategic resource allocation and improve profitability through cost reductions. Our reengineering initiative may not be successful over the long term as a result of our failure to reduce expenses at the anticipated level, or a lower, or no, positive impact on revenues from strategic resource allocation. If our reengineering initiative is not successful over the long term, our revenues, results of operations and business may suffer.

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

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

- variability in demand from our existing customers;
- failure to meet the expectations of market analysts;
- changes in recommendations by market analysts;
- the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increases the likelihood of short-term fluctuation in revenues;
- consumer dissatisfaction with, or problems caused by, the performance of our products;
- the timing of new product announcements and introductions in comparison with our competitors;
- the level of our operating expenses;
- changes in competitive and other conditions in the consumer credit, banking and insurance industries;
- fluctuations in domestic and international economic conditions;
- our ability to complete large installations on schedule and within budget;
- acquisition-related expenses and charges; and
- timing of orders for and deliveries of software systems.

In addition, the financial markets have at various times experienced significant price and volume fluctuations that have particularly affected the stock prices of many technology companies and financial services companies, and these fluctuations sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as industry-specific and general economic conditions, may negatively affect our business and require us to record an impairment charge related to goodwill, which could adversely affect our results of operations, stock price and business.

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

We experience difficulty in forecasting our revenues accurately because the length of our sales cycles makes it difficult for us to predict the quarter in which sales will occur. In addition, our selling approach is complex as we look to sell multiple products and services across our customers' organizations. This makes forecasting of revenues in any given period more difficult. As a result of our sales approach and lengthening sales cycles, revenues and operating results may vary significantly from period to period. For example, the sales cycle for licensing our products typically ranges from 60 days to 18 months. Customers are often cautious in making decisions to acquire our products because purchasing our products typically involves a significant commitment of capital and may involve shifts by the customer

to a new software and/or hardware platform or changes in the customer's operational procedures. This may cause customers, particularly those experiencing financial stress, to make purchasing decisions more cautiously. Delays in completing sales can arise while customers complete their internal procedures to approve large capital expenditures and test and accept our applications. Consequently, we face difficulty predicting the quarter in which sales to expected customers will occur and experience fluctuations in our revenues and operating results. If we are unable to accurately forecast our revenues, our stock price could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

- incur significant defense costs or substantial damages;
- be required to cease the use or sale of infringing products;
- expend significant resources to develop or license a substitute non-infringing technology;
- discontinue the use of some technology; or
- be required to obtain a license under the intellectual property rights of the third party claiming infringement, which license may not be available or might require substantial royalties or license fees that would reduce our margins.

Moreover, in recent years, individuals and groups that are non-practicing entities, commonly referred to as “patent trolls”, have purchased patents and other intellectual property assets for the purpose of making claims of infringement in order to extract settlements. From time to time, we may receive threatening letters or notices or may be the subject of claims that our solutions and underlying technology infringe or violate the intellectual property rights of others. Responding to such claims, regardless of their merit, can be time consuming, costly to defend in litigation, divert management's attention and resources, damage our reputation and brand, and cause us to incur significant expenses.

If our security measures are compromised or unauthorized access to customer or consumer data is otherwise obtained, our products and services may be perceived as not being secure, customers may curtail or cease their use of our products and services, our reputation may be damaged and we could incur significant liabilities.

Our business requires the storage, transmission and utilization of sensitive consumer and customer information. Many of our products are provided by us through the Internet. Security breaches could expose us to a risk of loss, the unauthorized disclosure of consumer or customer information, litigation, indemnity obligations and other liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and as a result, someone obtains unauthorized access to our system or to consumer or customer information, our reputation may be damaged, our business may suffer and we could incur significant liability. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Malicious third parties may also conduct attacks designed to temporarily deny customers access to our services. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to curtail or cease their use of our products and services or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

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

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

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Risks Related to Our Industry

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

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

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

In our markets, technology changes rapidly, and there are continuous improvements in computer hardware, network operating systems, programming tools, programming languages, operating systems, database technology and the use of the Internet. If we fail to enhance our current products and develop new products in response to changes in technology or industry standards, or if we fail to bring product enhancements or new product developments to market quickly enough, our products could rapidly become less competitive or obsolete. Our future success will depend, in part, upon our ability to:

- innovate by internally developing new and competitive technologies;
 - use leading third-party technologies effectively;
- continue to develop our technical expertise;
- anticipate and effectively respond to changing customer needs;
- initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and
- influence and respond to emerging industry standards and other technological changes.

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

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

- in-house analytic and systems developers;
- scoring model builders;
- enterprise resource planning (“ERP”), customer relationship management (“CRM”), and customer communication and mobility solution providers;
- business intelligence solutions providers;
- credit report and credit score providers;

business process management solution providers;
process modeling tools providers;
automated application processing services providers;
data vendors;
neural network developers and artificial intelligence system builders;
third-party professional services and consulting organizations;
account/workflow management software providers; and
software tools companies supplying modeling, rules, or analytic development tools.

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We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, certain of our fraud solutions products compete against other methods of preventing credit card fraud, such as credit cards that contain the cardholder's photograph; smart cards; cardholder verification and authentication solutions; biometric measures on devices including fingerprint and face matching; and other card authorization techniques and user verification techniques. Many of our anticipated competitors have greater financial, technical, marketing, professional services and other resources than we do, and industry consolidation is creating even larger competitors in many of our markets. As a result, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources than we can to develop, promote and sell their products. Many of these companies have extensive customer relationships, including relationships with many of our current and potential customers. Furthermore, new competitors or alliances among competitors may emerge and rapidly gain significant market share. For example, TransUnion, Equifax and Experian have formed an alliance that has developed a credit scoring product competitive with our products. If we are unable to respond as quickly or effectively to changes in customer requirements as our competition, our ability to expand our business and sell our products will be negatively affected.

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

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

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

- Use of data by creditors and consumer reporting agencies. Examples in the U.S. include the Fair Credit Reporting Act ("FCRA"), as amended by the Fair and Accurate Credit Transactions Act ("FACTA");

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

- Fair lending laws, such as the Truth In Lending Act ("TILA") and Regulation Z, as amended by the Credit Card Accountability Responsibility and Disclosure Act of 2009 ("Credit CARD Act of 2009"), and the Equal Credit Opportunity Act ("ECOA") and Regulation B;

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

- Extension of credit to consumers through the Electronic Fund Transfers Act and Regulation E, as well as nongovernmental VISA and MasterCard electronic payment standards;
- Regulations applicable to secondary market participants such as Fannie Mae and Freddie Mac that could have an impact on our products;
- Insurance laws and regulations applicable to our insurance clients and their use of our insurance products and services;
- The application or extension of consumer protection laws, including, laws governing the use of the Internet and telemarketing, advertising, endorsements and testimonials and credit repair;
- Laws and regulations applicable to operations in other countries, for example, the European Union's Privacy Directive and the Foreign Corrupt Practices Act;
- Sarbanes-Oxley Act ("SOX") requirements to maintain and verify internal process controls, including controls for material event awareness and notification;
- The implementation of the Emergency Economic Stabilization Act of 2008 by federal regulators to manage the financial crisis in the U.S.;

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Financial regulatory reform stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act and the many regulations mandated by that Act, including regulations issued by, and the supervisory and investigative authority of, the Bureau of Consumer Financial Protection (“CFPB”); and
Laws and regulations regarding export controls as they apply to FICO products delivered in non-U.S. countries.

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

In response to market disruptions over the past several years, legislators and financial regulators implemented a number of mechanisms designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions, assistance by the banking authorities in arranging acquisitions of weakened banks and broker-dealers, and implementation of programs by the Federal Reserve to provide liquidity to the commercial paper markets. The overall effects of these and other legislative and regulatory efforts on the financial markets are uncertain, and they may not have the intended stabilization effects. Should these or other legislative or regulatory initiatives fail to stabilize and add liquidity to the financial markets over the long term, our business, financial condition, results of operations and prospects could be materially and adversely affected. Whether or not legislative or regulatory initiatives or other efforts designed to address recent economic conditions successfully stabilize and add liquidity to the financial markets over the long term, we may need to modify our strategies, businesses or operations, and we may incur additional costs in order to compete in a changed business environment.

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

During fiscal 2015, 73% of our revenues were derived from sales of products and services to the banking and insurance industries. Global economic uncertainty experienced in the U.S. and other key international economies in the past produced substantial stress, volatility, illiquidity and disruption of global credit and other financial markets, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. The potential for disruptions presents considerable risks to our businesses and operations. These risks include potential bankruptcies or credit deterioration of financial institutions, many of which are our customers. Such disruption would result in a decline in the revenue we receive from financial and other institutions.

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

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

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Risk Related to External Conditions

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

Purchases of technology products and services and decisioning solutions are subject to adverse economic conditions. When an economy is struggling, companies in many industries delay or reduce technology purchases, and we experience softened demand for our decisioning solutions and other products and services. Global economic uncertainty has produced substantial stress, volatility, illiquidity and disruption of global credit and other financial markets in the past. Any economic uncertainty can negatively affect the businesses and purchasing decisions of companies in the industries we serve. The potential for disruptions presents considerable risks to our businesses and operations. If global economic conditions experience stress and negative volatility, or if there is an escalation in regional or global conflicts or terrorism, we will likely experience reductions in the number of available customers and in capital expenditures by our remaining customers, longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition, which may adversely affect our business, results of operations and liquidity.

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

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

A growing portion of our revenues is derived from international sales. During fiscal 2015, 40% of our revenues were derived from business outside the U.S. As part of our growth strategy, we plan to continue to pursue opportunities outside the U.S., including opportunities in countries with economic systems that are in early stages of development and that may not mature sufficiently to result in growth for our business. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

- general economic and political conditions in countries where we sell our products and services;
- difficulty in staffing and efficiently managing our operations in multiple geographic locations and in various countries;
- effects of a variety of foreign laws and regulations, including restrictions on access to personal information;
- import and export licensing requirements;
- longer payment cycles;
- reduced protection for intellectual property rights;
- currency fluctuations;
- changes in tariffs and other trade barriers; and
- difficulties and delays in translating products and related documentation into foreign languages.

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

However, an increase in our foreign revenues could subject us to increased foreign currency transaction risks in the future.

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

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our properties consist primarily of leased office facilities for sales, data processing, research and development, consulting and administrative personnel. Our principal locations include:

• approximately 55,000 square feet of office space in San Jose, California in one building under a lease expiring in fiscal 2017; this is used for our corporate headquarters and all of our segments;

• approximately 124,000 square feet of office space in San Rafael, California in one building under a lease expiring in fiscal 2020; this is used for all of our segments;

• approximately 101,000 square feet of office, data center, and data processing space in Roseville, Brooklyn Park and Minneapolis, Minnesota, in three buildings under leases expiring in fiscal 2016 or later; this is used for all of our segments;

• approximately 80,000 square feet of office space in San Diego, California in one building under a lease expiring in fiscal 2020; this is used for Applications and Tools segments.

In addition, we lease an aggregate of approximately 275,000 square feet of office and data center space in a number of smaller domestic locations and internationally in India, the United Kingdom, China, Singapore, and several other locations. We believe that suitable additional space will be available to accommodate future needs. See Note 18 to the accompanying consolidated financial statements for information regarding our obligations under leases.

Item 3. Legal Proceedings

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on the New York Stock Exchange under the symbol: FICO. According to records of our transfer agent, at October 30, 2015, we had 404 shareholders of record of our common stock.

The following table shows the high and low sales prices for our stock, as listed on the New York Stock Exchange for each quarter in the last two fiscal years:

	High	Low
Fiscal 2014		
October 1 — December 31, 2013	\$63.48	\$52.90
January 1 — March 31, 2014	\$62.49	\$50.26
April 1 — June 30, 2014	\$63.87	\$50.49
July 1 — September 30, 2014	\$65.62	\$54.38
Fiscal 2015		
October 1 — December 31, 2014	\$74.39	\$53.09
January 1 — March 31, 2015	\$89.42	\$69.44
April 1 — June 30, 2015	\$96.53	\$85.40
July 1 — September 30, 2015	\$97.56	\$77.57

Dividends

We paid dividends of two cents per share on a quarterly basis during each of fiscal 2015, 2014 and 2013. 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.

Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
July 1, 2015 through July 31, 2015	6,332	\$91.73	\$119,280,609
August 1, 2015 through August 31, 2015	2,363	\$90.54	\$119,280,609
September 1, 2015 through September 30, 2015	6,835	\$82.53	\$119,280,609
Total	15,530	\$87.50	\$119,280,609

(1) Represents shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended September 30, 2015.

(2) On August 18, 2014, our Board of Directors approved an open-ended stock repurchase program to acquire shares of our common stock up to an aggregate cost of \$250.0 million in the open market or in negotiated transactions.

Performance Graph

The following graph shows the total stockholder return of an investment of \$100 in cash on September 30, 2010, in (a) the Company's Common Stock, (b) the Standard & Poor's 500 Stock Index and (c) the Standard & Poor's 500 Application Software Index, in each case with reinvestment of dividends. We do not believe there are any publicly

traded companies that compete with us across the full spectrum of our product and service offerings.

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Item 6. Selected Financial Data

We acquired Entiera, Inc. (“Entiera”) in May 2012, Adeptra Ltd. (“Adeptra”) in September 2012, CR Software, LLC. (“CR Software”) in November 2012, Infoglide Software, Inc. (“Infoglide”) in April 2013, InfoCentricity, Inc. (“InfoCentricity”) in April 2014, and TONBELLER in January 2015. Results of operations from the acquisitions are included prospectively from their respective acquisition dates and did not materially impact comparability of the data presented below.

	Year Ended September 30,				
	2015 (1)	2014 (1)	2013 (1)	2012 (1)	2011 (1)
	(In thousands, except per share data)				
Revenues	\$838,781	\$788,985	\$743,444	\$676,423	\$619,683
Operating income	137,505	161,868	161,593	168,358	127,337
Net income	86,502	94,879	90,095	92,004	71,562
Basic earnings per share	2.75	2.80	2.55	2.64	1.82
Diluted earnings per share	2.65	2.72	2.48	2.55	1.79
Dividends declared per share	0.08	0.08	0.08	0.08	0.08

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	September 30, 2015	2014	2013	2012	2011
	(In thousands)				
Working capital	\$42,727	\$(52,877)	\$83,308	\$49,720	\$217,983
Total assets	1,230,163	1,192,298	1,161,547	1,158,611	1,129,468
Senior notes	376,000	447,000	455,000	504,000	512,000
Revolving line of credit	232,000	99,000	15,000	—	—
Stockholders' equity	436,998	454,614	530,677	474,406	465,494

(1) Results of operations for fiscal years 2015, 2014, 2013, 2013 and 2011 include pre-tax charges of \$18.2 million, \$4.3 million, \$3.5 million, \$5.1 million and \$12.4 million, respectively in restructuring and acquisition-related expenses.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") includes the following: a business overview that provides a high level summary of our strategies and initiatives, financial results and bookings trends that affect our business; a more detailed analysis of our results of operations; our liquidity and capital resources, which discusses key aspects of our statements of cash flows, changes in our balance sheets and our financial commitments; and a summary of our critical accounting policies and estimates we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. Our MD&A should be read in conjunction with Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. The following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ from those referred to herein due to a number of factors, including but not limited to risks described in Item 1A, Risk Factors, in this Annual Report on Form 10-K.

BUSINESS OVERVIEW

Strategies and Initiatives

During fiscal 2015, we continued to generate significant free cash flow used to enhance shareholder value through investments in long-term growth initiatives; acquisitions of relevant technologies and products that strengthen our portfolio and competitive position; and our share repurchase program.

We continued to invest in our growth initiatives that expand our addressable markets. Our full suite of applications available through the FICO[®] Analytic Cloud provide product offerings in our Applications and Tools segments to provide growth opportunities with customers that can benefit from the affordability and simplicity of cloud-based solutions. For our Scores segment, the FICO[®] Score Open Access program continued its expansion during the current year. We have more than 100 million consumers with access to their free score through the FICO[®] Score Open Access program, which allows our participating clients to provide their customers with a free FICO[®] Score along with materials to help them understand what affects their score. In addition, during fiscal 2015, we launched a partnership program with Experian, a leading global information services provider, making the FICO[®] Score available to consumers, who can now go to Experian.com to access the credit score lenders use most when determining applicant eligibility for new credit cards, car loans, mortgages or other lines of credit.

We continued to make acquisitions that deliver solutions to the financial services industry and adjacent vertical industries. Our acquisition of TONBELLER addresses the rapidly growing demand for integrated, enterprise-class financial crime and compliance solutions. We leveraged the financial crime and compliance technology to integrate with our existing fraud detection and analytics to provide broader, more responsive fraud solutions for our customers.

With our strong portfolio of products now in place, we are shifting some of our resources to distribution of our expanded market. This fiscal year, we incurred severance charges to reallocate expenses from building out products to our distribution and go-to-market for both the Applications and Tools segments, which includes significant sales training and increasing sales resources to reach new market segments.

We also returned significant cash to shareholders through our stock repurchase program. During fiscal 2015, we repurchased approximately 1.7 million shares for a total cost of \$130.7 million. As of September 30, 2015, we had \$119.3 million remaining under our current stock repurchase program.

Overview of Financial Results

Total revenues for fiscal 2015 were \$838.8 million, an increase of 6% from \$789.0 million in fiscal 2014. Revenue in each of our segments increased, with Applications, Scores and Tools increasing by 4%, 11% and 7% in fiscal 2015 compared to fiscal 2014, respectively. We derive a significant portion of revenue internationally, and 40% and 42% of total consolidated revenues were derived from clients outside the U.S. during fiscal 2015 and 2014, respectively. A significant portion of our revenues are derived from the sale of products and services within the banking (including

consumer credit) industry, and 69% and 74% of our revenues were derived from within this industry during fiscal 2015 and 2014, respectively. In addition, we derive a significant share of revenue from transactional or unit-based software license fees, transactional fees derived under scoring, network service or internal hosted software arrangements, annual software maintenance fees and annual license fees under long-term software license arrangements. Arrangements with transactional or unit-based pricing accounted for 67% of our revenues during fiscal 2015 and 2014. Revenue fluctuations in our business are primarily driven by changes in the transactional volume and license fees.

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Operating income for fiscal 2015 was \$137.5 million, a decrease of 15% from \$161.9 million in fiscal 2014. Operating margin decreased to 16% from 21%. The margin decrease was primarily attributable to an increase in our restructuring cost related to the write-down of facilities, our continued investment in the areas of cloud computing and SaaS, and an increase in our professional services delivery cost, partially offset by a higher percentage of revenues derived from our higher-margin products including revenues generated from our Experian agreement. Net income decreased 9% to \$86.5 million in fiscal 2015 from \$94.9 million in fiscal 2014 primarily due to the decrease in operating margin, partially offset by lower income tax expense, largely driven by a favorable tax adjustment in fiscal 2015. Diluted earnings per share for fiscal 2015 was \$2.65, a decrease of 3% from \$2.72 in fiscal 2014.

Bookings

Management regards the volume of bookings achieved as an important indicator of future revenues, but they are not comparable to nor a substitute for an analysis of our revenues. Bookings represent contracts signed in the current reporting period that generate current and future revenue streams. We estimate bookings as of the end of the period in which a contract is signed and initial booking estimates are not updated in future periods for changes between estimated and actual results. Our calculations have varying degrees of certainty depending on the revenue type and individual contract terms. They are subject to a number of risks and uncertainties concerning timing and contingencies affecting product delivery and performance, and estimates consider contract terms, knowledge of the marketplace and experience with our customers, among other factors. Actual revenue and the timing thereof could differ materially from our initial estimates.

Although many of our contracts contain non-cancelable terms, most of our bookings are transactional or service related that 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. The following paragraphs discuss the key assumptions used to calculate bookings and the susceptibility of these assumptions to variability for each revenue type.

Transactional and Maintenance Bookings

We calculate transactional bookings as the total estimated volume of transactions or number of accounts under contract, multiplied by the contractual rate. Transactional contracts generally span multiple years and require estimates of 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 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.

License Bookings

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

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Bookings Trend Analysis

	Bookings	Bookings Yield (1)	Number of Bookings over \$1 Million	Weighted-Average Term (2)
	(In millions)			(months)
Quarter ended September 30, 2015	\$105.3	21	% 19	18
Quarter ended September 30, 2014	\$85.8	26	% 12	22
Year ended September 30, 2015	\$314.7	45	% 41	NM ^(a)
Year ended September 30, 2014	\$362.3	38	% 63	NM ^(a)

(1) Bookings yield represents the percentage of revenue recognized from bookings for the periods indicated.

(2) Weighted-average term of bookings measures the average term over which bookings are expected to be recognized as revenue.

NM - Measure is not meaningful as our estimate of bookings is as of the end of the period in which a contract is (a) signed, and we do not update our initial booking estimates in future periods for changes between estimated and actual results.

Transactional and maintenance bookings were 31% and 29% of total bookings for the years ended September 30, 2015 and 2014, respectively. Professional services bookings were 47% of total bookings for the years ended September 30, 2015 and 2014. License bookings were 22% and 24% of total bookings for the years ended September 30, 2015 and 2014, respectively.

RESULTS OF OPERATIONS

We are organized into the following three reportable segments: Applications, Scores and Tools. Although we sell solutions and services into a large number of end user product and industry markets, our reportable business segments reflect the primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the years ended September 30, 2015, 2014 and 2013 are set forth in Note 17 to the accompanying consolidated financial statements.

Revenues

The following tables set forth certain summary information on a segment basis related to our revenues for fiscal 2015, 2014 and 2013:

Segment	Revenues Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change			
	2015	2014	2013	2015 to 2014	2014 to 2013	2015 to 2014	2014 to 2013		
	(In thousands)			(In thousands)					
Applications	\$526,274	\$504,256	\$476,084	\$22,018	\$28,172	4	% 6	%	
Scores	207,007	186,469	180,813	20,538	5,656	11	% 3	%	
Tools	105,500	98,260	86,547	7,240	11,713	7	% 14	%	
Total Revenues	\$838,781	\$788,985	\$743,444	49,796	45,541	6	% 6	%	
				Percentage of Revenues Year Ended September 30,					
Segment				2015	2014	2013			
Applications				63	% 64	% 64		%	
Scores				25	% 24	% 24		%	

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Tools	12	% 12	% 12	%
Total Revenues	100	% 100	% 100	%

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Applications

	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2015 (In thousands)	2014	2013	2015 to 2014 (In thousands)	2014 to 2013	2015 to 2014	2014 to 2013	
Transactional and maintenance	\$320,596	\$313,316	\$306,738	\$7,280	\$6,578	2	% 2	%
Professional services	124,562	121,100	110,081	3,462	11,019	3	% 10	%
License	81,116	69,840	59,265	11,276	10,575	16	% 18	%
Total	\$526,274	\$504,256	\$476,084	22,018	28,172	4	% 6	%

Applications segment revenues increased \$22.0 million in fiscal 2015 from fiscal 2014 primarily due to an \$11.1 million increase in our compliance solutions, a \$10.0 million increase in our fraud solutions, and a \$4.1 million increase in our customer communication services, partially offset by a \$3.3 million decrease in our marketing solutions.

The increase in compliance solutions was attributable to our acquisition of TONBELLER in January 2015. The increase in fraud solutions was primarily attributable to a large multi-year license transaction during fiscal 2015, as well as an increase in transactional revenues driven by increased volumes. The increase in customer communication services was primarily attributable to an increase in transactional revenues as a result of our growth in the mobile communication market. The decrease in marketing solutions was primarily attributable to terminations of several customers in fiscal 2015.

Applications segment revenues increased \$28.2 million in fiscal 2014 from fiscal 2013 due to a \$17.3 million increase in our fraud solutions, a \$9.6 million increase in our customer communication solutions, a \$5.0 million increase in our originations solutions, and a \$4.8 million increase in our collections & recovery solutions. The increase was partially offset by a \$5.3 million decrease in our marketing solutions and a \$3.2 million decrease in our customer management solutions.

The increase in fraud solutions was primarily attributable to two large multi-year license transactions during fiscal 2014. The increase in customer communication solutions was primarily attributable to an increase in transactional revenues as a result of our growth in the mobile communication market. The increase in originations solutions was primarily attributable to an increase in license and services revenues. The increase in collections & recovery solutions was primarily attributable to an increase in services revenues. The decrease in marketing solutions was primarily attributable to the early termination of a large customer in fiscal 2013, partially offset by a large deal entered into in fiscal 2014 to develop customized software solutions for a new customer. The decrease in customer management solutions was primarily attributable to a decrease in license revenue.

Scores

	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2015 (In thousands)	2014	2013	2015 to 2014 (In thousands)	2014 to 2013	2015 to 2014	2014 to 2013	
Transactional and maintenance	\$200,426	\$178,023	\$175,281	\$22,403	\$2,742	13	% 2	%
Professional services	2,901	2,784	4,012	117	(1,228)	4	% (31))%
License	3,680	5,662	1,520	(1,982)	4,142	(35)	)% 273	%
Total	\$207,007	\$186,469	\$180,813	20,538	5,656	11	% 3	%

Scores segment revenues increased \$20.5 million in fiscal 2015 from 2014 due to a \$20.6 million increase in our business-to-consumer services revenues, partially offset by a decrease of \$0.1 million in our business-to-business Scores revenue. The increase in business-to-consumer services was primarily attributable to revenue generated from the agreement with Experian that launched in December 2014 and made FICO® Score available to consumers on Experian.com. The decrease in our business-to-business Scores was primarily attributable to decreased software revenue related to our Global FICO® Score, and a royalty true-up during fiscal 2014, partially offset by an increase in our transactional scores driven by new originations and prescreen.

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Scores segment revenues increased \$5.7 million in fiscal 2014 from 2013 due to a \$3.5 million increase in our business-to-consumer services revenues and a \$2.2 million increase in our business-to-business scores revenues. The increase in our business-to-consumer services was attributable to a \$4.2 million increase in direct sales generated from the myFICO.com website, partially offset by a \$0.7 million decrease in royalties derived from scores sold indirectly to consumers through credit reporting agencies. The increase in our business-to-business scores revenues was primarily attributable to increased software revenue related to our Global FICO® Score.

During fiscal 2015, 2014 and 2013, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 16%, 15% and 16%, respectively, of our total revenues, including revenues from these customers recorded in our other segments.

Tools

	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2015 (In thousands)	2014	2013	2015 to 2014 (In thousands)	2014 to 2013	2015 to 2014	2014 to 2013	
Transactional and maintenance	\$43,210	\$36,224	\$32,285	\$6,986	\$3,939	19	% 12	%
Professional services	24,310	25,950	21,101	(1,640)	4,849	(6)	)% 23	%
License	37,980	36,086	33,161	1,894	2,925	5	% 9	%
Total	\$105,500	\$98,260	\$86,547	7,240	11,713	7	% 14	%

Tools segment revenues increased \$7.2 million in fiscal 2015 from 2014 primarily due to an increase in our FICO® Decision Management Platform license sales as well as related services and transactional revenues, a one-time settlement with a customer related to under-reported royalties from a multi-year period, as well as increased transactional revenues from our InfoCentricity acquisition in April 2014. The increase was partially offset by a decrease in optimization tools primarily attributable to decreased license sales on our FICO® Decision Optimizer and FICO® Xpress Optimization products.

Tools segment revenues increased \$11.7 million in fiscal 2014 from 2013 primarily due to an \$8.5 million increase in our optimization tools and a \$2.2 million increase in our predictive modeling tools. The increase in optimization tools was primarily attributable to increased license sales on our FICO® Decision Optimizer and FICO® Xpress Optimization products. The increase in predictive modeling tools was primarily attributable to increased services revenue related to our FICO® Model Central™ product.

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Operating Expenses and Other Income (Expense), Net

The following tables set forth certain summary information related to our consolidated statements of income and comprehensive income for the fiscal 2015, 2014 and 2013:

	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2015	2014	2013	2015 to 2014	2014 to 2013	2015 to 2014	2014 to 2013	
	(In thousands, except employees)			(In thousands, except employees)				
Revenues	\$838,781	\$788,985	\$743,444	\$49,796	\$45,541	6	% 6	%
Operating expenses:								
Cost of revenues	270,535	249,281	229,468	21,254	19,813	9	% 9	%
Research and development	98,824	83,435	66,967	15,389	16,468	18	% 25	%
Selling, general and administrative	300,002	278,203	268,395	21,799	9,808	8	% 4	%
Amortization of intangible assets	13,673	11,917	13,535	1,756	(1,618)	15	% (12))%
Restructuring and acquisition-related	18,242	4,281	3,486	13,961	795	326	% 23	%
Total operating expenses	701,276	627,117	581,851	74,159	45,266	12	% 8	%
Operating income	137,505	161,868	161,593	(24,363)	275	(15))% —	%
Interest expense, net	(29,150)	(28,550)	(30,227)	(600)	1,677	2	% (6))%
Other income (expense), net	883	(187)	618	1,070	(805)	(572)	)% (130))%
Income before income taxes	109,238	133,131	131,984	(23,893)	1,147	(18)	)% 1	%
Provision for income taxes	22,736	38,252	41,889	(15,516)	(3,637)	(41)	)% (9))%
Net income	\$86,502	\$94,879	\$90,095	(8,377)	4,784	(9)	)% 5	%
Number of employees at fiscal year-end	2,803	2,646	2,482	157	164	6	% 7	%

	Percentage of Revenues			
	Year Ended September 30,			
	2015	2014	2013	
Revenues	100	% 100	% 100	%
Operating expenses:				
Cost of revenues	32	% 31	% 31	%
Research and development	12	% 11	% 9	%
Selling, general and administrative	36	% 35	% 36	%
Amortization of intangible assets	2	% 1	% 2	%
Restructuring and acquisition-related	2	% 1	% —	%
Total operating expenses	84	% 79	% 78	%
Operating income	16	% 21	% 22	%

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Interest expense, net	(3)%	(4)%	(4)%
Income before income taxes	13	%	17	%	18	%
Provision for income taxes	3	%	5	%	6	%
Net income	10	%	12	%	12	%

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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 consumer score services through myFICO.com.

Cost of revenues as a percentage of revenues increased to 32% during fiscal year 2015 from 31% during fiscal 2014.

The \$21.3 million increase was primarily attributable to an \$8.8 million increase in outside services, a \$7.9 million increase in direct materials, and a \$6.4 million increase in personnel and labor costs. The increase in outside services was primarily attributable to an increase in our billable consulting projects utilizing temporary resources. The increase in direct materials was primarily attributable to an increase in third-party royalties cost associated with increased software license sales, as well as an increase in third-party data cost associated with the increase in our business-to-consumer subscription based revenue. The increase in personnel and labor costs was primarily attributable to an increase in professional services delivery cost, including a nonrecurring charge related to a large implementation project; an increase in salaries and benefits cost as a result of our increased headcount; and an increase in stock based compensation cost driven by the increase in our stock price, partially offset by a decrease in incentive cost.

The fiscal year 2014 over 2013 increase of \$19.8 million was primarily due to an \$11.2 million increase in personnel and labor costs, a \$5.3 million increase in outside services cost, and a \$2.7 million increase in allocated facilities cost, partially offset by a \$3.2 million decrease in direct materials. The increase in personnel and labor costs was primarily attributable to an increase in incentive cost, as well as an increase in salaries and benefits cost as a result of our increased headcount. The increase in outside services cost was primarily attributable to an increase in our billable consulting projects utilizing temporary resources. The increase in allocated facilities cost was primarily attributable to leased office space assumed from our acquisitions of CR Software and Infoglide in fiscal 2013, and InfoCentricity in fiscal 2014. The decrease in direct materials was primarily attributable to a decrease in software license sales that incur royalties cost. Cost of revenues as a percentage of revenues was 31%, consistent with those incurred during fiscal 2013.

In fiscal 2016, we expect cost of revenues as a percentage of revenues will be consistent with or slightly lower than those incurred during fiscal 2015.

Research and Development

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

Research and development expenses as a percentage of revenues increased to 12% during fiscal 2015 from 11% during fiscal 2014. The \$15.4 million increase was attributable to a \$15.3 million increase in personnel and labor costs, primarily driven by our continued investment in the areas of cloud computing and SaaS, as well as our investment in several new products primarily in the Tools segment.

Research and development expenses as a percentage of revenues increased to 11% during fiscal 2014 from 9% during fiscal 2013. The \$16.5 million increase was attributable to an \$11.5 million increase in personnel and labor costs, a \$3.0 million increase in outside services cost, and a \$2.0 million increase in allocated facilities cost, all driven by our continued investment in the areas of cloud computing and SaaS.

In fiscal 2016, we expect that research and development expenditures as a percentage of revenues will be consistent with or slightly lower than those incurred during fiscal 2015.

Selling, General and Administrative

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

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Selling, general and administrative expenses as a percentage of revenues increased to 36% during fiscal 2015 from 35% during fiscal 2014. The \$21.8 million increase was primarily attributable to a \$16.4 million increase in labor and personnel costs, a \$2.0 million increase in allocated facilities and infrastructure costs, and a \$1.7 million increase in marketing expenses. The increase in labor and personnel costs was primarily attributable to an increase in salaries and benefits as a result of our increased headcount, an increase in commissions cost as a result of increased revenues, as well as an increase in stock-based compensation cost driven by the increase in our stock price. The increase in allocated facilities and infrastructure costs was primarily due to increased resource requirement as a result of our recent acquisitions. The increase in marketing expenses was primarily attributable to a company-wide marketing event during fiscal 2015.

The fiscal year 2014 over 2013 increase of \$9.8 million in selling, general and administrative expenses was primarily attributable to a \$7.9 million increase in labor and personnel costs and a \$2.3 million increase in marketing cost. The increase in labor and personnel costs was primarily due to an increase in stock-based compensation cost driven by the increase in our stock price, as well as an increase in incentive cost. The increase in marketing cost was primarily attributable to several new marketing programs implemented in fiscal 2014. Selling, general and administrative expenses as a percentage of revenues decreased to 35% for the year ended September 30, 2014 from 36% for the year ended September 30, 2013 primarily attributable to FICO shifting resources to research and development efforts in the areas of cloud computing and SaaS.

In fiscal 2016, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with or slightly higher than those incurred during fiscal 2015.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense related to intangible assets recorded in connection with our acquisitions. Our finite-lived intangible assets consist primarily of completed technology and customer contracts and relationships, which are being amortized using the straight-line method over periods ranging from five to fifteen years.

The fiscal 2015 over 2014 increase in amortization expense of \$1.7 million was primarily attributable to the addition of intangible assets associated with our TONBELLER acquisition in January 2015.

The fiscal 2014 over 2013 decrease in amortization expense of \$1.6 million was primarily attributable to certain intangible assets associated with our Dash and London Bridge acquisitions becoming fully amortized in fiscal 2013, partially offset by the addition of intangible assets associated with our Infoglide acquisition in fiscal 2013 and InfoCentricity acquisition in fiscal 2014.

In fiscal 2016, we expect amortization expense will be slightly higher than the amortization expense incurred in 2015.

Restructuring and Acquisition-related

During fiscal 2015, we incurred net charges totaling \$17.5 million consisting of \$13.6 million in facilities charges associated with vacating excess leased space in Roseville, Minnesota and San Rafael, California, and \$3.9 million in severance charges due to the elimination of 97 positions throughout the company. Cash payments for all the facilities charges will be paid by the end of our fiscal 2020. Cash payments for all the severance costs will be paid by the end of our fiscal 2016. We also incurred \$0.7 million in acquisition-related cost primarily associated with our TONBELLER acquisition.

In fiscal 2014, we incurred net charges totaling \$4.1 million consisting of \$0.2 million in facilities charges and \$3.9 million in severance charges due to the elimination of 88 positions throughout the Company. Cash payments for all the restructuring charges were paid by the end of the second quarter of our fiscal 2015. We also incurred \$0.2 million in acquisition-related cost primarily associated with our InfoCentricity acquisition.

In fiscal 2013, we incurred \$1.0 million in acquisition-related cost mainly associated with our CR Software and Infoglide acquisitions. We also incurred net charges totaling \$2.5 million consisting of severance costs and costs for vacating excess leased space. Cash payments for all the severance costs were paid during fiscal 2013. Cash payments for all the facilities charges have been paid by the end of fiscal 2014.

The following table sets forth certain summary information on restructuring expenses for the fiscal 2015, 2014 and 2013:

Year Ended September 30,

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	2015	2014	2013
	(In thousands)		
Severance costs	\$3,908	\$3,963	\$842
Lease exit costs and other adjustments	13,571	167	1,624
Total restructuring expense	\$17,479	\$4,130	\$2,466

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Interest Expense, Net

Interest expense includes primarily interest on the senior notes issued in May 2008 and July 2010, as well as interest and credit facility fees on the revolving line of credit. On our consolidated statements of income and comprehensive income, interest expense is netted with interest income, which is derived primarily from the investment of funds in excess of our immediate operating requirements.

The fiscal 2015 over 2014 increase in net interest expense of \$0.6 million was primarily attributable to a higher average balance on our revolving line of credit, partially offset by the \$71.0 million principal payment in May 2015 on the Senior Notes issued in May 2008 resulting in lower average debt balance for fiscal 2015.

The fiscal 2014 over 2013 decrease in net interest expense of \$1.7 million was primarily attributable to the \$8.0 million and \$49.0 million principal payment in May 2014 and 2013, respectively, on the senior notes issued in May 2008 resulting in lower average debt balance for fiscal 2014.

In fiscal 2016, we expect that net interest expense will be lower than what we incurred during fiscal 2015 due to the \$71.0 million principal payment made in May 2015 on our senior notes issued in May 2008, and the \$60.0 million principal payment due in July 2016 on our senior notes issued in July 2010.

Other Income (Expense), Net

Other income (expense), net consists primarily of realized investment gains/losses, exchange rate gains/losses resulting from re-measurement of foreign-currency-denominated receivable and cash balances held by our various reporting entities into their respective functional currencies at period-end market rates, net of the impact of offsetting foreign currency forward contracts, and other non-operating items.

The fiscal 2015 over 2014 change in other income (expense), net of \$1.1 million was primarily attributable to a decrease in foreign currency exchange loss during fiscal 2015.

The fiscal 2014 over 2013 change in other income (expense), net of 0.8 million was primarily attributable to a nonrecurring charge related to our fixed assets balance as well as an increase in foreign currency exchange losses during fiscal 2014.

Provision for Income Taxes

Our effective tax rates were 20.8%, 28.7% and 31.7% in fiscal 2015, 2014 and 2013, respectively.

The decrease in our effective tax rate in fiscal 2015 compared to fiscal 2014 was due primarily to the favorable settlement of the fiscal 2006 - 2009 state audits and the favorable settlement of the 2010 foreign transfer pricing assessment, as well as the December 2014 reenactment of the calendar 2014 U.S. Federal Research and Development Credit, which resulted in a catch up adjustment for the R&D credit during fiscal 2015.

The decrease in our effective tax rate in fiscal 2014 compared to fiscal 2013 was due primarily to the favorable settlement of the fiscal 2010 - 2012 Federal IRS audits and secondarily to a higher percentage of revenue in lower taxing jurisdictions.

As of September 30, 2015 we have reported \$52.8 million of unremitted earnings of the international subsidiaries in our consolidated income. U.S. income taxes have not been provided on undistributed earnings of international subsidiaries. It is our intention to reinvest these earnings permanently or to repatriate the earnings only when it is tax efficient to do so. The amount of the unrecognized deferred tax liability depends on judgment required to analyze the withholding tax due, the applicable tax law and related tax treaties, and factual circumstances in effect at the time of any such distribution, therefore, we believe it is not practicable at this time to reliably determine the amount of the unrecognized deferred tax liability related to our undistributed earnings. If circumstances change and it becomes apparent that some or all of the undistributed earnings of a subsidiary will be remitted in the next twelve months and income taxes have not been recognized by the parent entity, the parent entity shall accrue as an expense of the current period income taxes attributable to that remittance.

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Operating Income

The following tables set forth certain summary information on a segment basis related to our operating income for the fiscal 2015, 2014 and 2013:

Segment	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change			
	2015	2014	2013	2015 to 2014	2014 to 2013	2015 to 2014	2014 to 2013		
	(In thousands)			(In thousands)					
Applications	\$159,608	\$169,494	\$141,131	\$(9,886)	\$28,363	(6)	)%	20	%
Scores	151,214	142,282	130,267	8,932	12,015	6	)%	9	%
Tools	(6,350)	4,203	19,469	(10,553)	(15,266)	(251)	)%	(78))%
Unallocated corporate expenses	(89,744)	(101,551)	(86,403)	11,807	(15,148)	(12)	)%	18	%
Total segment operating income	214,728	214,428	204,464	300	9,964	—	)%	5	%
Unallocated share-based compensation	(45,308)	(36,362)	(25,850)	(8,946)	(10,512)	25	)%	41	%
Unallocated amortization expense	(13,673)	(11,917)	(13,535)	(1,756)	1,618	15	)%	(12))%
Unallocated restructuring and acquisition-related	(18,242)	(4,281)	(3,486)	(13,961)	(795)	326	)%	23	%
Operating income Applications	\$137,505	\$161,868	\$161,593	(24,363)	275	(15))%	—	%

	Year Ended September 30,			Percentage of Revenues					
	2015	2014	2013	2015	2014	2013			
	(In thousands)								
Segment revenues	\$526,274	\$504,256	\$476,084	100	% 100	% 100		%	
Segment operating expenses	(366,666)	(334,762)	(334,953)	(70))%	(66))%	(70))%
Segment operating income Scores	\$159,608	\$169,494	\$141,131	30	% 34	% 30		%	

	Year Ended September 30,			Percentage of Revenues					
	2015	2014	2013	2015	2014	2013			
	(In thousands)								
Segment revenues	\$207,007	\$186,469	\$180,813	100	% 100	% 100		%	
Segment operating expenses	(55,793)	(44,187)	(50,546)	(27))%	(24))%	(28))%
Segment operating income Tools	\$151,214	\$142,282	\$130,267	73	% 76	% 72		%	

	Year Ended September 30,			Percentage of Revenues					
	2015	2014	2013	2015	2014	2013			
	(In thousands)								
Segment revenues	\$105,500	\$98,260	\$86,547	100	% 100	% 100		%	
Segment operating expenses	(111,850)	(94,057)	(67,078)	(106))%	(96))%	(78))%

Segment operating income (loss)	\$(6,350) \$4,203	\$19,469	(6)% 4	% 22	%
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The decrease in operating income between fiscal 2015 and 2014 of \$24.4 million was attributable to a \$61.3 million increase in segment operating expenses, a \$14.0 million increase in restructuring and acquisition-related expenses, an \$8.9 million increase in share-based compensation expense and a \$1.8 million increase in amortization expense, partially offset by a \$49.8 million increase in segment revenues and an \$11.8 million decrease in unallocated corporate expenses.

At the segment level, the \$0.3 million increase in segment operating income was driven by an \$11.8 million decrease in unallocated corporate expenses and an \$8.9 million increase in our Scores segment, partially offset by a \$10.5 million decrease in our Tools segment and a \$9.9 million decrease in our Applications segment.

The \$9.9 million decrease in Applications segment operating income was attributable to a \$31.9 million increase in segment operating expenses, partially offset by a \$22.0 million increase in segment revenues. Segment operating income as a percentage of segment revenues for Applications decreased to 30% from 34% primarily due to an increase in professional services delivery cost, as well as an increase in salaries and benefits cost as a result of our increased headcount, partially offset by an increase in sales of our higher-margin software products .

The \$8.9 million increase in Scores segment operating income was attributable to a \$20.5 million increase in segment revenues, partially offset by an \$11.6 million increase in segment operating expenses. Segment operating income as a percentage of segment revenues for Scores decreased to 73% from 76% mainly due to a decrease in sales of our higher-margin software products, an increase in salaries and benefits cost as a result of our increased headcount, and a nonrecurring charge in third-party data cost. In addition, the margin was positively impacted by an increase in our higher-margin revenues generated from the Experian agreement.

The \$10.5 million decrease in Tools segment operating income (loss) was attributable to a \$17.8 million increase in segment operating expenses, partially offset by a \$7.3 million increase in segment revenues. Segment operating income as a percentage of segment revenues for Tools was a negative 6% for fiscal 2015 compared to a positive 4% for fiscal 2014 mainly due to an increase in the research and development efforts related to our cloud-based FICO® Decision Management Platform and several new products in the Tools segment, as well as an increase in professional services delivery cost, partially offset by an increase in sales of higher-margin software products.

The \$11.8 million decrease in unallocated corporate expenses was primarily attributable to a decrease in incentive cost, as well as a decrease in certain corporate charges including bad debt.

The increase in operating income between fiscal 2014 and 2013 of \$0.3 million was attributable to a \$45.5 million increase in segment revenues and a \$1.6 million decrease in amortization expense, partially offset by a \$20.4 million increase in segment operating expenses, a \$15.1 million increase in unallocated corporate expenses, a \$10.5 million increase in share-based compensation expense and a \$0.8 million increase in restructuring and acquisition-related expenses.

At the segment level, the \$10.0 million increase in segment operating income was driven by a \$28.4 million increase in our Applications segment and a \$12.0 million increase in our Scores segment, partially offset by a \$15.1 million increase in unallocated corporate expenses and a \$15.3 million decrease in our Tools segment.

The \$28.4 million increase in Applications segment operating income was attributable to a \$28.2 million increase in segment revenues and a \$0.2 million decrease in segment operating expenses. The increase in segment revenues was primarily attributable to two large multi-year license transactions in fraud solutions and increased transactional and services revenues in customer communication solutions. Segment operating income as a percentage of segment revenues for Applications increased to 34% from 30% primarily due to FICO shifting resources to cloud computing mainly in the Tools segment, a reduction in sales workforce as part of our restructuring during the first quarter of our fiscal 2014, as well as increased sales of higher-margin software products.

The \$12.0 million increase in Scores segment operating income was attributable to a \$6.4 million decrease in segment operating expenses and a \$5.6 million increase in segment revenues. Segment operating income as a percentage of segment revenues for Scores increased to 76% from 72% mainly due to an increase in sales of our higher-margin software products, as well as decreased third-party data cost as a result of favorable terms in a renewed agreement with one credit reporting agency in May 2013.

The \$15.3 million decrease in Tools segment operating income was attributable to a \$27.0 million increase in segment operating expenses, partially offset by an \$11.7 million increase in segment revenues. Segment operating income as a percentage of segment revenues for Tools decreased to 4% from 22% mainly due to an increase in the research and development efforts related to our cloud-based FICO® Decision Management Platform as well as our FICO® Model Central™ Solution.

The \$15.1 million increase in unallocated corporate expenses was primarily attributable to an increase in incentive cost.

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CAPITAL RESOURCES AND LIQUIDITY

Outlook

As of September 30, 2015, we had \$86.1 million in cash and cash equivalents which included \$64.5 million held off-shore by our foreign subsidiaries. We believe these balances, as well as available borrowings from our \$400 million revolving line of credit and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements as well as the \$60.0 million principal payment due in July 2016 on our senior notes issued in July 2010. Under our current financing arrangements we have no other significant debt obligations maturing over the next twelve months. Additionally, we do not anticipate the need to repatriate any undistributed earnings from our foreign subsidiaries for the foreseeable future.

In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents 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

	Year Ended September 30,		
	2015	2014	2013
	(In thousands)		
Cash provided by (used in):			
Operating activities	\$ 132,977	\$ 175,034	\$ 136,120
Investing activities	(81,916)	(19,843)	(34,971)
Financing activities	(58,635)	(130,391)	(86,634)
Effect of exchange rate changes on cash	(11,381)	(2,903)	(2,946)
Increase (decrease) in cash and cash equivalents	\$(18,955)	\$ 21,897	\$ 11,569

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 totaled \$133.0 million in fiscal 2015 compared to \$175.0 million in fiscal 2014. The \$42.0 million decrease was mainly attributable to a \$27.6 million decrease caused by timing of receipts and payments in our ordinary course of business, a \$15.2 million increase in payment associated with our accrued incentive from prior year and an \$11.4 million increase in our income tax payments.

Net cash provided by operating activities totaled \$175.0 million in fiscal 2014 compared to \$136.1 million in fiscal 2013. The \$38.9 million increase was mainly attributable to a \$40.4 million increase caused by the timing of receipts and payments in our ordinary course of business, including a \$29.2 million increase caused by timing of payment on accrued compensation and employee benefits.

Cash Flows from Investing Activities

Net cash used in investing activities totaled \$81.9 million in fiscal 2015 compared to \$19.8 million in fiscal 2014. The \$62.1 million increase was attributable to a \$49.7 million increase in net cash used for acquisitions and a \$12.4 million increase in net cash used for purchases of property and equipment.

Net cash used in investing activities totaled \$19.8 million in fiscal 2014 compared to \$35.0 million in fiscal 2013. The \$15.2 million decrease was attributable to a \$25.6 million decrease in net cash used for acquisitions and an \$11.6 million decrease in net cash used for purchases of property and equipment, partially offset by a \$22.0 million decrease in proceeds from maturities of marketable securities.

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Cash Flows from Financing Activities

Net cash used in financing activities totaled \$58.6 million in fiscal 2015 compared to \$130.4 million in fiscal 2014. The \$71.8 million decrease was primarily due to an \$86.3 million decrease in common stock repurchased and a \$49.0 million increase in proceeds, net of payments from our revolving line of credit, partially offset by a \$63.0 million increase in payment on our senior notes.

Net cash used in financing activities totaled \$130.4 million in fiscal 2014 compared to \$86.6 million in fiscal 2013. The \$43.8 million increase was primarily due to a \$134.3 million increase in common stock repurchased and a \$23.7 million decrease in cash generated from stock option exercises, partially offset by a \$72.7 million increase in proceeds, net of payments from our revolving line of credit and a \$41.0 million decrease in payment on our senior notes.

Repurchases of Common Stock

From time to time, we repurchase our common stock in the open market. During fiscal 2015, 2014 and 2013, we expended \$130.7 million, \$214.9 million and \$84.9 million, respectively, in connection with our repurchase of common stock. In April 2014, 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. Following the completion of the April 2014 program, our Board of Directors approved a new stock repurchase program in August 2014. This program is open-ended and authorizes repurchases of shares of our common stock up to an aggregate cost of \$250.0 million in the open market or in negotiated transactions. As of September 30, 2015, we had \$119.3 million remaining under this authorization.

Dividends

We paid quarterly dividends of two cents per share during each of fiscal 2015, 2014 and 2013. 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 \$400 million unsecured revolving line of credit with a syndicate of banks that expires on December 30, 2019. 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 our 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, (b) the Federal Funds rate plus 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.875% and for LIBOR borrowings ranges from 1.000% to 1.875%, and is determined based on our consolidated leverage ratio. In addition, we must pay credit facility fees. The credit facility contains certain restrictive covenants including maintaining a minimum fixed charge ratio of 2.5 and a maximum consolidated leverage ratio of 3.0, subject to a step up to 3.5 following certain permitted acquisitions. The credit agreement also contains other covenants typical of unsecured facilities. As of September 30, 2015, we had \$232.0 million in borrowings outstanding at a weighted average interest rate of 1.601% and were in compliance with all financial covenants under this credit facility.

Senior Notes

In May 2008, we issued \$275 million of Senior Notes in a private placement to a group of institutional investors (the "2008 Senior Notes"). The 2008 Senior Notes were issued in four series with maturities ranging from five to ten years. The weighted average interest rate is 7.2% and the weighted average maturity is 10.0 years for the remaining 2008 Senior Notes. In addition, in July 2010, we issued \$245 million of Senior Notes in a private placement to a group of institutional investors (the "2010 Senior Notes" and, with the 2008 Senior Notes, the "Senior Notes"). The 2010 Senior Notes were issued in four series with maturities ranging from six to ten years. The weighted average interest rate is 5.2% and the weighted average maturity is 8.0 years for the 2010 Senior Notes. 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 September 30, 2015 we were in compliance with all financial covenants under these purchase agreements.

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Contractual Obligations

The following table presents a summary of our contractual obligations at September 30, 2015:

	Year Ended September 30,					Thereafter	Total
	2016	2017	2018	2019	2020		
	(In thousands)						
Senior notes (1)	\$60,000	\$72,000	\$131,000	\$28,000	\$85,000	\$—	\$376,000
Interest due on debt obligations (2)	22,136	19,303	15,675	6,269	4,752	—	68,135
Operating lease obligations	22,603	19,415	17,370	15,565	8,638	19,908	103,499
Unrecognized tax benefits (3)	—	—	—	—	—	—	4,634
Total commitments	\$104,739	\$110,718	\$164,045	\$49,834	\$98,390	\$19,908	\$552,268

(1) Represents the unpaid principal amount of the Senior Notes.

(2) Represents interest payments on the Senior Notes.

Represents unrecognized tax benefits related to uncertain tax positions. As we are not able to reasonably estimate (3) the timing of the payments or the amount by which the liability will increase or decrease over time, the related balances have not been reflected in the section of the table showing payment by fiscal year.

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

acceptance period, or when we can demonstrate we meet the acceptance criteria. We evaluate contract terms and customer information to ensure that these criteria are met prior to our recognition of license fee revenue.

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We use the residual method to recognize revenue when a software arrangement includes one or more elements to be delivered at a future date provided the following criteria are met: (i) vendor-specific objective evidence (“VSOE”) of the fair value does not exist for one or more of the delivered items but exists for all undelivered elements, (ii) all other applicable revenue recognition criteria are met and (iii) the fair value of all of the undelivered elements is less than the arrangement fee. 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.

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

Consulting Services

We provide consulting, training, model development and software integration services under both hourly-based time and materials and fixed-priced contracts. Revenues from these services are generally recognized as the services are performed. For fixed-price service contracts, we use a proportionate performance model with hours as the input method of attribution to determine progress towards completion, with consideration also given to output measures, such as contract milestones, when applicable. In such instances, management is required to estimate the total estimated hours of the project. 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 defer the associated revenue until the contract is completed. We have not experienced significant variances between our estimates and actual hours in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we are unable to accurately estimate the input measures, revenue would be deferred until the contract is complete, and this could have a material impact on our consolidated results of operations.

Services that are sold in connection with software license arrangements generally qualify for separate accounting from the license element because they do not involve significant production, modification or customization of our products and are not otherwise considered to be essential to the functionality of our software. In arrangements where the

professional services do not qualify for separate accounting from the license element, the combined software license and professional services revenue are recognized based on contract accounting using either the percentage-of-completion or completed-contract method.

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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 customer life. 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 transactions 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 our 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 expected life of the customer relationship. ASP transactional fees are recorded monthly as earned.

Multiple-Deliverable Arrangements including Non-Software

When we enter into a multiple-deliverable arrangement that includes non-software, each deliverable 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; for example, we conclude professional services offered along with our SaaS subscription services typically have standalone value using this criteria. 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 our 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, customer segment pricing strategies and the product lifecycle. Historically, there have been no significant changes in our estimated selling price used in allocation of arrangement consideration. We do not believe there is a reasonable likelihood there will be a material change in the future estimates.

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.

Business Combinations

Accounting for our acquisitions requires us to recognize, separately from goodwill, the assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition-date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any

subsequent adjustments are recorded to our consolidated statements of income and comprehensive income.

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Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date, including our estimates for intangible assets, contractual obligations assumed, pre-acquisition contingencies and contingent consideration, where applicable. If we cannot reasonably determine the fair value of a pre-acquisition contingency (non-income tax related) by the end of the measurement period, we will recognize an asset or a liability for such pre-acquisition contingency if: (i) it is probable that an asset existed or a liability had been incurred at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Subsequent to the measurement period, changes in our estimates of such contingencies will affect earnings and could have a material effect on our results of operations and financial position.

Examples of critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to: (i) future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents; (ii) expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed; and (iii) the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Historically, there have been no significant changes in our estimates or assumptions. To the extent a significant acquisition is made during a fiscal year, as appropriate we will expand the discussion to include specific assumptions and inputs used to determine the fair value of our acquired intangible assets.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly based upon facts and circumstances that existed as of the acquisition date with any adjustments to our preliminary estimates being recorded to goodwill provided that we are within the measurement period. Subsequent to the measurement period or our final determination of the tax allowance's or contingency's estimated value, whichever comes first, changes to these uncertain tax positions and tax-related valuation allowances will affect our provision for income taxes in our consolidated statements of income and comprehensive income and could have a material impact on our results of operations and financial position. Historically, there have been no significant changes in our valuation allowances or uncertain tax positions as it relates to business combinations. We do not believe there is a reasonable likelihood there will be a material change in the future estimates.

Goodwill, Acquisition Intangibles and Other Long-Lived Assets - Impairment Assessment

Goodwill represents the excess of cost over the fair value of identifiable assets acquired and liabilities assumed in business combinations. We assess goodwill for impairment for each of our reporting units on an annual basis during the fourth quarter using a July 1 measurement date unless circumstances require a more frequent measurement. We have determined that our reporting units are the same as our reportable segments. When evaluating goodwill for impairment, we may first perform an assessment qualitatively whether it is more likely than not that a reporting unit's carrying amount exceeds its fair value, referred to as a "step zero" approach. If, based on the review of the qualitative factors, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying value, we would bypass the two-step impairment test. Events and circumstances we consider in performing the "step zero" qualitative assessment include macro-economic conditions, market and industry conditions, internal cost factors, share price fluctuations, and the operational stability and the overall financial performance of the reporting units. If we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount, we would perform the first step ("step one") of the two-step impairment test and calculate the estimated fair value of the reporting unit by using discounted cash flow valuation models and by comparing our reporting units to guideline publicly-traded companies. These methods require estimates of our future revenues, profits, capital expenditures, working capital, and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. 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.

For fiscal 2015, we began our assessment with the step zero qualitative analysis because the fair value substantially exceeded the carrying value for each of our reporting units in our fiscal 2014 step one analysis. After evaluating and weighing all relevant events and circumstances, we concluded that it is not more likely than not that the fair value of each of our reporting units was less than their carrying amounts. Consequently, we did not perform a step one quantitative analysis in fiscal 2015. For fiscal 2014 and 2013, we elected to proceed directly to the step one quantitative analysis rather than perform the step zero qualitative assessment and determined goodwill was not impaired for any of our reporting units.

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Our intangible assets that have finite useful lives and other long-lived assets are assessed for potential impairment 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, 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 cash flows. Should different conditions prevail, material write downs of our intangible assets or other long-lived assets could occur. We review the estimated remaining useful lives of our acquired intangible assets at each reporting period. A reduction in our estimate of remaining useful lives, if any, could result in increased annual amortization expense in future periods. We did not recognize any impairment charges on intangible assets that have finite useful lives or other long-lived assets in fiscal 2015, 2014 or 2013.

As discussed above, while we believe that the assumptions and estimates utilized were appropriate based on the information available to management, different assumptions, judgments and estimates could materially affect our impairment assessments for our goodwill, acquired intangibles with finite lives and other long-lived assets. Historically, there have been no significant changes in our estimates or assumptions that would have had a material impact for our goodwill or intangible assets impairment assessment. We believe our projected operating results and cash flows would need to be significantly less favorable to have a material impact on our impairment assessment. However, based upon our historical experience with operations, we do not believe there is a reasonable likelihood of a significant change in our projections.

Share-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award and recognize it as expense, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award (generally three to four years). We use the Black-Scholes valuation model to determine the fair value of our stock options and a Monte Carlo valuation model to determine the fair value of our market share units. Our valuation models and generally accepted valuation techniques require us to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the volatility of our stock price, expected dividend yield, employee turnover rates and employee stock option exercise behaviors. Historically, there have been no material changes in our estimates or assumptions. We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions. See Note 14 to the accompanying consolidated financial statements for further discussion of our share-based employee benefit plans.

Income Taxes

We estimate our income taxes based on the various jurisdictions where we conduct business, which involves significant judgment in determining our income tax provision. We estimate our current tax liability using currently enacted tax rates and laws and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities recorded on our balance sheet using the currently enacted tax rates and laws that will apply to taxable income for the years in which those tax assets are expected to be realized or settled. We then assess the likelihood our deferred tax assets will be realized and to the extent we believe realization is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a corresponding income tax expense in our consolidated statements of income and comprehensive income. In assessing the need for the valuation allowance, we consider future taxable income in the jurisdictions we operate; an analysis of our deferred tax assets and the periods over which they will be realizable; and ongoing prudent and feasible tax planning strategies. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we record the increase. We have historically had minimal changes in our valuation allowances related to deferred tax assets, as described in Note 13 to the accompanying consolidated financial statements.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the technical merits of the tax position indicate it is more likely than not that the tax position will be sustained upon audit, including resolution of any related

appeals or litigation processes. For tax positions more likely than not of being sustained upon audit, the second step is to measure the tax benefit as the largest amount more than 50% likely of being realized upon settlement. Significant judgment is required to evaluate uncertain tax positions and they are evaluated on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change, which could have a material impact on our effective tax rate and operating results. Historically, settlements related to our unrecognized tax benefits have been minimal as described in Note 13 to the accompanying consolidated financial statements.

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A description of our accounting policies associated with tax-related contingencies and valuation allowances assumed as part of a business combination is provided under “Business Combinations” above.

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. Historically, there have been no material changes in our estimates or assumptions. We do not believe there is a reasonable likelihood there will be a material change in the future estimates.

New Accounting Pronouncements Recently Issued or Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In July 2015, the FASB issued guidance to defer the effective date for one year. For public entities, the standard will be effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods), which means it will be effective for our fiscal year beginning October 1, 2018. Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). We have not yet selected a transition method and we are currently evaluating the impact that the updated standard will have on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance” (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. Under ASU 2015-03, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015, which means it will be effective for our fiscal year beginning October 1, 2016. Early adoption is permitted. We do not believe that adoption of ASU 2015-03 will have a significant impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk**Market Risk Disclosures**

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

Interest Rate

We maintain an investment portfolio consisting of bank deposits and money market funds. The funds provide daily liquidity and may be subject to interest rate risk and fall in value if market interest rates increase. We do not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates. The following table presents the principal amounts and related weighted-average yields for our investments with interest rate risk at September 30, 2015 and 2014:

September 30, 2015			September 30, 2014		
Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield

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(Dollars in thousands)

Cash and cash equivalents	\$86,120	\$86,120	0.95	%	\$105,075	\$105,075	0.03	%
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In May 2008, we issued \$275 million of senior notes to a group of institutional investors in a private placement (the “2008 Senior Notes”). In July 2010 we issued an additional \$245 million of senior notes to a group of institutional investors in a private placement (the “2010 Senior Notes” and, with the 2008 Senior Notes, the “Senior Notes”). The fair value of the 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 the Senior Notes at September 30, 2015 and 2014:

	September 30, 2015			September 30, 2014		
	Principal	Carrying Amounts	Fair Value	Principal	Carrying Amounts	Fair Value
	(In thousands)			(In thousands)		
The 2008 Senior Notes	\$131,000	\$131,000	\$144,009	\$202,000	\$202,000	\$214,170
The 2010 Senior Notes	\$245,000	\$245,000	\$257,563	\$245,000	\$245,000	\$248,557

We have interest rate risk with respect to our five-year \$400 million unsecured revolving line of credit. 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 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.875% and for LIBOR borrowings ranges from 1.000% to 1.875% 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 \$232.0 million in borrowings outstanding at a weighted average interest of 1.601% under the credit facility as of September 30, 2015.

Foreign Currency Forward Contracts

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 receivable and cash balances from the effects of volatility in foreign exchange rates that might occur prior to conversion to their functional currencies. 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 exchange rates. We routinely enter into contracts to offset exposures denominated in the British pound, Euro and Canadian dollar. Foreign-currency-denominated receivable and cash balances are remeasured at foreign exchange rates in effect on the balance sheet date with the effects of changes in foreign exchange rates reported in other income (expense), net. The forward contracts are not designated as hedges and are marked to market through other income (expense), net. Fair value changes in the forward contracts help mitigate the changes in the value of the remeasured receivable and cash balances attributable to changes in foreign 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 our outstanding foreign currency forward contracts, by currency at September 30, 2015 and 2014:

	September 30, 2015		Fair Value
	Contract Amount		
	Foreign Currency	US\$	US\$
	(In thousands)		
Sell foreign currency:			
Canadian dollar (CAD)	CAD2,750	\$2,045	\$—
Euro (EUR)	EUR 5,600	\$6,296	—
Buy foreign currency:			
British pound (GBP)	GBP 6,943	\$10,550	—

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	September 30, 2014		Fair Value
	Contract Amount		
	Foreign	US\$	US\$
	Currency		
	(In thousands)		
Sell foreign currency:			
Canadian dollar (CAD)	CAD 3,300	\$ 2,960	\$—
Euro (EUR)	EUR 3,800	\$ 4,790	—
Buy foreign currency:			
British pound (GBP)	GBP 6,795	\$ 11,000	—

The foreign currency forward contracts were entered into on September 30 of each fiscal year; therefore, the fair value was \$0 on September 30, 2015 and 2014.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Fair Isaac Corporation

San Jose, California

We have audited the accompanying consolidated balance sheets of Fair Isaac Corporation and subsidiaries (the "Company") as of September 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2015. We also have audited the Company's internal control over financial reporting as of September 30, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of September 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015, based

on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
San Diego, CA
November 10, 2015

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CONSOLIDATED BALANCE SHEETS

	September 30,	
	2015	2014
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	\$86,120	\$105,075
Accounts receivable, net	158,773	155,295
Prepaid expenses and other current assets	41,709	28,157
Total current assets	286,602	288,527
Marketable securities available for sale	9,567	8,751
Other investments	10,958	11,033
Property and equipment, net	38,208	36,677
Goodwill	814,750	779,928
Intangible assets, net	47,321	47,914
Deferred income taxes	15,196	13,061
Other assets	7,561	6,407
Total assets	\$1,230,163	\$1,192,298
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$19,852	\$22,000
Accrued compensation and employee benefits	54,368	56,650
Other accrued liabilities	30,958	36,235
Deferred revenue	46,697	56,519
Current maturities on debt	92,000	170,000
Total current liabilities	243,875	341,404
Long-term debt	516,000	376,000
Other liabilities	33,290	20,280
Total liabilities	793,165	737,684
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 31,290 and 32,047 shares outstanding at September 30, 2015 and September 30, 2014, respectively)	313	320
Paid-in-capital	1,152,789	1,129,317
Treasury stock, at cost (57,567 and 56,810 shares at September 30, 2015 and September 30, 2014, respectively)	(2,033,644	) (1,936,095
Retained earnings	1,368,255	1,284,261
Accumulated other comprehensive loss	(50,715	) (23,189
Total stockholders' equity	436,998	454,614
Total liabilities and stockholders' equity	\$1,230,163	\$1,192,298
See accompanying notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year Ended September 30,		
	2015	2014	2013
	(In thousands, except per share data)		
Revenues:			
Transactional and maintenance	\$564,232	\$527,563	\$514,304
Professional services	151,773	149,834	135,194
License	122,776	111,588	93,946
Total revenues	838,781	788,985	743,444
Operating expenses:			
Cost of revenues (1)	270,535	249,281	229,468
Research and development	98,824	83,435	66,967
Selling, general and administrative (1)	300,002	278,203	268,395
Amortization of intangible assets (1)	13,673	11,917	13,535
Restructuring and acquisition-related	18,242	4,281	3,486
Total operating expenses	701,276	627,117	581,851
Operating income	137,505	161,868	161,593
Interest expense, net	(29,150)	) (28,550)	) (30,227)
Other income (expense), net	883	(187)	) 618
Income before income taxes	109,238	133,131	131,984
Provision for income taxes	22,736	38,252	41,889
Net income	86,502	94,879	90,095
Other comprehensive loss:			
Foreign currency translation adjustments	(27,526)	) (2,281)	) (5,100)
Comprehensive income	\$58,976	\$92,598	\$84,995
Basic earnings per share	\$2.75	\$2.80	\$2.55
Shares used in computing basic earnings per share	31,402	33,870	35,332
Diluted earnings per share	\$2.65	\$2.72	\$2.48
Shares used in computing diluted earnings per share	32,609	34,864	36,292

(1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets.

See Note 7 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

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FAIR ISAAC CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2015, 2014 and 2013

(In thousands, except per share data)

	Common Stock	Par Value	Paid-in- Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares						
Balance at September 30, 2012	34,839	\$ 348	\$ 1,103,611	\$(1,718,570)	\$ 1,104,825	\$ (15,808)	\$ 474,406
Share-based compensation	—	—	25,850	—	—	—	25,850
Issuance of treasury stock under employee stock plans	1,642	17	(22,150)	52,389	—	—	30,256
Tax effect from share-based payment arrangements	—	—	2,887	—	—	—	2,887
Repurchases of common stock	(1,695)	(17)	—	(84,876)	—	—	(84,893)
Dividends paid	—	—	—	—	(2,824)	—	(2,824)
Net income	—	—	—	—	90,095	—	90,095
Foreign currency translation adjustments	—	—	—	—	—	—	—